CY Cergy Paris University
Faculty of Law

CHAIRE - MASTER
DROIT & ÉTHIQUE DES AFFAIRES

CERGY PARIS UNIVERSITÉ

SUSTAINABLE FINANCE & ESG INTEGRATION

How EU asset managers can improve non-financial assessments and regulatory compliance through ESG quantification

Final dissertation by Rafael V. SANCHES
Under the supervision of *Maître* Catherine SIPROUDHIS
Tutored by Mr. Oliver LAFON (Lazard Frères Gestion)

Master of Business Law and Ethics
Finance and Responsible Investment
2020 – 2021

ACKNOWLEDGEMENT

This dissertation and the intense research that preceded it would have been drastically different if not for the tremendous help and guidance of many.

Maître Catherine Siproudhis's advice was capital to the achievement of this dissertation. Her continuous guidance and support helped shape this project into a much more pragmatic and methodical approach than the one I had initially envisioned. I wish to express my sincere gratitude for her constant availability and genuine interest for my work.

I would like to thank my professional tutor, Mr. Olivier Lafon, whose long conversations helped me throughout my various moments of doubt, hesitation and uncertainty as to what direction to take with this project and what issues to tackle. In the end, it was his relentless efforts to improve and enhance compliance practices and internal processes that inspired me and aided me in seeking a purpose to this dissertation other than mere intellectual curiosity.

I want to show my appreciation for all survey participants that enthusiastically took their time to answer all of my questions and further clarify their own perceptions on this dissertation's subject.

I also want to take this opportunity to thank Professor Roxana Family and all of the Master of Business Law and Ethics' professors with whom I could spend this year for sharing with me their expertise and their passion for Compliance and Business Ethics with me.

Finally, I would like to finish off by making a special mention to my close friends and relatives, for all their patience and coffee-making skills that allowed me to endure the long, arduous hours of research and writing this dissertation. I could not be more grateful for having you by my side, cheering me all the way until these last few words marking the end of my academic life. Thank you.

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INTRODUCTION

"During 2020, 81% of a globally-representative selection of sustainable indexes outperformed their parent benchmarks. (...) But the story goes deeper. It's not just that broad-market ESG indexes are outperforming counterparts. It's that within industries – from automobiles to banks to oil and gas companies – we are seeing another divergence: companies with better ESG profiles are performing better than their peers, enjoying a "sustainability premium."

- Larry Fink, Chairman and CEO of Blackrock[1]

In the course of the past one year and a half, many were those who compared 2020's global COVID-19 pandemic and its inevitable economic consequences to other financial crisis of the past. Headlines such as "From the Great Recession to the Great Pandemic" or "The Great Lockdowns vs The Great Depression" highlight just how deep this pandemic has impacted global economy. Just in the United States alone more than 20 million jobs were eliminated in a single month during April of 2020.[2] Compared to the 8.6 million jobs lost in total during the entire 2008-2009 recession, one can see how this pandemic may affect the financial markets on the long-term, regardless of how many experts project that the economy has the capacity for a quicker rebound than during both financial crisis of 1930 and 2008.[3]

The rise of ESG consideration by investors

One could tie this long-term uncertainty to the increase mentioned above by Blackrock's CEO, Larry Fink, in sustainable indexes' performances when compared to their parent benchmarks. In fact, the European Capital Markets Institute (ECMI) has admitted this as one of the main reasons for this increase: in times of crises, investors with shorter horizons may massively disinvest from conventional funds, whereas those with longer horizons could remain

[1] FINK, Larry. *"Larry Fink's 2021 letter to CEOs"*, 26 January 2021. [Viewed date: 25 August 2021]. Available from: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

[2] HANSEN, Sarah. *"Here's how the Coronavirus recession compares to the Great Recession"*, 8 May 2020. [Viewed date: 25 August 2021]. Available from: <https://www.forbes.com/sites/sarahhansen/2020/05/08/heres-how-the-coronavirus-recession-compares-to-the-great-recession/?sh=5b180df657a7>

[3] DE GRAUWE, Paul and JI, Yuemei. *"A tale of three depressions"*, 24 September 2020. [Viewed date: 25 August 2021]. Available from: https://voxeu.org/article/tale-three-depressions>

invested in ESG funds.[4] However, the ECMI also suggests that investors could derive "positive utility" from investing responsibly even during times of negative performance. Moreover, the COVID-19 pandemic carries with it "strong social and environmental implications" which, in turn, may have caused investors to perceive stronger Environmental, Social, and corporate Governance (ESG) performances as an indication of a company's ability to withstand this new financial crisis. Be it as it may, one can safely assume that investors' awareness for ESG investments and for ethical funds has improved during this past year and a half.

Although the outperformance of sustainable indexes mentioned by Larry Fink has been notoriously more perceptible throughout 2020 and the global pandemic, this increasing awareness and attention to ethical funds is not entirely new. In October of 2020, Interactive Investor, one of the UK's biggest investment platforms, with over 400,000 customers and around £55 billion in assets under administration,[5] reported that assets in ethical propositions held by their customers had significantly increased over the past four years.[6] This growing pattern has once again been confirmed just last month, with Moneyfacts reporting that ethical funds – mutual funds in which asset managers limit their investments to securities of firms meeting a certain ethical standard - have returned a growth of 19.87% over the past year, compared to 17.89% for more conventional, non-ethical funds.[7] Furthermore, as Larry Fink also highlighted in his annual letter to CEOs, this trend has grown past the financial markets and is now also being visible "within industries", at the company-level.

Companies with better ESG profiles are performing better than their peers on the capital markets, benefitting from what Larry Fink refers to as a "sustainability premium" which, in turn, gives these companies a financial and competitive edge over their competitors. Studies published back in 2019 already confirmed "a growing interest to corporate social responsibility and sustainability by managers over the past decade" but, contrastingly, they denoted that listed companies were not yet significantly rewarded with a premium price for CSR and sustainability

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[4] BARBÉRIS, Jean-Jacques and BRIÈRE, Marie. *"ESG resilience during the Covid crisis: Is green the new gold?"*, July 2020. [Viewed date: 25 August 2021]. Available from: <https://www.ecmi.eu/sites/default/files/ecmi_commentary_no_67_july_2020.pdf>

[5] II. *"Interactive Investor – About Us"*, 2021 [Viewed date: 25 August 2021]. Available from: <https://www.ii.co.uk/about-ii>

[6] O'NEILL, Moira. "*Ethical investment remains a work in progress*". 23 October 2020. [Viewed date: 25 August 2021]. Available from: <https://www.ft.com/goodmoneyweek>

[7] CLARK, Derin. "*Investors continue to reap returns with ethical funds*". 26 July 2021. [Viewed date: 25 August 2021]. Available from: <https://moneyfacts.co.uk/news/investments/investors-continue-to-reap-returns-with-ethical-funds/>

efforts.[8] This factor has now, clearly shifted, as more and more studies show that a significant part of investors do in fact base their strategy on ESG factors and that perceptions towards CSR will change after the crisis, "affecting consumption preferences in those companies that exhibited socially irresponsible or unsupportive behavior".[9]

Thence, investors awareness towards the different ESG issues that companies face on a regular basis is, currently, bigger than ever. The Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment, has admitted to have witnessed "record levels of take-up of sustainability strategies" from its more than 3,000 signatories
60 (representing more than US$100 trillion in assets under management).[10] But while institutional investors – companies or organizations (such as mutual funds or insurance companies) that invest money on behalf of other people – have clearly shown an interest for ethical investment alternatives, the same cannot yet be said for non-professional and individual investors (more commonly called "retail investors").

The PRI, when comparing institutional fund flows to retail flows, found that retail investor preferences and attention shifted away from sustainable investments in the face of the economic distress caused by the COVID-19 pandemic.[11] However, as we saw earlier, research shows that sustainable funds earned higher returns during the early-2020 market crash,[12] which rather shows that this reduced interest could be rather tied to non-financial motives, such as a
70 need for more liquid savings in case of economic distress. Furthermore, a survey conducted in the UK showed that around six in ten consumers, all of whom contributing to either a workplace of private pension fund, didn't know they could invest their money in a manner that could contribute to ESG-related challenges such as climate change.[13] The same study went further

[8] LANDI, Giovanni and SCIARELLI, Mauro. "*Towards a more ethical market: the impact of ESG rating on corporate financial performance*", Social Responsibility Journal, 2019, Vol. 15, No. 1, p.11.
[9] CASTILLO-APRAIZ, Julen; GÓMEZ-MARTINEZ, Raúl and PALMA-RUIZ, Jesús Manuel. "*Socially Responsible Investing as a Competitive Strategy for Trading Companies in Times of Upheaval Amid COVID-19: Evidence from Spain*". International Journal of Financial Studies, 2020, Vol. 8, No. 3(41)
[10] REYNOLDS, Fiona. "*COVID-19 accelerates ESG trends, global investors confirm*", 3 September 2021. [Viewed date: 25 August 2021]. Available from: <https://www.unpri.org/pri-blog/covid-19-accelerates-esg-trends-global-investors-confirm/6372.article>
[11] DÖTTLING, Robin. "*Do retail investors continue to invest in sustainability during an economic crisis?*", 18 September 2020. [Viewed date: 25 August 2021]. Available from: <https://www.unpri.org/pri-blog/do-retail-investors-continue-to-invest-in-sustainability-during-an-economic-crisis/6447.article>
[12] PASTOR, Ľuboš and VORSATZ, M. Blair. "*Mutual fund performance and flows during the COVID-19 crisis*". Chicago Booth Research Paper, 2020, No. 20-18.
[13] BLUNDELL, Josh. "*ESG: Are retail investors being left behind?*", 4 March 2021. [Viewed date: 25 August 2021]. Available from: <https://esgclarity.com/esg-are-retail-investors-being-left-behind/>

deep into consumer awareness and found that "52% of UK consumer (…) don't even recognize that the financial services industry can make a difference at all in matters of sustainability".

There is a silver lining though, as 81% of UK consumers believe that every company should be as much "environmentally responsible as they can be". Additionally, two-thirds of those surveyed said, once ESG integration was explained to them, that they would want their pension to be invested using such an approach. Thus, one can deduce that retail investors are, in fact interested in engaging in Socially Responsible Investment (SRI). Once they understand how such a concept can be achieved and put into practice, either by them or their allocations through their pension funds, retail investors are open to ESG consideration practices. Moreover, there is a need to differentiate ESG investing from SRI to consumers. In ESG investing, market participants make decisions by considering the ways ESG risks and opportunities can have material impacts on a company's performance. SRI, however, prioritizes positive social change by emphasizing financial returns as a secondary consideration: the investors' moral values are considered in the decision-making. Nevertheless, a clearer understanding of the "the tangible financial and economic value that may arise from SRI" is required for individual investors to remain and keep investing in ethical funds even in times of economic distress.[14]

The uncertainty surrounding ESG definitions and practices and the EU's regulatory efforts

This hesitation by retail investors leads us to ponder on the future of the "sustainable economic activity", and if one should really expect it to become more and more the norm (as opposed to what one could qualify as non-sustainable activities). For example – if we leave aside the Social and Governance components of ESG and focus on the Environmental factor for a moment – it is generally understood that a sustainable future relies on our ability to adapt our economy and activities to be "greener". Yet, one could have trouble defining what exactly is considered to be "green" or not. A current lack of global consensus has led to the development of regional sustainable finance frameworks, with "the most advanced and abundant suite of ESG regulatory measures" being considered to be the European Union's regulatory environment.[15] Therefore, many see its regulatory framework to be "the place to start" when developing and defining ESG integration practices.

[14] DÖTTLING, Robin. *supra* note 11
[15] INGMAN, Barrie C. "*ESG Regulation – Where to start?*", 29 April 2020. [Viewed date: 25 August 2021]. Available from: <https://insight.factset.com/esg-regulation-where-to-start>

EU regulatory efforts, such as the EU Taxonomy, have been made to list which activities are sustainable and harmless enough for the environment to be considered "green". Still, the question remains for the future of non-green activities (also commonly called "brown" activities). As ESG consideration grows in importance and, according to Fitch Ratings, begins to affect even credit-rating decisions, lending and investment decisions may turn away from "brown" activities altogether due to their lower quality ESG profiles.[16] Fitch Ratings goes as far as stating that "brown" activities may be even more challenging to define than "green" ones. The negative implications of being considered "brown" could lead to greater consequences and hurt a lot of companies and sectors in the process, requiring a more precise and legitimate definition.

In a 2019 FAQ regarding the work of the Technical Expert Group (TEG) on Sustainable Finance and the legislative proposals of the European Commission, a less binary overview is given on this classification. Activities not part of the EU Taxonomy, for instance, are not necessarily "polluting", as activities within are rather considered as "green" for their ability to "substantially contribute" to one or more environmental objectives.[17] Moreover, according to a more recent FAQ, "transitional activities" that continue to have a negative impact due to low-carbon alternatives not yet being available, may qualify for the Taxonomy under certain conditions. One of such conditions, particularly, is a measurable, objective assessment of whether their greenhouse gas (GHG) emission levels match those expected of a "best performance" in the sector or industry.[18] Regardless of these intentions though, negative screening – one of the most commonly applied ESG strategies – and exclusionary criteria could lead to a binary vision of whether an investment is "ESG appropriate" or not depending on whether the activity is considered "green" or not by the EU Taxonomy.

Of course, such binary views are not the norm within the financial markets and a certain tolerance to "brown" activities is to be expected in ESG considerations, even by SRI funds

[16] FITCH RATINGS. "*ESG Credit Quarterly 1Q20 – Defining "Brown" may shape policy*", 20 April 2020. [Viewed date: 25 August 2021]. Available from: <https://www.fitchratings.com/research/corporate-finance/esg-credit-quarterly-1q20-defining-brown-may-shape-policy-20-04-2020>

[17] COMMISSION TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE. "*Frequently asked questions*", 30 October 2018, p. 6. [Viewed date: 25 August 2021]. Available from: <https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-teg-frequently-asked-questions_en.pdf>

[18] EUROPEAN COMMISSION. "*FAQ: What is the EU Taxonomy and how will it work in practice?*", 21 April 2021, p. 5. [Viewed date: 25 August 2021]. Available from: <https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-faq_en.pdf>

(albeit this tolerance will inevitably be weighed against the activity's efforts to reduce its negative environmental impact). Additional "tolerance" scenarios and the analysis they require will also necessarily apply to investor consideration of other (not limited to Taxonomy-qualification) ESG issues within companies. As SRI expectations grow and more and more regulations on sustainable finance begin to be published and applied, one can intuitively expect these tolerances to be further and further controlled. A mutual fund, for instance, would have to make the sure its investment in an activity not listed by the EU Taxonomy is indeed still respectful of the fund's ESG standards. Due diligences would naturally be expected by investors of a mutual fund which, to promote itself, puts forward ESG integration in its investment strategy.

ESG assessment approaches and the development of quantification methods

How can such components be analyzed, compared, and ultimately allow for an investor to decide on whether to invest or not in a company? In the case of investment managers, ESG assessment has been more and more integrated into traditional investment analysis by different processes and approaches, helping them to make investment decisions. Two main approaches are used: a qualitative approach and a quantitative approach. A qualitative approach is best summed up, in layman's terms, as making a subjective judgement – after an overall analysis of a multitude of sources of information – on a company's ESG risks and/or potential to either decide to invest or not to invest in it. It uses mostly unstructured data, such as research writings, documents or field notes and analyzes them to get a perspective on a company's activity or its practices.

The analysis itself is not necessarily devoid of factual data (e.g., a company's average of tons of carbon emissions per year) and it can even be "quantified", which is to say that the quality can still be measured despite this measurement being based on non-numerical criteria. But its integration into investment decisions will therefore take the form of an "informed human opinion" rather than a fully mathematical or statistical model prediction as it is the case in the quantitative approach. This latter approach depends on measurements based on some quantity or number rather than on some quality. Quantitative managers setup models and rules that result on investment recommendations that they can then use in their decisional process.

As more and more quantifiable (measurable) ESG data becomes available, quantitative managers have begun to harness its numerical results and integrate them into their valuation models, allowing for more “passive” asset management funds – such as Exchange Traded Funds (ETFs) – to consider ESG factors.[19] This way, “passive” managers that build and adjust their investment portfolios based on quantitative rules and metrics can also take into account ESG factors and evaluate their risk and/or potential without having to resort to discretionary judgements that active managers use when deciding upon an investment.

This quantification of ESG data also allows for already powerful electronic tools such as Blackrock’s “Aladdin” (Asset, Liability, Debt and Derivative Investment Network) – a platform used by institutional and corporate investment managers responsible for around US$30 trillion in assets[20] – to also incorporate ESG risk analytics into portfolio and asset management and thus optimize even further its recommendations. But it is important to understand that this quantification is applied both to qualitative and quantitative data. To “quantify” is to measure. The parameters of those measurements, though, are defined by the approach taken. And while stricter methods can be applied to quantify quantitative/numerical data, one can reasonably expect for there to be slight divergent measurements of qualitative data.

Just like credit rating evaluates credit risk and the ability for a debtor (a company, for instance) to pay back its debt and gives it a “letter grade”, allowing for a quick comparison between different companies, ESG quantification and its subsequent rating/scoring practices can allow for a (more or less precise) measure and classification of how a company is perceived to be performing on ESG issues and its activity’s exposure to ESG-related risks. Regardless of the analysis approach taken, both qualitative and quantitative data often end up being weighed up (quantified) and being aggregated into a score upon which ESG rating agencies base themselves to award a rating/classification of a company’s ESG profile. Due to their higher allocation of resources into ESG research, ESG rating agencies can naturally be expected to provide a more detailed analysis of a company’s ESG profile than, for instance, an asset manager’s in-house assessed ESG score.

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[19] ORSAGH, Matt. “*Integrating ESG Standards: Qualitative and Quantitative Approaches*”, 1 April 2019. [Viewed date: 25 August 2021]. Available from: <https://business-ethics.com/2019/04/01/integrating-esg-standards-into-investment-analysis-qualitative-and-quantitative-approaches/>

[20] BEALES, Richard. “*Breakingviews - BlackRock is becoming the new, old Goldman Sachs*”, 4 June 2020. [Viewed date: 25 August 2021]. Available from: <https://www.reuters.com/article/us-blackrock-goldman-sachs-breakingviews-idUSKBN23B36U>

The need for an improvement of ESG quantification methods

Nevertheless, ESG quantification, even by ESG rating providers is not yet as developed and as precise as credit rating, the main cause being the fact that both qualitative and quantitative approaches still present a lot of methodology drawbacks. Although the quantitative assessment of an ESG profile might allow for a more "objective" or, at the very least, mathematically supported output, data used for its assessment can often be "backward-looking", if not outdated or even subject to selection bias by companies, thus failing "to inform how the issuer will perform going forward".[21]

Furthermore, qualitative analysis allows for an evaluation of more abstract notions and factors such as a company's business model sustainability and the quality of its management.[22] Many are those who believe that a "quantitative analysis alone is not enough" and that "ultimately we need a balance of both, a quantitative data driven input layered with qualitative analysis".[23] In the other hand, the subjective nature of these assessments might influence its quantification into an ESG score in a way that defeats the purpose of comparing it with another company's score. Moreover, this subjectiveness might lead to situations of conflict of interests (such as scoring higher companies with whom an investment manager or a rating agency have ties with). Difficulties on accurately reporting ESG information to the funds' investors (the investment manager's clients, so to speak) can therefore arise amidst these assessment uncertainties.

These shortcomings of quantification, even when coupling quantitative and qualitative assessments, have led some to suggest other methods such as a holistic and opportunity-focused approach[24] rather than a merely quantified ESG integration in investment decisions. Some have even put forward radical changes that would result in discarding current ESG scoring methodologies altogether in favor of new quantifiable criteria, more focused on "market-

[21] WONGTRAKOOL, Bonnie M. "*How to Differentiate ESG Approaches Among Asset Managers, and the Western Asset Approach to ESG Investing*", April 2018, p. 4. [Viewed date: 25 August 2021]. Available from: <https://www.westernasset.com/us/en/pdfs/whitepapers/how-to-differentiate-esg-approaches-2018-04.pdf>

[22] HALL, Shane. "*Qualitative analysis of companies*", 3 September 2011. [Viewed date: 25 August 2021]. Available from: <https://smallbusiness.chron.com/qualitative-analysis-companies-21542.html>

[23] SYNTAO GREEN FINANCE. "*Qualitative VS Quantitative in ESG Investing*", 8 December 2020. [Viewed date: 25 August 2021]. Available from: <http://syntaogf.net/Menu_Page_EN.asp?ID=21&Page_ID=376>

[24] DUNBAR, Stuart. "I*nvestissement durable : il faut plus que des chiffres*", 15 June 2021. [Viewed date: 25 August 2021]. Available from: <https://www.allnews.ch/partenaires/content/investissement-durable-il-faut-plus-que-des-chiffres?utm_source=All+contacts&utm_campaign=e437149631-EMAIL_CAMPAIGN_2021_06_15_06_44&utm_medium=email&utm_term=0_d35111d3a6-e437149631-25569374>

failures".[25] But these suggestions would 1) require a lot of resources to fully grasp the holistic ESG potential of a company, thus leaving aside a lot of market participants who simply wouldn't have the means to do such an analysis; and 2) imply to radically reframe the entire current ESG data disclosure framework and, with it, analysis methods, ESG rating providers' business models, etc., making it, for the least, implausible for the time being.

Thus, with quantified ESG integration into the investment process continuing to be (according to a recent study by Schroders)[26] the preferred approach to sustainable investing implementation by over two thirds of institutional investors, efficient ESG scoring methodologies seem to be, for now and the foreseeable future, essential for sustainable finance development. As we will see, EU regulators and private asset management associations alike seem to agree on this aspect and with increasing pressure to ensure ESG scoring integrity, "it would not be surprising to see new regulatory standards for ESG rating providers"[27] emerge. Meanwhile, until EU regulatory work begins to counter the lack of harmonization, governance and transparency in ESG ratings, these standards and integrity expectations may, however, be placed on asset managers and in their processes of ESG integration into investment decision.

How reliable is the ESG data assessed by EU asset managers who claim their financial products to be sustainable? How efficiently do asset managers consider these assessments and how do they allow for a transition into a more sustainable economy? Regulatory reporting, as we'll see later-on, already requires detailed and transparent quantified information such as metric indicators from asset managers. This could (and, in some instances, already does) indirectly put the weight of the integrity of ESG data assessment on them. Therefore, the issue we're faced with – and which this dissertation will try to provide an answer to – is knowing **to what extent the EU's development of sustainable finance defines and relies on the quantification of ESG criteria and how can asset managers further improve it to enhance the compliance efficiency of their ESG integration policies?**

If we consider, for a moment, that a financial risk (such as credit default) can only be fully measured (or as close as one can measure it) once harmonized quantified assessments –

[25] TAPARIA, Hans. "*The world may be better off without ESG investing*", 14 July 2021. [Viewed date: 25 August 2021]. Available from: <https://ssir.org/articles/entry/the_world_may_be_better_off_without_esg_investing#>
[26] SCHRODERS. "*Institutional Investor study 2021*", 2021. [Viewed date: 25 August 2021]. Available from: <https://www.schroders.com/en/uk/pensions/insights/institutional-investor-study-2021/sustainability/>
[27] GIL, Andrés. "*Europe's regulatory playbook for ESG rating providers*", 13 April 2021. [Viewed date: 25 August 2021]. Available from: <https://sites.law.duke.edu/thefinregblog/2021/04/13/europes-regulatory-playbook-for-esg-rating-providers/>

backed by quantitative empirical data – made by different entities/actors converge in the same result, we can therefore assume that the same would be true about non-financial risks. Quantitative assessment could allow for a more comprehensive understanding and control of a company's non-financial risks through modeling and analytics. But its objective, numerical data approach could also contribute to reducing compliance risks: precise rules and measures could be put in place to ensure a more efficient management and disclosure of ESG standards, data and performance. Eventually, by measuring and reducing non-financial risk, a quantitative approach to ESG data assessment could also lead to a better overall performance not only at fund level, but at company level as well, through an easier tracking of non-financial developments. To better examine these propositions, one must break down how the sustainable finance sector has evolved into becoming more homogenized and how a mere qualitative assessment has slowly been considered insufficient, thus giving way to ESG quantification.

Throughout this dissertation – although the goal is to provide an analysis of ESG quantification's development and relevance for asset managers across the general EU financial market – some sections will focus on France's regulatory framework and financial market participants as to allow for a deep analysis of ESG quantification's development at a national level. As we will see, France presents a deeply developed and pioneering sustainable finance framework, supported by legislative norms and private initiatives, that give its Paris financial hub the potential to become one of the most significant global sustainable financial centers in the near future. These reasons make it a prime subject to such an individual analysis, allowing us to consider its contributions and needs regarding ESG quantification.

We will therefore explore ESG quantification's development under public actors and the overall transition to a more sustainable financial market **(Part 1)**. This will allow us to focus in detail on which tools and actors have and will be essential for the future of sustainable finance, coupled with an overview of which regulatory obligations will have to be taken into account when integrating ESG criteria in asset management. ESG quantification has also evolved under private actors but, as we will see, this progression is tied to an increasing need to legitimize the sustainability of financial practices **(Part 2)**. Homogenization is not yet present in ESG scoring and data assessment practices, subject to several different approaches, depending on the entity. A comparison of ESG assessment methodologies will help determine convergence problems and possible solutions, allowing us to dive deeper into how ESG quantification and quantitative analysis of ESG criteria can contribute to both non-financial performance and compliance efficiency.

PART 1

ESG quantification development under public actors: the transition to a more sustainable financial market

Sustainable finance has evolved from both ends of the financial market. The recent surge on quantitative data and success of ESG investing that we saw earlier, can be attributed to an on-growing interest from both the financial market actors and from investors. If we focus here on the coordinated works of public actors to reinforce the sustainable finance regulatory framework, we can see that ESG quantification stems from the pursuit of two main objectives: the European Commission and its member States' efforts to harmonize sustainable financial
280 standards **(chapter 1)** as well as these actors' increasingly stronger commitment to sustainable development **(chapter 2)**. Exploring the first pursuit will allow us to see how ESG quantification has been developed to both accommodate a rapid development of EU and national regulatory standards. The second pursuit's analysis will highlight how ESG quantification is tied to a growing need for stronger and more significant engagement towards sustainable development and practices.

Chapter 1 – How ESG quantification stems from the harmonization of sustainable finance standards

Discussing every single type of financial market actor and their different, individual
290 contributions to sustainable finance would be, by itself, enough to produce a substantial number of different studies and dissertations. It is, however, possible to analyze "why" some of these public actors have made coordination efforts (and ultimately resorted to ESG quantification) by dissecting their goals. Interestingly enough, their goals are not so different and vary mostly on the adaptability of the measures taken to other actors. If we focus first on supranational actors, such as the EU and its Commission, we can see that they have laid down a foundational regulatory framework **(section 1)**, taking into account regulatory needs and other international standards in order to establish the whole of the EU as a global leader on sustainable finance standards. This still on-going development of a common framework has affected the asset management sector by seeking to make it more "sustainable" on the basis of ESG data
300 disclosure requirements **(section 2)**.

Section 1 – The European Commission's foundational regulatory framework of sustainable finance

The last decade saw two major international developments towards sustainability: the 2016 UN Paris Agreement and the UN Sustainable Development Goals (SDGs). Two catalysts which had already begun "to stir virtually every economic sector"[28] and have yet gained more momentum with the COVID-19 pandemic. This has led to what one could call a sustainability-focused "regulatory Spring" by the European Commission **(1)**, with an array of texts already adopted and many others yet to come that have impacted the overall financial activity and, specifically of interest to this dissertation, the asset management sector. This intense development, however, spawned off an increasingly competitive quest for global leadership on setting ESG standards **(2)**. This vying for international direction on standards has given way to some harmonized ESG practices and definitions, most notably through the disclosure of quantifiable ESG metrics and data. An indication, perhaps, of how future EU regulation will have to be devised in order to gain and maintain a leadership position on ESG development.

1. *The European Commission's ESG-focused « regulatory Spring »*

Since 2016's UN Paris Agreement and its quantifiable objectives, the European Commission has "stepped on the gas", regulation-wise. A common classification system for environmentally sustainable economic activities was created with the EU Taxonomy regulation. Disclosure and reporting obligations are now required from non-financial companies – by both the old Non-Financial Reporting Directive (NFRD)[29] and the future Corporate Sustainability Reporting Directive (CSRD)[30] – as well as from financial companies by the Sustainable Finance Disclosure Regulation (SFDR).[31] Amendments to existing regulation – such as suitability rules for a better understanding of a client's ESG-preferences or stress testing rules for banks and their prudential obligations – were also put into place. New tools such as EU standardized

[28] OTTERSTRÖM, Tomas; PATTERSON, Julie and SIEVAÄNEN, Riikka. "*The beginning of the ESG regulatory journey*". Frontiers in Finance, May 2020, Issue 62, p. 67

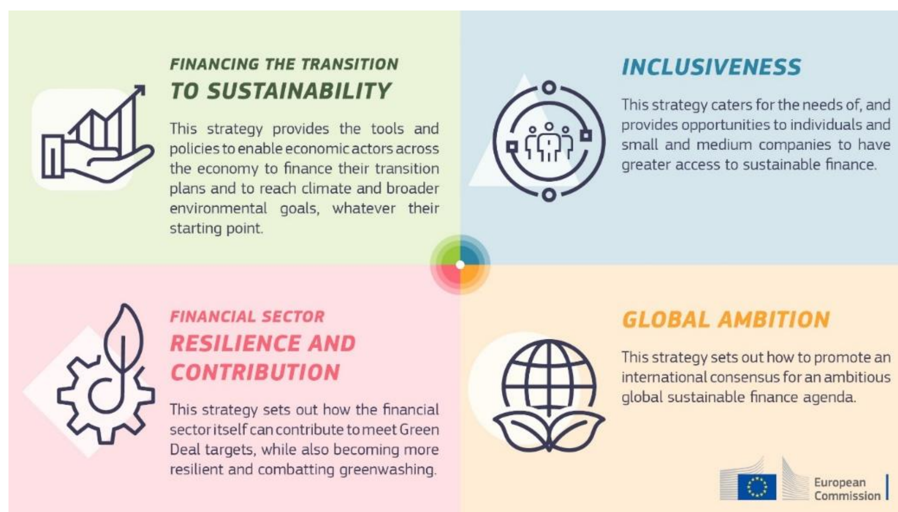
[29] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1–9)

[30] EUROPEAN COMMISSION. "*Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*", 21 April 2021. [Viewed date: 25 August 2021]. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

[31] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317 9.12.2019, p. 1-16)

climate-focused benchmarks and an EU-level eco-label for "sustainability funds" and "green bonds" have been set up.

As we will see later on, these complex works are, each one, little pieces of a larger puzzle that the EU has undertaken to assemble. Its main goal, according to the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA; the Commission department responsible for EU policy on banking and finance) is to harmonize sustainable and ESG investing practices among its member States' financial markets and maintain its status as a global leader in setting standards for sustainable finance.[32] However, these radical efforts seem to be merely the first phase of a long-term effort that aims to go further than the 2018 Commission action plan on financing sustainable growth and its initial strategy "to further connect finance with sustainability".[33] In fact, the Commission's "strategy for financing the transition to a sustainable economy" published in early July of this year is now aiming to "fully support the transition of the economy towards sustainability"[34] by tackling four main areas :



a - The four main areas of action contemplated by the Commission[35]

[32] DG FISMA. "*Strategy for financing the transition to a sustainable economy*", 6 July 2021. [Viewed date: 25 August 2021]. Available from: <https://ec.europa.eu/info/publications/210706-sustainable-finance-strategy_en>

[33] DG FISMA. "*Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth*", updated on 5 August 2020. [Viewed date: 25 August 2021]. Available from: <https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en#action-plan>

[34] EUROPEAN COMMISSION. "*Strategy for financing the transition to a sustainable economy*", 6 July 2021. [Viewed date: 25 August 2021]. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0390>

[35] *Ibid.*

While a lot could be said about all the actions the Commission has committed itself to undertake in this renewed strategy, one that stands out in the interest of this dissertation is action number 4 and its goal to increase the contribution of the financial sector to sustainability. In this action, the Commission plans to "improve the reliability, comparability and transparency of ESG ratings". This action was not unexpected, however, as a study on sustainability-related ratings, data and research published by the Commission in January 2021 already denounced a lack of transparency, comparability and potential conflicts of interests in ESG ratings providers' operations.[36] There is, indeed, a need to regulate ESG data issuers and providers as this "missing piece" is not only requested by national financial market regulators – such as the French Autorité des Marchés Financiers (AMF) and the Dutch AFM in their 2020 "Position Paper"[37] – but by professionals as well.[38]

In fact, non-financial companies and asset managers alike reported to the Commission that the data gathering process of sustainability-related rating, data and research providers is not efficient enough, focusing too much on "providing ratings rather than data" through "opaque" methodologies that "do not sufficiently take into account company context".[39] This results in a low comparability between ESG data gathered by different providers and on sustainability exposure and practices being "only moderately reflected" through the ratings, data, and research of these providers.[40] Shortly after the publication of the aforementioned EC's study, Steven Maijoor – former Chair of the Board of Supervisors of the European Securities and Markets Authority (the EU-level regulator, more commonly called ESMA) – had already highlighted the need for appropriate regulatory requirements to be set to ensure the quality and reliability of ESG ratings and assessment tools. These requirements, however, need to be proportionate to accommodate both large multi-national entities (which may be subject to other already existing regulatory frameworks), as well as smaller companies with no regulatory

[36] EUROPEAN COMMISSION. "*Study on sustainability-related ratings, data and research*", 6 January 2021. [Viewed date: 25 August 2021]. Available from: <https://op.europa.eu/en/publication-detail/-/publication/d7d85036-509c-11eb-b59f-01aa75ed71a1/language-en/format-PDF/source-183474104>

[37] AUTORITE DES MARCHES FINANCIERS and AUTORITEIT FINANCIËLE MARKTEN. "*Position Paper: Call for a European Regulation for the provision of ESG data, ratings, and related services*", 15 December 2020. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/fr/sites/default/files/private/2020-12/amf-afm-position-paper-call-for-a-european-regulation-for-providers-of-esg-data-ratings-and-related-services_0.pdf>

[38] HAWKER, Emmy. "Is it Time to Regulate ESG Scores and Ratings?", 3 February 2021. [Viewed date: 25 August 2021]. Available from: <https://www.esginvestor.net/is-it-time-to-regulate-esg-scores-and-ratings/>

[39] EUROPEAN COMMISSION. *supra* note 33, p. 170

[40] *Ibid.*

compliance experience but with a “valuable role to play” in the development of sustainable finance.[41]

2. *The global competitivity for leadership on ESG standards development*

Before we dig deeper into the current regulatory framework and its potential future, it is essential to understand just how urgent these changes are turning out to be on a global context. In fact, the Commission’s goal of making the EU a global leader in setting standards for sustainable finance could be in danger, thanks to the newly appointed United States President Joe Biden and his more sympathetic views on sustainable economic activity when compared to his predecessor. While Europe has the upper hand for now – thanks to an ESG infrastructure and legal framework that the United States lack for now – executives and analysts seem to agree that recent events in the United States could probably boost sustainable finance development overseas.[42] Furthermore, asset managers are already being advised in ways to “enhance controls and manage risk ahead of the Securities and Exchange Commission (SEC) and Department of Labor (DOL) rulemaking”.[43]

The end result is that public companies are now facing more pressure from influential institutional investors – such as Blackrock, Vanguard and State Street – to voluntarily adopt international ESG disclosure standards such as the SASB or the TCFD frameworks.[44] Adding to these recent developments, the SASB and the International Integrated Reporting Council (IIRC) have merged together in June 2021, creating the Value Reporting Foundation,[45] with the intention to work with the IFRS Foundation to create the International Sustainability Standards Board (ISSB). The ISSB has, however, expressed its desire to work with and draw from regional

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[41] MAIJOOR, Steven. “*ESMA letter to EC on ESG ratings*”, 28 January 2021. [Viewed date: 25 August 2021]. Available from: <https://www.esma.europa.eu/sites/default/files/library/esma30-379-423_esma_letter_to_ec_on_esg_ratings.pdf>

[42] MARSH, Alastair. “*U.S. falls further behind Europe in fast growing ESG market*”, 21 December 2020. [Viewed date: 25 August 2021]. Available from: <https://www.bloomberg.com/news/articles/2020-12-21/u-s-falls-further-behind-europe-in-fast-growing-esg-market>

[43] GREER, Amy J.; HOFFMAN, Jonathan E. and KLASS, Jennifer L. “*ESG Investing Faces Changing Regulatory Landscape* “. The Investment Lawyer, 2021, Vol. 28, No. 3, p. 15

[44] CLARKIN, Catherine M.; LEVIN, Joshua L. and SAWYER, Melissa. “*The rise of standardized ESG disclosure frameworks in the United States*”, 22 June 2020. [Viewed date: 25 August 2021]. Available from: <https://corpgov.law.harvard.edu/2020/06/22/the-rise-of-standardized-esg-disclosure-frameworks-in-the-united-states/>

[45] PARKER, Gillian. “*SASB and IIRC merge to establish 'legitimacy' in sustainability reporting”, 11 June 2021.* [Viewed date: 25 August 2021]. Available from: <https://www.eco-business.com/news/sasb-and-iirc-merge-to-establish-legitimacy-in-sustainability-reporting/>

initiatives to achieve global consistency and reduce complexity in sustainability reporting. The
390 desire for cooperation with the European Commission, for instance, as well as with the European Financial Reporting Advisory Group are explicitly mentioned by the Foundation's Exposure Draft of April 2021,[46] in which amendments to the Foundation's Constitution are proposed for the creation of the ISSB. One the proposals specifically states that the ISSB's Trustees (in charge of drafting the standards) should be appointed, reviewed and advised by a Monitoring Board that would comprise the responsible member of the European Commission.[47]

This emphasis on standardized reporting allows for easier data comparability and further boosts an ESG investing framework outside the EU. More importantly so, though, is that as more and more companies begin to use these standards, data comparability between non-EU and EU ESG disclosures may become harder. Thus, the EU is faced with two threats: losing its
400 *status quo* as global leader for ESG standards and having to consider other ESG data disclosure standards when (and if) it starts to work on a regulatory framework for ESG rating providers. As we will see further on, it is important that ESG ratings are based on similar assessments of ESG data. Thus, if ESG data is disclosed differently depending on a company's country of incorporation and ESG disclosure framework, its quantification can be impacted and ESG ratings can end up suffering from deep methodology discrepancies. The SASB and TCFD frameworks, however, require the disclosure of some quantitative metrics which are similar to the ones in the EU's reporting framework, such as the measure of a company's GHG emissions. The TCFD framework has even been endorsed and incorporated into reporting obligations by some EU regulators.[48] The subjective nature of qualitative data, however, makes it harder to
410 regulate and to harmonize its subsequent scoring-process. Thus, one could expect common EU and international standardized quantitative data to be relatively easier to compare than qualitative data since the metrics would remain more or less the same.

Regardless of these assumptions, going forward, we can reasonably expect for the European Commission to further insist on requiring more quantifiable/measurable data from company disclosures (independently of its qualitative/quantitative nature) rather than mere statements/comments on ESG challenges and developments. This would not only improve comparability of data for both ESG rating providers and asset managers, it would also ensure

[46] IFRS FOUNDATION. "*Exposure Draft - Proposed targeted amendments to the IFRS foundation constitution to accommodate an international sustainability standards board to set IFRS sustainability standards*", IFRS Foundation, London, 2021, p. 38, § B12.
[47] *Ibid.,* p. 21, §19-21
[48] CLARKIN, Catherine M.; LEVIN, Joshua L. and SAWYER, Melissa. *supra* note 41

objective transparency on ESG ratings' methodologies and on the way the underlying factors of a rating are assessed, since numerical metrics are likelier to be equivalent, no matter the
420 company's country of incorporation.

Section 2 – A sustainable asset management framework based on the disclosure of ESG data

The rapid, foundational works of the European Commission and the global competitiveness have fundamentally changed how asset managers approach and integrate ESG criteria in their investment decisions. A number of regulatory texts have now to be taken into account and have caused investment policies and reporting requirements to be updated and modified for compliance purposes. One particular regulation, however, has impacted asset managers both at the entity and fund-level, requiring a particular attention to be given to how
430 ESG has been integrated in their activity: the Sustainable Finance Disclosure Regulation (**1**). Thanks to its common framework of transparency and quantifiable ESG data disclosures, applicable to asset managers since March 2021, investors can benefit from an increased comparability and understanding of sustainable asset management activities and strategies. But interestingly enough, the SFDR is not the first set of mandatory disclosure requirements applicable to asset managers. Albeit its shortcomings, France's pioneering article 173-VI of the 2015 Energy Transition for Green Growth Act (**2**), has paved the way for the new French Energy and Climate Law's article 29 and the expectation for an increased resort to ESG quantification by asset managers.

440 1. *The Sustainable Finance Disclosure Regulation: a common framework for transparent and quantifiable ESG data*

The Commission's regulatory work, as we previously saw, established a comprehensive set of measures with the intent to develop sustainable finance and position the EU capital markets as global leaders. The regulations set forward these past few years can be divided into 3 main areas of sustainable finance development: a common classification system of sustainable economic activities provided by the EU Taxonomy; a shared and standardized set of investment tools such as the EU Climate benchmarks or financial product standards like the European

Green Bonds proposal;[49] and a sustainability data disclosure regime enforceable both to non-financial, thanks to the NFRD and the upcoming new CSRD, and to financial companies with
450 the SFDR. For the intents of this dissertation, we will focus here on the SFDR and how its disclosure requirements lead asset managers to reinforce the transparency of their sustainable finance practices, specifically through the quantification of ESG.

The SFDR imposes financial market participants offering investment products – specifically asset management companies (AMCs) – to provide standardized information on sustainability and ESG factors integration at both an entity and product level, regardless of there being an express ESG or sustainability focus. Asset managers are therefore required by article 4 of the SFDR to publish on a "comply or explain" basis whether they consider the "principal adverse impacts" (PAI) of their investment decisions on sustainability factors (environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery
460 matters), and to provide information on their due diligence policy for such impacts.[50] The disclosure requirements are, however, mandatory for both entities and parent undertakings of a large group with more than 500 employees.

A categorization of sustainable financial products is also laid out, distinguishing between "financial products promoting environmental or social characteristics" (article 8); "financial products with a sustainable investment objective", such as a reduction in carbon emissions (article 9); or simply other financial products that do not qualify for neither of these articles. This former category of products, however, is still required by article 6 to at least disclose pre-contractual information (*e.g.,* in an UCITS' prospectus) on the way sustainability risks are integrated (or not) into investment decisions and on the results of likely impacts of
470 sustainability risks on the returns of the financial products offered.

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[49] EUROPEAN COMMISSION. "*Proposal for a Regulation of the European Parliament and of the Council on European green bonds*", 6 July 2021. [Viewed date: 25 August 2021]. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0391>

[50] "*Article 4 – Transparency of adverse sustainability impacts at entity level*

1. Financial market participants shall publish and maintain on their websites:

(a) where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts, taking due account of their size, the nature and scale of their activities and the types of financial products they make available; or

(b) *where they do not consider adverse impacts of investment decisions on sustainability factors, clear reasons for why they do not do so, including, where relevant, information as to whether and when they intend to consider such adverse impacts."*

These disclosure requirements enable more transparency on sustainable asset management practices. This reduces the risk of greenwashing[51] and the marketing of self-proclaimed ESG-focused funds when, in reality, their methodology and promotion of such characteristics (or objective, in the case of sustainable investment funds) are either neglected or constructed in a way that allows for traditional investment motivations to still be unreasonably predominant. But the SFDR requirements also contribute to increase asset managers' resort to ESG quantification.

This effect can be provoked indirectly, through the required disclosure of policies and assessments of likely sustainability risks' impacts, which asset managers will try to improve and render more legitimate with numerical data/results. But the SFDR also directly contributes to ESG quantification development, through its articles 10 and 11. The former article requires disclosure on "the methodologies used to assess, measure, and monitor" the characteristics or the impact of sustainable investments. Depending on the fund in question being an article 8 or 9 fund, article 11 imposes the disclosure of 'the extent to which environmental or social characteristics are met" or "the overall sustainability-related impact". This overall impact must be assessed "by means of relevant sustainability indicators" as well as compared with the impacts of both the designated index and a broad market index through sustainability indicators.

In order to keep track of the evolution and the extent to which characteristics and objectives are met, quantification is in fact the predominant solution. The final report on the draft Regulatory Technical Standards[52] regarding the content, methodologies, and presentation of SFDR disclosures – planned to be bundled into a single delegated act with other RTS and published on July 1st, 2022[53] – further contributes to ESG quantification development by resorting to it to harmonize data analysis. The RTS states that it is "*appropriate to standardize*

[51] "*The practice of trying to make people believe that a company is doing more to adopt sustainability than it really is, often for public relations reasons.*" according to LIANG, Hao; SUN, Lin and TEO, Melvyn. "*Greenwashing: Evidence from Hedge Funds*", 26 May 2020. [Viewed date: 25 August 2021]. Available from: <https://ssrn.com/abstract=3610627>

[52] JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES. "*Final report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088*", 2 February 2021. [Viewed date: 25 August 2021]. Available from: <https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf>

[53] BERRIGAN, John. "*Letter from the Director-General of DG FISMA: Information regarding regulatory technical standards under the Sustainable Finance Disclosure Regulation 2019/2088*", 8 July 2021. [Viewed date: 25 August 2021]. Available from: <https://www.esma.europa.eu/sites/default/files/library/com_letter_to_ep_and_council_sfdr_rts.pdf>

the metrics used to assess certain adverse impacts which are considered to be measurable”[54] and, to that purpose, provides 22 quantitative metrics in its annexed “Principal Adverse Sustainability Impacts Statement” template as well as 46 other additional metrics. [55] Further enhancing a standardization of ESG data through quantification, the RTS also provides (in this same “Annex I”) definitions and formulas to calculate some of these indicators. Although the template also requires qualitative data disclosures (*e.g.*, a description of policies to identify and
500 prioritize PAI) these metrics allow, for the first time, investors to compare objective ESG data from different asset/investment management entities without having to face a significant divergence of the indicators and methodologies used.

2. *France's Law on Energy Transition for Green Growth and its article 173-VI*

When faced with the fast-paced publication of EU regulatory norms, few States were as ready and committed to sustainable finance as France, thanks to its already existing framework. Article 72 of the 2019 PACTE law, for instance, had already introduced the obligation for pension funds and life insurance providers to offer at least one sustainability-labeled fund in their offering. Long before the SFDR came into play earlier this year (March 2021), French
510 asset management activities were already obliged to consider certain legislative norms regarding ESG disclosure requirements. Article 173-VI of France's Law on Energy Transition for Green Growth (LTECV) – which came into force back in 2016 and was the first important disclosure regulation to focus on climate risk and impact assessments of a fund's portfolio[56] – applied to both institutional investors (such as insurance companies) and AMCs (on which we will focus on here).

Disclosure of ESG information was required both from the AMCs and from their funds, concerning all asset classes (listed, venture capital, physical assets, etc). A threshold was, nevertheless, put in place for the mandatory enforcement of the disclosure regime. Thence, asset managers of funds with AUM under €500 million, for instance, were exempted from describing

[54] JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES. *supra* note 52, p. 13, §10
[55] *Ibid.,* pp. 67-82, Tables 2 and 3
[56] HEIJKANTS, Eva. “*The SRI regulation overlap of France and European SRI*”, 19 May 2021. [Viewed date: 25 August 2021]. Available from: <https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/SRI_Regulation_Overlap#The%20SRI%20Regulation%20Overlap%20of%20France%20and%20European%20SRI>

the means and methodologies employed for analyzing ESG criteria and how analysis results were integrated into the fund's investment policy.[57]

However, based on a "comply or explain" principle, all AMCs were required to describe: their general (entity-level) approach to ESG criteria incorporation into investment and risk management policies; other information such as a list of their ESG funds and their proportion of the company's total AUM; and, more notably, a description of ESG risks and the business's exposure to these risks. This last part, however, did not procure the expected quantification and harmonization of ESG data disclosed. A 2018 guide published by the Association Française de la Gestion financière (AFG, or French Asset Management Association) on good practices and recommendations, following article 173's 2-year anniversary since it had come into force, highlighted the few numbers of AMCs who chose to disclose more than a carbon footprint metric.

The main reason reported by the guide for this was that this was the only metric "commonly accepted" as a quantifiable risk management indicator.[58] This lack of harmonized disclosure led to a stricter expectation by the French regulator AMF, at least on the way the information is presented, which recently declared mandatory for AMCs to follow the structure provided by the "disclosure template-plan" laid down in the implementing decree D.533-16-1 of the Monetary and Financial Code.[59] Perhaps more importantly so, the new article 29 of the France's Law on Energy and Climate will replace this pioneering article 173, extending disclosure requirements to biodiversity-related risks in addition to climate-related risks. As the disclosure of specific targets and a measure of the alignment with international biodiversity goals will become enforceable, a stronger development of harmonized quantification can be expected by AMCs.

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[57] "*Décret n° 2015-1850 du 29 décembre 2015 pris en application de l'article L. 533-22-1 du code monétaire et financier (JORF n°0303 du 31 décembre 2015 ; NOR : FCPT1529597D)*", article 1, §IV(1°)

[58] ASSOCIATION FRANÇAISE DE LA GESTION FINANCIERE. "*Guide Professionnel : Application de l'article 173 aux sociétés de gestion – Bonnes pratiques et recommandations*", February 2018, p. 7. [Viewed date: 25 August 2021]. Available from: <https://www.afg.asso.fr/wp-content/uploads/2018/04/Guidepro-173-climat-2018_04_12_web.pdf>

[59] AUTORITE DES MARCHES FINANCIERS. "*Non-financial approaches in collective investment schemes – Third report*", 14 December 2020, p. 103, position 4. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/sites/default/files/private/2020-12/en-_non-financial-approaches-in-collective-investment-schemes-third-report_final.pdf>

Chapter 2 – How ESG quantification stems from the increasing commitment to sustainable development

The European Commission's harmonization efforts and sustainability strategy, as well as a need to adjust regulations while keeping the growing influence of other international standards in mind all seem to point to one solution: quantification of ESG data. But in order to keep developing its ESG data framework and maintain the EU's current *status quo* as the global leader in ESG standards, efforts must also be made to ensure a significant engagement on sustainable development by member States and their respective financial markets. Therefore, we will here explore examples of how national competent authorities have committed themselves to both promoting and controlling sustainable finance practices **(Section 1)** and how the EU and national governments have acted to support a transition to a more sustainable economy through sustainable finance **(Section 2)**. As we'll see, these efforts have contributed to further developing ESG quantification and have increasingly resorted to it to legitimize commitments and verify transition progress. Some examples of other States' initiatives are mentioned but a particular focus is given here to France's actions since, as stated before, its legislative framework and governmental initiatives complement (and, in some ways, even precede) the EU's recent regulations, making France a major player in the global development of a sustainable financial market.

Section 1 – The National Competent Authorities' initiatives: France's commitment to promote and control sustainable finance practices

Member States such as France have been increasingly adhering to sustainable finance strategies, looking to inspire the Commission's regulatory works with their own, stricter standards, thus positioning their financial hubs as big players in this new, rapidly evolving sustainable finance market **(1)**. These efforts and commitment are at the origin of anti-greenwashing doctrine, such as the French regulator AMF's Position-Recommendation 2020-03 **(2)** which determines to what level asset managers can market their products as being ESG driven based on the quantification of their ESG-engagement.

1. *The NCA's increasing adherence to sustainable finance strategies*

Just like the EU is trying to set the standards for sustainable finance for it to spread globally, National Competent Authorities (NCAs) such as Belgium's FSMA have tried to set the standard for the EU, creating rules for sustainable investments in an attempt to preempt EU-level regulatory work.[60] In France, where complex financial products' commercialization to non-professional consumers (retail) is limited by the AMF, a guideline was adopted back in 2018 allowing for ESG index-linked products to no longer be considered complex as long as the index is built in compliance with the filters and data definitions given by the guideline.[61] These initiatives have given structure to some of the regulatory efforts being done at EU-level and have even been acknowledged by ESMA as an "opportunity" in its 2020 "Strategy on Sustainable Finance" on which to base its supervisory works.[62] In fact, the first area of intervention for supervisory convergence of practices is to map already existent supervisory practices by NCAs, with a focus on "mitigating the risk of greenwashing, preventing misselling practices, and fostering transparency and reliability in the reporting of non-financial information".[63]

Member States are therefore being rather proactive on building their own sustainable finance framework. The AMF, for instance, has devised its own strategic plan for the 2018-2022 period.[64] Entitled "#Supervision2022", this comprehensive plan is described as having three major external areas of focus:

- Committing to a strong, more competitive, and more integrated Union of Capital Markets.
- Promoting innovation while assisting market participants.

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[60] SOCIETE GENERALE. "*We are at the turning point for retail investment in ESG*", 1 March 2019. [Viewed date: 25 August 2021]. Available from: <https://wholesale.banking.societegenerale.com/fr/about/news-press-room/news-details/news/are-the-turning-point-for-retail-investment-esg-1/>

[61] AUTORITE DES MARCHES FINANCIERS. "*AMF Position - Marketing of complex financial instruments (DOC-2010-05)*", last updated on 8 October 2018, p. 13. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/sites/default/files/private/2020-10/20181008-marketing-of-complex-financial-instruments.pdf>

[62] EUROPEAN SECURITIES AND MARKETS AUTHORITY. "*Strategy on Sustainable Finance*", 6 February 2020, p. 6. [Viewed date: 25 August 2021]. Available from: <https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf>

[63] EUROPEAN SECURITIES AND MARKETS AUTHORITY. "*Press Release: ESMA sets out its strategy on sustainable finance*", 6 February 2020, p. 2. [Viewed date: 25 August 2021]. Available from: <https://www.esma.europa.eu/sites/default/files/library/esma71-99-1283_sustainable_finance_press_release.pdf>

[64] AUTORITE DES MARCHES FINANCIERS. "*2018-2022 strategy for the Autorité des Marchés Financiers*", 22 January 2018. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/sites/default/files/2020-02/plan-strateacutegique-2018-2022-eng-pdf.pdf>

- Contributing to the economy’s financing through attractive markets and financial community.

According to Robert Ophèle, Chairman of the AMF, the French regulator wants to “play a role in the shift to a more sustainable financial model” and contribute to its future solutions.

The 2019 PACTE[65] legislation charged the AMF with the responsibility of “ensuring the quality of information provided by AMCs on their investment strategy and on their risk-management in regard to the effects of climate change”.[66] But the AMF’s commitment to sustainable finance oversight had already begun back in 2018, with the creation of a Strategy and Sustainable Finance Unit. In July 2019, the AMF also created a Climate and Sustainable Finance Commission, comprised of various stakeholders such as financial market experts, company representatives, academia, etc. Working in collaboration with the Climate and Sustainable Finance Commission of the ACPR (the French banking and insurance regulator), these two commissions serve to promote and mobilize the financial sector in climate risk matters, while overseeing it to ensure that practices of greenwashing are controlled, prevented and, if need be, sanctioned.

One of such control efforts is the AMF’s “Thematic Supervision of Operational Practices” (SPOT) inspections: short control missions of a certain number of asset management firms, focused on a particular theme, conducted for prevention and recommendation purposes (and not necessarily to sanction bad practices).[67] The French regulator started to conduct these SPOT inspections back in 2018, with SRI practices being amongst the first 6 thematic inspections to be announced to asset management professionals.[68] The result of this SPOT inspection allowed the AMF to observe and put forward recommended “good practices” in regards to the overall SRI approach and ESG integration. These recommendations range from principles – such as engaging a “dialogue with issuers, focusing on the ESG criteria announced

[65] "*LOI n° 2019-486 du 22 mai 2019 relative à la croissance et la transformation des entreprises (1) (JORF n°0119 du 23 mai 2019 ; NOR : ECOT1810669L)*"
[66] *Ibid.,* Chapter 2, Section 1, Sub-section 1, article 77(29°)
[67] AUTORITE DES MARCHES FINANCIERS. "*11e colloque de la Commission des sanctions - Discours de Marie-Hélène Tric, Présidente de la Commission des sanctions*", 3 October 2018. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/fr/actualites-publications/prises-de-parole/11e-colloque-de-la-commission-des-sanctions-discours-de-marie-helene-tric-presidente-de-la>
[68] AUTORITE DES MARCHES FINANCIERS. "*18ème journée de formation des RCCI et RCSI: Les priorités de contrôles de l’AMF en 2018 et la mise en place des missions thématiques courtes*", 20 March 2018, slide 4. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/fr/actualites-publications/evenements-de-lamf/colloques-et-conferences-de-lamf/18e-journee-de-formation-des-rcci-et-des-rcsi-support-pedagogique-des-priorites-de-controles-de-lamf>

to clients" – to more practical and formal requirements (*e.g.* establishing an exhaustive audit trail of investment decisions and the process applied in practice to ensure their consistency with the firm's investment policy and methodology).[69]

Quantitative-related information is also recommended by the AMF, with one of the "good practices" stated being the presentation to investors, fund by fund, of the companies emitting the most CO2. Not only does this reinforce quantification in disclosure practices, it also implies that asset managers will be required to measure and track how companies in their investment portfolios perform in regards to CO2 emissions (and possibly other ESG-related factors/impact indicators down the road).

2. *The AMF's anti-greenwashing Position-Recommendation 2020-03*

The work being done by the AMF has reinforced quantifiable requirements for asset managers to be able to communicate and market funds as having ESG characteristics or taking ESG criteria into account. The AMF's Position – Recommendation from March 2020 on "Information to be provided by collective investment schemes incorporating non-financial approaches"[70] has, for instance, perhaps even surpassed the SFDR in terms of how quantifiable its requirements are. Providing asset managers with minimum conditions for a categorization of their funds – similar to the one of SFDR articles 6, 8 and 9 – the AMF imposes strict specifications on how, to what level, and through which supports ESG characteristics can be communicated to investors. This control of ESG-communication levels could set the standard for future EU regulation amendments or RTS to further prevent greenwashing or deceptive marketing practices of financial products.

Three fund categories are given by the AMF, based on their non-financial approach levels:

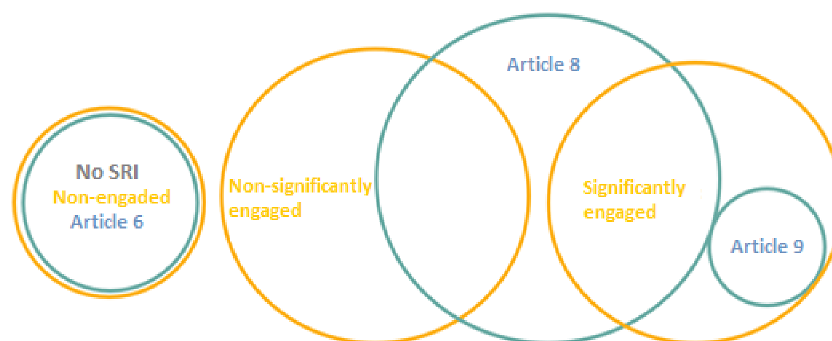
[69] AUTORITE DES MARCHES FINANCIERS. "*The AMF publishes a summary of socially responsible investment practices observed during its thematic inspections*", 15 July 2019. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/en/news-publications/news-releases/amf-news-releases/amf-publishes-summary-socially-responsible-investment-practices-observed-during-its-thematic>

[70] AUTORITE DES MARCHES FINANCIERS. "*AMF Position/Recommendation - Information to be provided by collective investment schemes incorporating non-financial approaches (DOC-2020-03)*", last updated on 27 July 2020. [Viewed date: 25 August 2021]. Available from: <https://www.amf-france.org/sites/default/files/doctrine/Position/Information%20to%20be%20provided%20by%20collective%20investment%20schemes%20incorporating%20non-financial%20approaches.pdf>

- Significantly engaged funds, who can therefore freely communicate to investors on their ESG integration and commitment (through the fund's prospectus, marketing materials, or even by alluding to ESG in the fund's name).
- Non-significantly engaged funds, whose communication is reduced to brief and balanced mentions and whose name cannot contain allusions to ESG characteristics.
- Non-engaged funds, which are not allowed to communicate on ESG criteria aside from a proportionate communication on the fund's prospectus.

650 The AMF's doctrine, however, foregoes a qualitative categorization of funds (like the one in the SFDR) in favor of a quantitative threshold of ESG integration in a fund's portfolio. Therefore, for a fund to be considered significantly engaged its asset manager must, for example, either reduce its investible universe by 20% (investing only in securities amongst the highest rated 80%) or keep its portfolio's overall ESG rating higher than the rating of the investible universe after eliminating the 20% lowest ESG-rated securities.[71] Therefore, if the SFDR focuses on disclosing a funds' strategic focus on ESG and sustainable objectives, the AMF chooses rather to control a fund's communication level and its proportionality to the fund's level of ESG integration.

These two approaches can be seen as complementary: both are and will be essential to
660 expand the ability of investors to compare financial product offers. As supported by Sustainalytics, one of the current leading ESG research and rating providers in the market, these two categorization-frameworks allow to better encompass the currently large and divergent offer of ESG and sustainability-related funds,[72] granting a more comprehensive and extended definition of their different levels of engagement and objectives.



b - Sustainalytics' summary of the complementarity between the SFDR and AMF's Pos.-Rec. 2020-03[72]

[71] *Ibid.,* p. 6, position 2(b)
[72] HEIJKANTS, Eva. *supra* note 56

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While the SFDR has improved ESG data quantification as a means of disclosure after-the-fact, the AMF's Position-Recommendation requires a direct, pre-trade quantification of ESG integration itself in order for an asset manager to be able to even start marketing his fund. A much stricter approach that, naturally, can be expected to boost the resort to ESG rating and data-gathering implementation. Further ESG-related doctrine was published by the AMF in its "third report on non-financial approaches in collective investment schemes" which supplements the Position-Recommendation 2020-03 by emphasizing the need for appropriate control mechanisms to ensure data quality and consistency as well as due diligences on service providers. But perhaps more importantly so, the report contains a recommendation for asset

680 managers to set up regular *ex-post* checks on GHG emission data as well as new requirements in regards article 173 disclosures.[73] Coupled with the SFDR and the new article 29 further reinforcing the disclosures required by regulatory and legislative norms (as well as potential future amendments), one can reasonably expect thresholds to also eventually be required for the presence of quantitative ESG data in a fund's investment policy (*e.g.,* the minimum number of securities in portfolio benefitting from an assessment on underlying quantitative metrics), as a means to evaluate and compare AMCs' ESG integration levels.

Section 2 – The EU and national government's efforts for a transition to a more sustainable economy through financial markets

690 Just as the asset management sector has been impacted by investors' demands for ESG-focused or ESG-enhanced financial products, so too the industrial/non-financial market has developed a stronger sustainability-awareness in their activities and in their offer of products/services in order to satisfy investors and other stakeholders. ESG data harmonization both in the non-financial and in the financial sectors can vastly benefit the overall transition to a more sustainable economy. A more efficient sharing of ESG information between, for instance, listed companies and asset managers, can allow for more informed sustainable investments and for a better engagement and progress-tracking by both entities on ESG matters. Therefore, both the EU and national governments (such as in France) have made efforts to reinforce these practices through ESG data disclosure by non-financial companies **(1)** in a

[73] AUTORITE DES MARCHES FINANCIERS. *supra* note 59, p. 91, position 2 and pp. 96-111

700 quantifiable format, which benefits asset managers and consumers alike thanks to easier to access and to interpret information**.** Further supporting this transition to a sustainable economy and seeking to redirect assets allocation into sustainable business endeavors, governments have strengthened their resort to ESG labels **(2)**, fund-certification tools whose legitimacy is substantially backed by quantification methods.

1. *The regulatory and governmental initiatives to improve ESG data disclosure by non-financial companies*

With the development of CSR and ESG programs, companies' efforts to improve the value of their activities has led to the creation of quantifiable metrics and transition-progress
710 indicators (as we will see further-on in this dissertation). However, not all companies are as meticulous and as open yet when it comes to providing ESG and sustainability-related data to consumers and investors. The EU tried to improve this aspect with its legal framework for regulating non-financial information disclosure by corporations. The aforementioned 2014 NFRD (which amends the Accounting Directive of 2013), states that large, listed companies (as well as banks, insurance companies and other companies designated by national authorities as public-interest entities), with over 500 employees, are to report annually on environmental, social, employee-treatment, human rights, anti-corruption and bribery issues as well as on diversity on the company's board. Companies are required, in particular, to disclose information relevant to these issues such as their business models, policies, due diligence and risk
720 management processes and KPIs.[74]

However, the NFRD did leave a lot of leeway for companies to disclose information, by not requiring the use of a mandatory non-financial reporting standard or even for the information to be assured (audited). Furthermore, if a company doesn't have a policy regarding one or more of the issues mentioned, a "comply or explain" principle is applicable. The restricted scope of the NFRD coupled with its lack of standardized disclosures and flexibility have led the Commission to identify that the current framework does not allow for the needs of investors in search of ESG data to be efficiently met. The Commission outlined that reported

[74] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1–9), article 1(1)

information does not allow for easy comparability or reliability, that information is either incomplete or reported at all, and that even when reported the information can be hard to find.[75]

Thus, on April 21st, the Commission adopted a proposal for the CSRD, with the intent to amend the NFRD requirements. These amendments would, first and foremost, extend the scope to all listed companies on the EU regulated markets (except for micro-companies), which would ensure that around 49 000 companies would be required to report on sustainability (a vast improvement compared to the current 11 600 companies subject to the NFRD). Furthermore, the CSRD would require the reported information to be audited and disclosures to be made according to mandatory EU sustainability reporting standards – with both "forward-looking and retrospective information, as well as qualitative and quantitative information"[76] – and its publication to be made on a digital, machine-readable format.[77] Alongside this attempt of qualitative information standardization, quantitative data such as mandatory KPIs will inevitably become easier to be directly compared, especially thanks to the machine-readable format which will open the possibility for asset managers, for instance, to instantaneously integrate information to their investment processes and/or algorithms/financial models.

Finally, although listed small and medium-sized companies will also be subject to the CSRD, the current proposal offers for them to start to be required to disclose non-financial information as of 1 January 2026. This delay can naturally be explained by the difficulties these requirements may pose for small and medium-sized companies in the short-term: many don't have the necessary processes put into place that would allow them to assess the information soon-to-be required by a mandatory CSRD standard. A wide offer of ESG resources and service providers can already be found. The National Association of Securities Dealers Automated Quotations (NASDAQ) has, for instance, identified a comprehensive number of organizations, initiatives and research papers available for listed companies trying to improve their ESG disclosure and practices. Further initiatives such as the "ISO 26000" international standard can also provide guidance for businesses looking to "translate principles into effective actions" and adopt best practices relating to Social Responsibility.

[75] KELLY, Isabella and TOWNSEND, Matthew. "*Review of the Non-Financial Reporting Directive: towards an EU-wide ESG reporting standard*", 6 March 2020. [Viewed date: 25 August 2021]. Available from: <https://www.allenovery.com/en-gb/global/news-and-insights/publications/review-of-the-non-financial-reporting-directive>

[76] EUROPEAN COMMISSION. *supra* note 30, article 1(3) in its proposed amendment of the current article 19a(3) of Directive 2013/34/EU

[77] *Ibid.,* in point 1 (*Context of the Proposal*) of its Explanatory Memorandum, subpoint "Consistency with existing policy provisions in the policy area"

Governmental initiatives such as the French "Impact Platform" are also in the works. This French Secretary of State for Social, Solidary and Responsible Economy initiative's goal is to help companies to anticipate and adapt to future regulatory CSRD requirements.[78] The platform allows for companies to voluntarily disclose non-financial information based on the 46 both qualitative and quantitative indicators that are provided by the platform (and with the possibility for companies to add other indicators that they may consider to be relevant). It also contains resources open for use, such as free auto diagnostic tools, guides and relevant links to other institutional bodies that also provide guidance and other resources. Currently on its Beta version, the platform will be updated and companies will be able to access even more resources, including a dashboard allowing companies to track their performance. Ultimately, the platform will be open for the public (investors and consumers alike) to access the data companies voluntarily share. Once again, one can expect the quantification of the data disclosed to become essential for an easily understandable and digestible communication with an investor/customer who will have access to other companies' profiles (many of whom could be in direct competition) all under the same platform.

2. *The use of ESG labelling by governments to reinforce the transition into a more sustainable economy*

Initiatives have also been set up by other public bodies, such as the French Ministry of Finance and Economy and its investment fund labels. The most recent label, the "France Relance" label (French for "France Recovery") aims to guarantee that a fund invests through small and medium-sized enterprises (SMEs) and intermediate-sized enterprises (ETIs, also called mid-caps in the financial sector) [79] that can either be or not listed companies. The objective is to channel consumers' savings and professional investments towards France's most economic and financial urgent needs following the COVID-19 pandemic. Thus, funds who

[78] FRENCH REPUBLIC. "*Impact Platform*", 2021. [Viewed date: 25 August 2021]. Available from: <https://www.impact.gouv.fr/>

[79] While there is no common EU definition of mid-cap companies, a 2014 European Commission press release states that "mid-caps are broadly said to have between 250 and 3000 employees – see EUROPEAN COMMISSION. "*EU launches Investment Offensive to boost jobs and growth*", 26 November 2014. [Viewed date: 25 August 2021]. Available from: <https://ec.europa.eu/commission/presscorner/detail/en/IP_14_2128>; The French National Institute of Statistics and Economic Studies defines ETIs as either being 1) a company with between 250 and 4,999 employees and a turnover not exceeding €1.5 billion or a balance sheet total lower than €2 billion; or 2) a company with fewer than 250 employees but with a turnover greater than €50 million and a balance sheet exceeding €43 million – see INSEE. "*Entreprise de taille intermédiaire / ETI*", 10 November 2020. [Viewed date: 25 August 2021]. Available from: <https://www.insee.fr/fr/metadonnees/definition/c2034>

would seek to benefit from this label recognition, would have to invest in small and mid-caps entities.

But the label also imposes funds to respect a number of ESG factors, such as an exclusion of investments on coal-related activities and – more importantly for this dissertation – the monitoring of the fund portfolio's ESG rating or of an ESG-index. This monitoring naturally requires a quantification of ESG data and transparency on the methodology used for such quantification. However, this label is but one of a plethora of other labels created "to guarantee that an investment fund is green, responsible, or sustainable (or all three)", a practice that has been criticized by some prominent actors such as Green Finance and STRATEGGYZ's CEO Bruno Boggiani.[80] There is, in fact, a risk of a label losing its pertinence and legitimacy if a lot of other labels already attest for basically the same thing.

This is especially true when one considers that the French Ministry of Finance and Economy already set up one of the biggest sustainable finance labels in the EU, the "Label ISR" (or the SRI Label), which makes other "certifications" (such as the France Relance label) of ESG integration in a fund's decisional process a little less impactful. In 2020 alone, a total of 395 mutual funds and ETFs (74 more than in 2019) benefited from a Label ISR which accounts for around 42% of all mutual and exchange traded funds within the EU who have been attributed a sustainable finance label, making it the most present sustainable label standard in the European Union.[81] Furthermore, when accounting for all types of funds instead of just ETFs and mutual funds, the Label ISR has been attributed (as of August 25th, 2021) to 753 funds and holds around €572 million in AUM.[82]

The growing importance of the French SRI label and of sustainable finance has motivated the Ministry to engage a reform of the label's governance. French Minister of the Economy and Finance, Bruno Le Maire, and Secretary of State for Social, Solidary and Responsible Economy, Olivia Grégoire, have begun this reform back in March 2021 with the

[80] BOGGIANI, Bruno. "*Following the Creation of the "France Relance" Label, Green Finance Shares Its Thoughts on the Matter*", 3 November 2020. [Viewed date: 25 August 2021]. Available from: <https://www.businesswire.com/news/home/20201103005262/en/Following-the-Creation-of-the-France-Relance-Label-Green-Finance-Shares-Its-Thoughts-on-the-Matter>

[81] HUSSON-TRAORE, Anne Catherine; MORETTI, Lorène and REDON, Nicolas. "*Overview of European sustainable finance labels*", June 2020, p.11 [Viewed date: 25 August 2021]. Available from: <https://www.novethic.fr/fileadmin//user_upload/tx_ausynovethicetudes/pdf_complets/Novethic_Overview-European-Sustainable-Finance-Labels_June_2020.pdf>

[82] FRENCH MINISTRY OF THE ECONOMY, FINANCE AND THE RECOVERY. "*Label ISR – Les fonds labellisés*", 2021. [Viewed date: 25 August 2021]. Available from: <https://www.lelabelisr.fr/comment-investir/fonds-labellises/>

intention to reinforce the label's requirements for its attribution.[83] A first reinforcement of requirements had already been put into place back in July 2020, requiring asset managers to be more transparent and to continuously improve their portfolio ESG performances. But a comprehensive and long report by the General Finance Inspection (GFI) was published back in December 2020, kick-starting yet another, even stricter reform of the label, that would further
810 reinforce the transparency requirements of ESG rating. Amongst its observations, the GFI highlights the need for ESG rating harmonization,[84] notably in:

- its purpose – should it serve risk assessments or be an opportunity indicator?
- its methodology when aggregating data – should a rating be absolute or dependent on the activity sector?
- the data itself – should quantitative data or qualitative information be used?

Admittedly, the label with the most volume of assets under management (AUM) in 2020 in the EU was Belgium's "Towards Sustainability" label (around €167.6 billion in AUM, 51.3% of all AUM in sustainable labeled funds in the EU).[85] But France's 2nd place (€141 billion in AUM) is enough to make its Label ISR a strong contender for the standard that could potentially
820 inspire the EU-level label framework currently at work, the "EU Ecolabel for Retail Financial Products". According to the last discussions, this Ecolabel will notably define the minimum environmental performance for funds, life insurance products and other financial products commercialized to retail (and professional) investors, although Social and Governance aspects will also be taken into account.[86] This assessment of the environmental performance is, for now, expected to be calculated through the following formula, which quantitatively assesses the "greenness" of an equity fund portfolio:

[83] FRENCH TREASURY GENERAL DIRECTORATE. "*Lancement de la réforme du label ISR*", 26 March 2021. [Viewed date: 25 August 2021]. Available from: <https://www.tresor.economie.gouv.fr/Articles/2021/03/26/lancement-de-la-reforme-du-label-isr>

[84] GENERAL FINANCE INSPECTION; DE SAINT-MARTIN, Jean-Philippe and PIEDNOIR, Sébastien. "*Bilan et perspectives du Label Investissement Socialement Responsable (ISR)*", December 2020, p. 14. [Viewed date: 25 August 2021]. Available from: <https://www.tresor.economie.gouv.fr/Articles/3f87346e-fa4c-404a-96ff-a39a8566303c/files/7c38d137-4aa7-4dc1-bfc0-734b2eb92ca6>

[85] HUSSON-TRAORE, Anne Catherine; MORETTI, Lorène and REDON, Nicolas. *supra* note 81

[86] Although Social and Governance aspects will be considered through more of an exclusionary, negative-screening approach – See FARACA, Giorgia and KONSTANTAS, Antonios. "*EUEB meeting 19th March 2021 - Development of EU Ecolabel criteria for retail financial products*", 19 March 2021, p. 7. [Viewed date: 25 August 2021]. Available from: <https://susproc.jrc.ec.europa.eu/product-bureau//sites/default/files/2021-04/20210319_Retail_financial_products_EUEB_19th_March_FINAL.pdf>

$$\sum_{i=1}^{n} PCi * \frac{GTi + GCi}{Ti}$$

- PCi: Portfolio contribution (%)
- GTi: Green turnover (EUR)
- GCi: Green capex (EUR)
- Ti: total turnover (EUR)

The formula adds the absolute values of a company's green activity and green capital expenditures, dividing it by the company's total turnover (independently of it being green or
830 not). Then, it multiplies this "part" of green activity by the percentage of the portfolio's net assets invested in that company, giving a percentage of greenness of the portfolio per company invested in. Finally, by adding the percentage of each company's greenness, you obtain the total percentage of greenness of the portfolio. For instance, in the most recent meeting between the Joint Research Centre and stakeholders, UCITS[87] equity funds would have to be at least 50% green in order to be eligible for the Ecolabel. Other measures – such as setting specific ESG targets and tracking their progression – will also be required and reported to enhance both investor impact and retail investor information.[88]

This formula's quantitative assessment or the French Label ISR's reform are of course, but a few of countless examples of how ESG rating and data assessments are becoming
840 increasingly dependent on transparent, strictly defined practices. The quantification of ESG data is becoming the norm across the EU and its 27 countries' sustainable finance frameworks. This has led private actors to also coordinate between themselves in order to establish and improve practices and tools.

[87] Undertakings for Collective Investments in Transferable Securities (UCITS) are mutual funds registered in the EU which benefit from the EU regulatory framework and can be marketed cross-borders, exempt of national regulation in individual European countries, thanks to this harmonized regime.
[88] FARACA, Giorgia and KONSTANTAS, Antonios. *supra* note 86, pp. 32-35

Part 2

ESG quantification development under private actors: the increasing need to legitimize sustainable financial practices

Just like public actors are trying to set regulatory standards – promoting their own idea
850 of a sustainable financial framework as a means to make their State (or its global region, in the case of the EU itself) a predominant player on this rapidly rising market – private actors too are trying to "make a name for themselves". ESG quantification has been the subject of rapid evolution as financial market participants have developed and expanded their sustainable finance activity over the years **(Chapter 1)**. The reliance on ESG data has heavily influenced asset management practices and quantification has been an essential source for efficient assessment of ESG-related risks and opportunities. However, due to multiple issues within ESG rating and data-gathering activities remaining unregulated, ESG assessments and their integration into asset managers' investment decisions have been impacted, with managers resorting to ESG quantification in different ways **(Chapter 2)**.

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Chapter 1 – How ESG quantification stems from the sustainable financial market and its participants' build-out

Be it in the interest of their own financial centers or to establish themselves as the go-to providers for the new types of services that have emerged from sustainable finance's development, financial market participant's works and efforts to expand in their respective markets have influenced and improved ESG analysis, disclosure and, most importantly for the purposes of this dissertation, ESG quantification. Therefore, to explore how the increasing competitivity between financial centers has relied on ESG quantification, a focus of the Paris financial hub's efforts will allow us to better analyze the different types of initiatives put in
870 place by private actors **(Section 1)**. However, just as financial centers have developed, over the years, their sustainable finance attractiveness, so too has the need for a stronger, more expert, and more diversified offer of ESG rating and data-gathering services **(Section 2)**, with an increasing resort to ESG quantification alongside it.

Section 1 - The increasing competitivity between financial centers: analysis on the Paris financial hub efforts

Traditionally, the world's three most important financial centers (or financial hubs) were seen to be New York, London and Tokyo. The Global Financial Centers Index (GFCI) – which compares the world's leading financial centers, charting their progress and ranking them – has
880 now relegated Tokyo to the 7th place in its ranking, with Shanghai taking its 3rd place.[89] Perhaps even more interestingly, the top 10 only includes one EU financial center (Germany's Frankfurt), which gained seven places in the most recent GFCI ranking. Since Brexit and without the LSE, the EU has lost a lot of financial influence. Furthermore, Zurich's success (10th place in the GFCI ranking) keeps attracting investors looking to invest in Western Europe, thanks to its more "business-friendly legislation", low tax rates and bank confidentiality.[90] Therefore, the EU has tried to take measures to ensure its competitivity in the emerging sector of sustainable finance. The harmonization efforts of the Commission and national regulators have given the EU a pioneering regulatory framework. But at the end of the day, it's private actors such as non-financial companies and their CSR programs **(1)**, financial organizations **(2)**
890 and associations **(2)** that put them into practice and provide essential feedback which allow its development. For this section, we will once again focus on the French private environment and study to what extent its private actors, from different ends of the same setting, contribute to sustainable finance and its quantification.

1. The development of CSR and ESG programs in non-financial companies

As we saw earlier in this dissertation, non-financial companies with better ESG profiles have been performing better than their peers. This correlation is not only due to the fact that a strong ESG profile attracts investors, but also because it generates value. As Henisz, Koller and Nuttall put it best, "ESG is an inextricable part of how you do business" and "thinking and

[89] LONG FINANCE. "*GFCI 29 Rank*", 17 March 2021. [Viewed date: 25 August 2021]. Available from: <https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/gfci-29-explore-data/gfci-29-rank/>

[90] SWISS FEDERAL ARCHIVES. "*The success story of the Swiss financial centre*", last updated on 4 November 2019. [Viewed date: 25 August 2021]. Available from: <https://www.bar.admin.ch/bar/en/home/research/research-tips/topics/die-schweizer-wirtschaft-zwischen-markt-und-staat-/die-erfolgsgeschichte--schweizer-finanzplatz-.html>

acting on ESG in a proactive way has lately become even more pressing".[91] According to their research, ESG is directly linked to a company's cash-flow through five effects:

1) By facilitating top-line growth, allowing companies to access new/other markets by attracting customers with more sustainable products and by ensuring a better access to eventual licenses or resources needed thanks to a stronger positive reputation.
2) By reducing costs in the long term, more specifically in raw-materials and, for instance, carbon emission taxes.
3) By increasing employee productivity and satisfaction, whereas a weak ESG proposition can drag productivity and motivation down (due to strikes, scandals, etc)
4) By optimizing investment and capital expenditures, allocating financial resources to more promising and sustainable opportunities (such as renewables, waste reduction, etc.) and avoiding stranded investments in soon-to-be heavy regulated sectors (plastic production, etc.).
5) By minimizing regulatory and legal interventions, in order to ensure compliance to new sustainability-related norms and by avoiding fines or other penalties/setbacks to your activity.

If we focus on this last effect, regulatory and legislative norms such as the NFRD and its future replacement CSRD have reinforced the need for ESG consideration. In France, specifically, the PACTE Law introduced norms requiring companies to consider environmental and social issues when conducting their activities. Reasons like these led companies to adopt Corporate Social Responsibility (CSR)[92] and Sustainability programs and, most importantly, to report and communicate on their improvements over time. In one of his most recent Flash Reports, the Governance & Accountability Institute reported that 90% of the S&P 500[93]

[91] HENISZ, Witold; KOLLER, Tim and NUTTALL, Robin. "*Five ways that ESG creates value - Getting your environmental, social, and governance (ESG) proposition right links to higher value creation. Here's why.*", 14 November 2019. [Viewed date: 25 August 2021]. Available from: <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value>

[92] Corresponding with HENISZ, KOLLER and NUTTALL's study (*supra* note 91), CSR has been demonstrated to increase performance – See NEVES, Pedro and STORY, Joana. "*When corporate social responsibility (CSR) increases performance: Exploring the role of intrinsic and extrinsic CSR attribution*". Business Ethics: A European Review, 2015, Vol.24, No.2, pp. 111-124

[93] A stock market index that tracks the stocks issued by 500 U.S. large-cap companies traded on the American stock exchanges.

published corporate sustainability reports in 2019: a massive increase from the 20% published just 8 years earlier, in 2011.[94]

Some companies, such as the French and Euronext-listed, multinational company "Schneider Electric" and its comprehensive Sustainability report, offer valuable and essential information on a company's ESG performance and efforts. This type of data disclosure is indispensable to allow for ESG analysts both in ESG rating agencies and in AMCs to efficiently assess a specific issuer's sustainability risk and/or potential. The format of disclosures can often times be disparate, and information can be difficult to understand or to find amongst all the different documents, press releases and statements given by companies. By aligning its metrics with the UN's SDGs, Schneider Electric efficiently conveys and defines a determined set of actions as well as their evolution at the end of the year to investors and customers alike.[95] Schneider Electric also reinforces transparency and CSR progress by communicating quarterly to investors its progress on long-term impact objectives, on the basis of its 2021-2025 sustainability impact program.[96] But its biggest contribution to efficient ESG assessment by AMCs and ESG rating and data providers is its "Sustainability Disclosure Dashboard" which centralizes all of its ESG data as well as all SASB, TCFD and other reports in a single openly available document.[97]

To measure and track its sustainability improvements, Schneider Electric converts its selected Key Performance Indicators' (KPIs) performance into an overall "advancement" score on a 10-point scale (with the base year being awarded a 3/10 and with the 2025 goals being achieved to be considered a 10/10 score).[98] Each one of the 12 KPIs associated with each of its 6 long-term commitments are also tracked on the basis of a numerical metric (be it a measure on the basis of millions of tons of CO_2 saved/avoided, or a percentage tracking of gender diversity in key positions and departments), with the methodologies and consolidation

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[94] GOVERNANCE & ACCOUNTABILITY INSTITUTE. "*90% of S&P 500 Index® Companies Publish Sustainability / Responsibility Reports in 2019*", 16 July 2020. [Viewed date: 25 August 2021]. Available from: <https://www.ga-institute.com/research/ga-research-collection/flash-reports/2020-sp-500-flash-report.html>

[95] SCHNEIDER ELECTRIC. "*Sustainability Report 2020-2021*", 2021, p.6. [Viewed date: 25 August 2021]. Available from: <https://download.schneider-electric.com/files?p_Doc_Ref=SustainabilityReport2020EN>

[96] SCHNEIDER ELECTRIC. "*Sustainability Impact 2021-2025 program: Q2 2021 Report*", 30 July 2021, p. 3. [Viewed date: 25 August 2021]. Available from: <https://www.se.com/ww/en/assets/564/document/220684/schneider-sustainability-impact-half-year-2021-results.pdf>

[97] SCHNEIDER ELECTRIC. "*Schneider Electric Sustainability Disclosure Dashboard 2020*", 2020. [Viewed date: 25 August 2021]. Available from: <https://go.schneider-electric.com/WW_202105_In-the-interest-of-transparency-and-to-simplify-access-to-ESG-data_EA-LP.html?source=Content&sDetail=In-the-interest-of-transparency-and-to-simplify-access-to-ESG-data_WW&>

[98] SCHNEIDER ELECTRIC. *supra* note 96, p. 10

processes being reviewed by an external auditor. Initiatives like this, with a deep quantification of sustainability-related data by non-financial companies, enables a significant improvement of ESG data availability and assessment efficiency by asset managers, analysts and ESG rating agencies alike.

2. *The coordination initiatives of private organizations: the quantification initiatives of Finance for Tomorrow*

The EU's efforts to position itself as a global leader on sustainable finance did pay off in the most recent update of the Global Green Finance Index. The results are clear, with 4 EU countries in the top 10 ranking (8 in total from Western Europe and 2 from North America), the EU's framework is indeed a compelling argument to attract investors looking for ESG and sustainable financial products.[99] Nevertheless, albeit Amsterdam is currently the top ranked financial center (with Zurich and London completing the top 3), the EU might soon be challenged by a rising competition from the North America and Asia/Pacific regions. Paris, for instance, has dropped 3 places and was ousted from the top 10 (11th place) since the previous ranking, with Los Angeles overtaking the 10th place after climbing up from 18th.

But despite its drop in ranking, Paris finds itself to be amongst the financial centers expected to become more significant as green finance centers over the next two to three years.[100] This is in large part due to its organization Paris EUROPLACE and, more particularly, its sustainable finance branch "Finance for Tomorrow". Initially called "the Green & Sustainable Finance Initiative" upon its creation in 2016, it has reunited over 80 members committed to a common charter to contribute to a transformation of practices in the Paris financial hub as well as to "redirecting capital flows towards a low-carbon and inclusive economy, in accordance with the Paris Agreement and the UN's Sustainable Development Objectives".[101] To achieve these goals, Finance for Tomorrow has created and coordinated multiple initiatives with its members.

One of such initiatives is "The French Research Map on Green & Sustainable Finance", a digital cartography showcasing the quality of the French sustainable financial ecosystem "to

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[99] LONG FINANCE. "*The global green finance index 7*", 29 April 2021, p. 6. [Viewed date: 25 August 2021]. Available from: <https://www.longfinance.net/media/documents/GGFI_7_Report_2021.04.29_v1.1.pdf>
[100] *Ibid.*, p. 17
[101] FINANCE FOR TOMORROW. "*Membership agreement*", 2019. [Viewed date: 25 August 2021]. Available from: <https://financefortomorrow.com/app/uploads/2019/06/F4T-Membership-Agreement-2019_EN.pdf>

make it more accessible to finance professionals, researchers and students".[102] By identifying the multiple French institutions and projects committed to green and sustainable finance, Finance for Tomorrow (in collaboration with other private actors such as the Louis Bachelier Institute and the Forum for Responsible Investment) aimed to create cooperation opportunities for professionals and researchers alike. By discovering projects and possible solutions to their
980 needs, professionals would be able to engage their resources and aid researchers in their work.

Finance for Tomorrow has also initiated and improved ESG quantification practices, by setting up the "Sustainable Finance Observatory". This Observatory's main mission is to catalogue the individual public commitments declared voluntarily by financial market participants. Studies and data collected are then examined by an independent scientific and expert committee, ensuring its objectiveness and reliability. Thus, by aggregating data for each sector of financial institutions (AMCs, banking, private equity, insurance and specialist financial services), Finance for Tomorrow and the Paris financial hub can track their progress and report their members' achievements and contributions to green and sustainable finance.

This Observatory and its indicators have thus resourced to quantitative assessment to
990 analyze ESG data from French financial market participants and follow their progress. This quantitative precision in the tracking of commitments allows for statements such as Thierry Déau's assertion that "French banks were pioneers on coal phase-out"[103] to be more legitimate, backing it up with factual data. The Observatory's quantification work allows us to track and report the fact that French banks' total portfolio exposure to coal only amounts to 0.18% while over €40 billion have been committed to the renewables sector alone.[104] Progress-tracking initiatives like this Observatory are not limited to national levels either. The CSR Europe's Sustainable Industry Barometer – still in development and set to be officially launched in October of this year at the European SDG Summit 2021 – benchmarks how European industry federations are progressing on their European Pact for Sustainable Industry commitments.[105]

[102] FINANCE FOR TOMORROW and LOUIS BACHELIER INSTITUTE. "*The French Research Map on Green & Sustainable Finance*", 2019. [Viewed date: 25 August 2021]. Available from: <https://www.sustainable-finance-researchmap.org/A-propos.html?lng=en>

[103] FEDERATION BANCAIRE FRANÇAISE. "*Objectifs de l'Observatoire de la finance durable et 1ers résultats : l'interview de Thierry Déau*", 13 April 2021, starting from the 58 second mark. [Viewed date: 25 August 2021]. Available from: <https://www.youtube.com/watch?v=UKkepwiKd4A>

[104] OBSERVATOIRE DE LA FINANCE DURABLE. "*Sector data of finance – Banking: Coal Phase-out*", last updated on 24 November 2020. [Viewed date: 25 August 2021]. Available from: <https://observatoiredelafinancedurable.com/en/data/sector-data-for-finance/banking/>

[105] CSR EUROPE. "*Our campaign – The Sustainable Industry Barometer*", 2021. [Viewed date: 25 August 2021]. Available from: <https://www.csreurope.org/our-campaign#barometer>

1000 Finance for Tomorrow's recent appointment of a new Managing Director, Pauline Becquey, was also the opportunity to reaffirm, in an interview, the need for a tracking and demonstration via objective indicators of financial sectors' commitments and contributions to sustainability.[106] This interview also allowed Pauline Becquey to discuss projects in progress that will similarly rely and push for further quantification of data assessed in sustainable finance practices, such as the Task Force on impact finance (a type of sustainable investing strategy that goes beyond the traditional ESG approach and seeks to generate positive and quantifiable social and environmental impact as well as a financial return). This Task Force's mission is to work on a common definition of impact, assessing the required methodology to analyze and measure an investment portfolio's intensity of impact, particularly regarding SFDR 1010 requirements.[107]

3. *The professional associations and their role as intermediaries between regulators and financial professionals*

Of course, Finance for Tomorrow is not the sole main organization at play when it comes to improving and promoting the Paris financial hub's sustainable finance practices. The AFG for instance, represents and defends common interests of AMCs and professionals. One of its main missions is, therefore, to promote the French asset management industry to investors, issuers, politicians and media both in France itself and internationally. By acting as an intermediary between its members and the French and EU public authorities, the AFG both 1020 actively contributes to regulatory works as well as informing on, assisting on and promoting regulatory compliance.

Intermediation and promotion efforts are not limited to France's private actors though, as private associations across the EU are working to harmonize practices of ESG quantification, both at national and at European levels. The European Fund and Asset Management Association (EFAMA), for instance, has stated its support for further regulation on ESG data, research, and

[106] BFM BUSINESS. "*Pauline Becquey (Finance For Tomorrow) : Finance For Tomorrow mobilise l'écosystème financier pour réorienter les capitaux vers une économie durable et inclusive*", 19 July 2021, starting from the 2 minutes and 20 seconds mark. [Viewed date: 25 August 2021]. Available from: <https://www.bfmtv.com/economie/replay-emissions/good-morning-business/pauline-becquey-finance-for-tomorrow-finance-for-tomorrow-mobilise-l-ecosysteme-financier-pour-reorienter-les-capitaux-vers-une-economie-durable-et-inclusive-19-07_VN-202107190049.html>

[107] FINANCE CLIMACT. "*Finance for Tomorrow launched a Task Force on impact finance*", 4 May 2021. [Viewed date: 25 August 2021]. Available from: <https://finance-climact.eu/news/finance-for-tomorrow-launched-a-task-force-on-impact-finance/>

ratings providers. Highlighting five areas of concern – market concentration and costs; transparency on methodologies; potential conflicts of interest; improving dialogue with rated companies; and the comparability and reliability of ESG data[108] – the EFAMA shows the financial market participants' overall need across the EU for further harmonization of ESG quantification and scoring/rating practices.

The AFG has published along the years numerous guides, Q&As and other documents that allow for asset managers to better understand and apply regulatory requirements and financial good practices (duties and rules professionals must comply with[109] when carrying their activities). A recent guide, published in December of 2020, lists and breaks down the current regulatory requirements and standards regarding sustainable finance applicable to AMCs.[110] Its examination of recent regulation categorizes different aspects for each text, giving asset managers the regulatory context, key concepts and notions, the text's objectives and the main actions to be undertaken by AMCs to ensure compliance. This allows for a standardization and improvement of practices by AFG members, elevating the quality and efficiency of the overall French asset management industry, essential to securing the Paris financial hub's place amongst the leaders in sustainable finance practices and compliance.

Therefore, the AFG included as annex a summary of what they consider to be "essential non-financial indicators" to be used by AMCs in their ESG assessments of issuers. The AFG's objective through this list is, firstly, to fight the "too much information kills information" syndrome that AMCs face when trying to assess an issuer's ESG profile through a continuously growing ESG data environment. Secondly, though, the AFG argues that it allows a dialogue to be entertained with issuers and a subsequent framework of regulatory required publications to be more efficiently established. A second list of "transparency indicators" is also present which allow, according to the AFG, "to complete the essential non-financial indicators list and/or difficult to standardize".

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[108] WINTERTON, Greg. "*EFAMA joins call for a European regulation of ESG data, research and ratings*", 18 December 2020. [Viewed date: 25 August 2021]. Available from: <https://www.alpha-week.com/efama-joins-call-european-regulation-esg-data-research-and-ratings>

[109] The AMF General Regulation stipulates in its article 314-2 that professional organizations such as the AFG can draw up a code of conduct, contributing to self-regulation of the industry and setting up professional standards whose violation may be sanctioned by the AMF.

[110] ASSOCIATION FRANÇAISE DE LA GESTION FINANCIERE. "*Guide Professionnel : Finance durable – Réglementations applicables aux sociétés de gestion (Décryptage)*", 15 December 2020. [Viewed date: 26 August 2021]. Available from: <https://www.afg.asso.fr/wp-content/uploads/2020/12/guidepro-finance-durable-201215web.pdf>

Little to no surprise, the essential non-financial indicators list is entirely composed of numerical data requirements (with the exceptional “yes” or “no” question, which can therefore also be of quantitative nature), substantiating even more our initial suggestion that quantitative data assessment is key for standardization of ESG rating practices. The main purpose of the transparency indicators (qualitative in nature for the most part), however, is to engage a dialogue with the issuer, as a way to improve its ESG profile (after a quantitative assessment) and/or obtain more information on data that may seem irregular or inconsistent with other indicators.

Section 2 - The investors’ need for a stronger expertise and diversity of ESG data

The emergence of ESG rating and data provider agencies has been stated by studies to be directly tied to the increasing demand by investors for reliable ESG information on companies.[111] As more actors developed their offers and expertise, looking to distinguish themselves of other ESG rating and data providers’ services, different methodologies and potential conflicts of interest begun to materialize **(1)**. This rapid evolution of the market and offers, coupled with the current lack of a regulatory framework to control the ESG rating and data providers’ sector, has created a need for asset managers to conduct due diligences **(2)** and ensure that their processes and deliverables are correctly (or, at least, in an unbiased manner) reflect a company’s ESG profile, risk and/or potential.

1. *The emergence of ESG rating agencies: a divergence in methodologies and a potential for conflicts of interest*

The market for ESG ratings has experienced “rapid growth and is expected to continue growing at pace over the coming years” thanks to this demand and, as we have seen earlier, the increase of regulatory focus on financial market participants and their consideration of ESG criteria.[112] Concentrated around a small number of global providers, the ESG rating and data market has witnessed an increasing number of mergers and acquisitions of local/regional-based

[111] AVETISYAN, Emma and HOCKERTS, Kai. “*The consolidation of the ESG rating industry as an enactment of institutional retrogression*”. Business Strategy and the Environment, 2017, Vol. 26, No. 3, pp. 316–330

[112] INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS. “*Consultation Report: Environmental, Social and Governance (ESG) Ratings and Data Products Providers*”, 21 July 2021, p. 11. [Viewed date: 26 August 2021]. Available from: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD681.pdf>

providers by more established market participants[113] (such as credit rating agencies[114], data providers[115] and index providers[116]). However, “only a few companies appear to have been fully integrated into the acquiring company” which has allowed companies to retain their legal status (to avoid potential conflicts of interest) and their activity to remain more or less regionally/locally focused. Although this has allowed ESG rating practices to progressively adopt wider and integral assessments – with ESG rating agencies integrating specialized actors for each ESG-related criteria – their local/regional focus has not yet allowed for their assessments to benefit from the harmonization of practices expected by some professionals. During a webinar – organized by consulting firm Julhiet Sterwen on “What strategies to adopt for ESG data” – the Chief Data Officer of OFI Asset Management expressed that even with a convergence of practices, the consolidation of small providers by bigger firms, often American, may slow down the development of standards for issues already being considered in the EU but still relatively ignored in the United States.[117]

This assumption is further supported by ESMA’s response to the European Commission public consultation on a Renewed Sustainable Finance Strategy. When asked about its concerns on the current level of concentration in the market for ESG ratings and data, ESMA declared to be “Rather Concerned” (or a concern-level 4 out of 5, with five being the biggest level of concern).[118] With the increasing consolidation by US firms, mandatory disclosure on issues such as biodiversity may prove to be impractical for asset managers, who will necessarily have to engage further with their providers and probably pay extra-fees for data that their counterparts overseas are still not required to pay attention to. Nevertheless, thanks to this consolidation and the increasing demand, a wide variety of ESG-related services and tools was developed (according to a recent AMF study, more than 10 categories of products, such as

[113] AUTORITE DES MARCHES FINANCIERS and DEMARTINI, Anne. "*Provision of non-financial data: mapping of stakeholders, products and services*", 15 December 2020, p. 7. [Viewed date: 26 August 2021]. Available from: <https://www.amf-france.org/sites/default/files/private/2020-12/mapping-esg-publication.pdf>

[114] Moody’s Corp 2019’s majority stake acquisition of French ESG rating agency Vigeo Eiris.

[115] Morningstar 2020’s 100% stake on Dutch ESG rating agency Sustainalytics.

[116] S&P Global 2019’s acquisition of the ESG ratings branch of Swiss investment company RobecoSAM.

[117] JULHIET STERWEN. “*Sociétés de gestion : quelles stratégies adopter en matière de données ESG*", 8 June 2021, starting from the 35 minutes and 56 seconds mark. [Viewed date: 27 August 2021]. Available from: <https://youtube.com/watch?v=dcB_VqMBrTM&feature=share>

[118] EUROPEAN SECURITIES AND MARKETS AUTHORITY. “*Response to public consultation EC consultation on a Renewed Sustainable Finance Strategy*”, 15 July 2020, pp. 15-16, questions 17 and 17.1. [Viewed date: 27 August 2021]. Available from: <https://www.esma.europa.eu/sites/default/files/library/esma30-22-821_response_to_ec_consultation_on_a_renewed_sustainable_finance_strategy.pdf>

screening lists, ESG benchmarks, scenario analyses, etc. can be regularly identified amongst the services proposed by ESG rating and data providers to investors).[119]

Despite the lack of harmonized practices and the wide array of services (that can potentially create even more divergences in opinion amongst different providers), ESG analysis has been proven effective and essential to prevent and reduce investment risk. One such example is how, after noticing "a deterioration of [Volkswagen's] corporate governance practices" and "elevated warranty expenses", the MSCI ESG Research team contributed to Volkswagen being removed from the MSCI ACWI ESG Index four months before the emissions scandal of 2015 (in which the car manufacturer admitted to having installed defective
1110 devices to cheat on emissions tests on around 11 million of its produced vehicles). However, the assessment itself and the ESG rating service can drastically change from one provider to another. A comparison table provided by Sustainserv, a global management consulting firm, clearly shows significant differences not just on the sources of information used for ESG assessment, but also their rating scales (for which no clear "equivalence-chart" has yet been established due to the low-level of comparability), the number of topics and of companies covered by the assessment, the update frequency, etc.[120]

	Bloomberg	MCSI	S&P SAM (DJSI)	Sustainalytics	ISS ESG (formerly ISS-oekom)	RepRisk
Cover	over 11'500 companies	13'500 companies	over 7'500 companies (by invitation)	over 11'000 companies	over 5'000 companies	over 145'000 companies
Sources	– Disclosure of the companies – Multiple ESG third party providers	– Disclosure of the companies – Databases (government, science, NGOs) – news and media	– Sector-specific questionnaire	– Disclosure of the companies – Media – NGOs	– Disclosure of the companies – Media – NGOs – Science	– Media – Other public information – Explicit exclusion from corporate reporting
Number of topics	120	37	~ 20-30 (branch-specific)	~ 40 (industry specific)	Up to 100 (mainly industry-specific)	86
Participation	Companies can request updates at any time	Companies are invited to verify data	Companies fill out questionnaire	Companies are invited to provide feedback and additional data	Companies are invited to provide feedback and additional data	No interaction
Scale	Off 100	AAA-CCC	0 – 100	0 – 100 5 Risk level	A+ to D-	0 – 100 AAA to D
Timing	Daily updated	Ongoing monitoring, annual in-depth review	Yearly	Ongoing monitoring, annual in-depth review	Yearly	Daily updated

c - Sustainserv's comparison of major ESG rating and ranking agencies[120]

[119] AUTORITE DES MARCHES FINANCIERS and DEMARTINI, Anne. *supra* note 113, pp. 20-22
[120] HUCK-WETTSTEIN, Manuela. "*ESG ratings and rankings: why they matter and how to get started*", 7 December 2020. [Viewed date: 27 August 2021]. Available from: <https://sustainserv.com/en/insights/esg-ratings-and-rankings-why-they-matter-and-how-to-get-started/>

This lack of convergence in ESG assessment models by rating and scoring providers is also denounced by academic studies.[121] Ratings have been shown to have common dimensions (with one provider's "environmental strengths" assessment correlating highly with two other providers' "environmental performance metrics") but when aggregated, they do not converge.[122] This evidence shows that, while quantitative assessment of metrics can be (and already is, in practice) harmonized, subjective analysis or aggregation models are at the core of most divergences in ESG rating.

Furthermore, a potential for conflict of interest seems to have been progressively developing itself alongside the ESG rating and data market. Both the AMF the AFM recognize that the lack of transparency around methodologies (due to, in part, to the provider's proprietary models) and the fact that the ESG rating and data services market is slowly becoming an oligopoly (through the consolidation of providers and the expansion of their services) increase the potential risks of a conflict of interests and of a misallocation of investments by asset managers (or even greenwashing).[123] And although initially limited, the offer of services proposed to issuers themselves is now showing signs of a potential development in response to an increasing demand for assurance on disclosures and financing products such as green and social corporate bonds.[124] If we imagine, for instance, a provider that offers ESG consulting services and ESG rating services to companies (some companies may pay ESG rating firms to evaluate their ESG performance), the consulting team could potentially allow companies who hire their services "to gain an advantage in terms of receiving a good rating or data product outcome from the ESG rating or data product side of the business".[125]

In addition, although some global ESG rating and data providers are separating the function between ESG rating or data services and index/benchmark services,[126] examples are already visible. We can cite, as an example, MSCI awarding an ESG rating of AA – the 2nd best rating in MSCI's ESG rating scale, AAA being the highest – to Blackrock's "iShares MSCI KLD 400 Social ETF" fund (which itself tracks the investment results of MSCI's KLD 400 Social Index). One can – and should – question the legitimacy of an ESG rating provider rating

[121] DORFLEITNER, Gregor; HALBRITTER, Gerhard and NGUYEN, Mai. "*Measuring the level and risk of corporate responsibility – An empirical comparison of different ESG rating approaches*". Journal of Asset Management, 2015, Vol. 16, No. 7, pp. 450-466

[122] HASSEL, Lars G. and SEMENOVA, Natalia. "*On the validity of environmental performance metrics*", Journal of Business Ethics, 2015, Vol. 132, No. 2, pp. 249-258

[123] AUTORITE DES MARCHES FINANCIERS and AUTORITEIT FINANCIËLE MARKTEN. *supra* note 37, p. 2

[124] AUTORITE DES MARCHES FINANCIERS and DEMARTINI, Anne. *supra* note 113, p. 21, point 2.3

[125] INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS. *supra* note 112, p. 36

[126] *Ibid.*

the ESG performance of a passive investment fund whose investment strategy is to mimic investment results of that same rating provider's ESG index. Awarding it a low rating would essentially amount to MSCI admitting that its own index services are not up to its ESG rating standards.

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2. *The lack of ESG rating regulation and the need for due diligences on ESG data*

When one takes into account the harmonization problems and the potential for conflicts of interest in the current state of the ESG rating and data providers market, it is not surprising to see that, in the same response to EC's public consultation mentioned before, ESMA rated the comparability, quality and reliability of ESG data from these providers to be "Poor" (2 out 5 with 5 being "Very good").[127] The proprietary nature and divergences of the many methodologies offered in the current market make their comparability to be not transparent and consistent enough and, "as a result, the ability of investors to conduct due diligence and to understand what is being assessed is severely limited". This answer allows us to explore two
1160 current needs in the market: a need for regulation and a need for investor due diligence on ESG rating providers and on the companies evaluated by these providers.

Firstly, the need for a regulation of ESG rating and data providers is not, *per se*, a new concept. The regulation of ESG services and tools in quest of harmonized standards and practices to further benefit sustainability goals has already been put into practice with the amendment of the Benchmarks Regulation through the 2019 Low Carbon Benchmarks Regulation.[128] The two "types" of benchmarks introduced – the EU Climate Transition Benchmarks and the EU Paris-Aligned Benchmarks – provide standardized types of indexes with the same quantifiable, science-based methodologies and with a common notion of assets that directly contribute to the Paris Agreement's objectives, increasing transparency and
1170 preventing greenwashing-ableist methodologies to be used by indexes marketed by providers.

With ESMA's call for the EC to move on ESG rating regulation,[129] one could reasonably expect a similar legislative standardization to be applied to the type of data used in developing an ESG rating, more specifically on data that is easily quantifiable. By requiring a common

[127] EUROPEAN SECURITIES AND MARKETS AUTHORITY. *Supra* note 118, pp. 16-17, questions 18 and 18.1
[128] Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks (OJ L 317, 9.12.2019, p. 17–27)
[129] MAIJOOR, Steven. *supra* note 41

methodology for assessing a defined and mandatory number of ESG metrics, this quantification would take away a significant discretionary power from ESG rating and data providers. However, proprietary models' confidentiality and certain rating methodology differences would still have to be tolerated so that ESG rating and data providers can maintain their "marketability" and to promote competition in their increasingly consolidated market (and thus avoid an "oligopoly effect").

Regardless of these factors, harmonization with some mandatory metrics would already allow for better comparability. Plus, differences in methodology already exist and are tolerated within the credit rating industry, which doesn't stop credit ratings to be correlated at 99%.[130] Furthermore, by reinforcing methodology-transparency on ESG assessment processes as well as on due diligence policies for third-party data providers, the legitimacy of ESG rating agencies would be reinforced at the eyes of both the regulators and investors.

This is not to say that efforts haven't been made by providers to harmonize their ESG data assessment practices. Earlier this year, Refinitiv, S&P and Moody's declared that they would be joining the "Data Council" of the Future of Sustainable Data Alliance (FoSDA), in order to establish a ESG data harmonization.[131] But these efforts would still not be able to ensure an absence of conflicts of interest and, therefore, the legitimacy of the ESG ratings and data provided. For instance, a recent study on ESG rating providers and their ownership shows that firms held by the same owners as the rater's receive higher ESG ratings.[132] In this context, the only way an investor can, without a stronger transparency on rating methodologies, be aware of the potential illegitimacy/tampering of an evaluated company's rating is by conducting due diligences on the ownership of both the rated company and of the provider.

This example takes us to the second current need of the market that can be interpreted from ESMA's response. It is important for ESG rating methodologies to be regulated so that investors/asset managers are able to conduct due diligences on the providers' ESG assessment process and thus, indirectly, on the legitimacy of the ESG profiles evaluations carried out and provided to them. In practice, however, some asset managers are already expected to conduct

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[130] BERG, Florian; KÖLBEL, Julian and RIGOBON, Roberto. "*Aggregate confusion: the divergence of ESG ratings*", 17 May 2020. [Viewed date: 27 August 2021]. Available from: <https://dx.doi.org/10.2139/ssrn.3438533>

[131] DUMAS, Arnaud. "*Refinitiv, S&P et Moody's forment le Data Council pour normaliser la donnée ESG*", 22 February 2021. [Viewed date: 27 August 2021]. Available from: <https://lessentiel.novethic.fr/blog/l-actu-1/post/refinitiv-s-p-et-moodys-forment-le-data-council-pour-normaliser-la-donnee-esg-505>

[132] TANG, Dragon Yongjun; YAN, Jiali and YAO, Yaqiong. "*The Determinants of ESG Ratings: Rater Ownership Matters*", 18 July 2021. [Viewed date: 27 August 2021]. Available from: <http://dx.doi.org/10.2139/ssrn.3889395>

due diligences on a company prior to an investment. The aforementioned French GFI 2020 report on the Label ISR states that an investment-decision process based only on ESG ratings (without other selectivity criteria, such as sectorial exclusions) is not enough to guarantee an investment's social responsibility or sustainability.[133]

In regards to due diligences on providers, the International Organization of Securities Commissions (IOSCO) has proposed, in its consultation report on ESG ratings and data products providers, a recommendation for financial market participants to consider conducting due diligence on the ESG ratings and data that they use in their internal processes, as to ensure that "mechanistic reliance" on ESG rating and data providers is avoided.[134] In a 2019 "summary of SPOT inspections on SRI management systems of AMCs and the integration of ESG criteria", French regulator AMF also acknowledged - as part of what the AMF considers to be "good practices" in alignment with its General Regulation, article 321-101[135] - that diligences done to ensure the consistency of (amongst other factors) the criteria for awarding a rating and its tracking/update frequency with investment policies, should be formally and exhaustively audited. Such diligences can, for instance, take the form of a verification by AMCs that their service providers include, in their process to obtain GHG emission data, a stage to check the quality of the data produced.[136]

Another reason may also justify the need for asset managers to conduct due diligences on the rated companies themselves: the future reinforcement of SRI standards and their requirements. In fact, if one looks at the GFI's proposal number 8 for the Label ISR, an explicit exclusion of materiality-based approaches (the assessment of the effectiveness and financial relevance of ESG measures) in favor of an ESG strategy/objective.[137] This would have, for effect, an exclusion of ESG ratings entirely based on a materiality approach and thus require asset managers to 1) know if the provider they resort to base their ratings on such an approach; and 2) to conduct due diligences on a company's activity to demonstrate how their investment in it aligns itself with a non-financial objective.

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[133] GENERAL FINANCE INSPECTION; DE SAINT-MARTIN, Jean-Philippe and PIEDNOIR, Sébastien. *supra* note 84, p. 13

[134] INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS. *supra* note 112, p. 44, recommendation 7

[135] Article 321-101 of the AMF's General Regulation states in its paragraphs 6 and 8 that investment services providers shall "ensure a high level of diligence in the selection and ongoing monitoring of investments (…)" as well as "establish written policies and procedures on due diligence (…)".

[136] AUTORITE DES MARCHES FINANCIERS. *supra* note 59, p. 92, recommendation 4

[137] MEYERS, Kerby. "*ESG materiality reflects what matters most*", 9 May 2019. [Viewed date: 27 August 2021]. Available from: <https://www.theimpactivate.com/esg-materiality-reflects-what-matters-most/>

Finally, due diligence monitoring can also allow for more surface-level check-ups on data validity, such as ensuring that ESG data providers are delivering the most up to date information.[138] No matter how you look at it, although ESG ratings and data providers can provide important and difficult-to-assess information on a company's ESG profile, they are in no way, shape or form an absolute measure of risk and opportunity. To maximize such a measure, asset managers are compelled to conduct due diligences on both the rater and the rated.

Chapter 2 – How ESG quantification stems from asset managers' non-financial consideration practices

One way asset managers can improve their diligences on companies and their ESG ratings is by assessing themselves a company's ESG profile and comparing their results to the ESG ratings and data provided. Admittedly, this practice will most surely not be enough to perfectly assess a company's ESG profile without allocating a lot of resources. The human and technical resources allocated to ESG analysis will, more often than not, be less important in AMCs than in ESG rating and data-gathering companies. This results in a complete comparison for each security to be impractical, especially when one takes into account the vast divergence still currently present on ESG data disclosures by non-financial companies. Quantification can, once again, prove useful in both ends of this problem: when receiving data and when creating your own data. It can therefore be resorted to for the development of processes and tools for enhanced ESG integration of data and ratings provided by third parties **(Section 1)**. It can also be used by asset managers for enhancing the efficiency of their in-house ESG assessment and their regulatory compliance **(Section 2)**.

Section 1 – The development of processes and tools for enhanced ESG integration of third-party ratings and data

With the surge of available measurable ESG data and the divergence in opinions and ratings by multiple expert providers, the need for a better integration of these factors and their

[138] INVESCO. "*2020 ESG investment stewardship report*", 7 April 2021, p.12. [Viewed date: 27 August 2021]. Available from: <https://www.invesco.com/content/dam/invesco/emea/en/pdf/ESG_Investment_Stewardship_Report_Global_Final.pdf>

different quantification approaches has risen in the asset management sector. Therefore, asset managers have started to resort more and more to the development of in-house processes to allow for deeper ESG assessments **(1)**. A better apprehension and understanding of quantification by asset managers has given way to certain recommended practices to be developed which we will here list. To better analyze how regularly these practices are implemented by AMCs, we will explore how differently ESG data can be integrated into investment decision policies **(2)**. By comparing five different AMCs, we will see which factors in current in-house ESG integration practices require further improvement in order to enable an enhanced diligence and understanding of ESG data and ratings provided by third parties.

1. *The increasing resort to in-house processes for deeper ESG assessment*

Panelists at 2020's Sustainable Investment Forum agreed on the simple fact that asset managers should not systematically lean on ESG ratings for their assessments of sustainability risks and/or potential. According to these asset management professionals and ESG experts, resorting to in-house methodologies is essential to achieve optimal returns from responsible investment.[139] Big Four consultants such as KPMG, support this view and consider reliance on a single source of ESG data to be insufficient, advising managers to supplement their ratings data with in-house research and to resort to more than one data provider.[140]

This has led asset managers to resort to more than one ESG ratings and/or data provider, for a larger comparability of ratings and to better understand the ESG profile of a company through different assessments. Insight Investment, a global-sized AMC, recently stated in its 2021 Responsible Investment Annual Report that reliance on a single data provider is not recommendable, and that there's more value in analyzing the underlying ESG inputs assessed by the providers than the headline scores, often divergent.[141] Further supporting our previous views on the need for asset managers to conduct due diligences and deeply analyze ESG rating

[139] JOHANSSON, Elena. "*Apply in-house ESG methodologies for superior returns*", 17 September 2020. [Viewed date: 27 August 2021]. Available from: <https://expertinvestoreurope.com/apply-in-house-esg-methodologies-for-superior-returns/>

[140] KPMG. "*ESG ratings are not perfect, but can be a valuable tool for asset managers*", 6 October 2020. [Viewed date: 27 August 2021]. Available from: <https://home.kpmg/cn/en/home/insights/2020/10/esg-ratings-are-not-perfect-but-can-be-a-valuable-tool-for-asset-managers.html>

[141] INSIGHT INVESTMENT. "*Responsible investment annual report 2021 – Putting principles into practice*", 2021, p. 19. [Viewed date: 27 August 2021]. Available from: <https://www.insightinvestment.com/globalassets/documents/responsible-investment/responsible-investment-reports/uk-eu-responsible-investment-annual-report-2021.pdf>

1280 methodologies, Insight also believes that a qualitative judgement should be applied to the data they are provided with, to overweight the bigger risks. One could say, however, that such a qualitative judgement could allow for asset managers to "greenwash" or justify a poorly ESG rated investment decision. A subjective, in-house qualitative assessment of ESG data provided by a third-party could potentially be influenced to adjust a company's ESG rating and make it consistent with the standards set out in the asset manager's investment policy.

Therefore, the divergence in ESG rating and data providers' results and the uncertainty that it generates has led AMCs to design their own, proprietary ESG in-house scoring practices as a way "to complement and underpin their own asset class scores and ESG stock analysis".[142] By creating a proprietary model, based on the quantification of both quantitative and qualitative 1290 factors, asset managers restrict their own leeway and flexibility to adjust ESG ratings. Methodologies for these proprietary scoring practices do vary from entity to entity and both convergent and divergent factors can be found between them, which still doesn't allow for an easy, direct comparability on ESG data assessments made by asset managers.

In a 2019 "ESG Yearbook" by Citywire Selector (a financial and fund management information publisher) asked 20 AMCs to describe their ESG in-house tools and methodologies and how they are implemented in their investment decisions.[143] Notable differences are visible in the way some entities use their in-house scoring tool. Alquity, for instance, doesn't use third party providers and relies solely on their in-house ESG analysis conducted by each of its portfolio managers to exclude "red flagged" stocks that don't meet minimum ESG standards 1300 from an initial investible universe and award stocks a score ranging from A to E (with only A to C-rated stocks being investable).

DWS – Deutsche Bank AG's asset management arm – states having an in-house "ESG Engine" team solely tasked with the consolidation of data provided by six different ESG data providers. The data is structured and aggregated using mathematical consensus models before being "embedded within portfolio management, supporting [DWS's] due diligence process" with the objective to produce exclusion screenings and identify corporate leaders through a

[142] *Ibid.* p. 17; ABERDEEN STANDARD INVESTMENTS. "*Our ESG house score*", April 2021, p. 3. [Viewed date: 27 August 2021]. Available from: <https://www.aberdeenstandard.com/docs?editionId=f5a42b66-a61e-4359-a4bc-23dfd7092c01>

[143] CITYWIRE SELECTOR and KIRAKOSIAN, Margaryta. "*Inside the ESG frameworks of 20 asset management firms*", 11 April 2019. [Viewed date: 27 August 2021]. Available from: <https://citywireselector.com/news/inside-the-esg-frameworks-of-20-asset-management-firms/a1219860#i=1>

"best-in-class"[144] approach. This separation of teams and on-flowing assessment of ESG data provided by third parties should enable ESG scoring analyses to be more independent of any management bias or needs, with ESG analysts being less likely to know exactly what securities asset managers intend or are thinking to invest in.

Furthermore, some AMC's methodologies are not as transparently laid-out in the responses given to Citiwire as in Alquity and DWS's replies. Hermes IM, for instance, does not disclose many details to Citywire regarding its in-house process other than the fact that each investment team has their own screening process in line with their investment strategy and the fact that third-party sources are also used alongside internal data. The lack of a transparent and clearly defined in-house methodology allows for AMCs to have the flexibility to potentially adjust/greenwash ESG scores to better meet their investment policies. These three different methodologies and implementation process descriptions highlight just how differently ESG in-house assessments can be conducted by asset managers, confirming F. Bardinet's findings that, without legal norms, ESG assessments are constructed in a way that best serves the objectives of its creators.[145]

Furthermore, a simple disclosure of methodologies may not be enough to assess the legitimacy of the information given by AMCs, as evidenced by the recent accusations of DWS' former Head of Sustainability, stating that internal evaluations made in early 2020 came to the conclusion that "only a small fraction of the investment platform applies ESG integration, [with] no quantifiable or verifiable ESG-integration for key asset classes."[146] This did not, however, stop DWS from stating in its 2020 annual report that €459 billion in assets – over half of its €793 billion in assets under management – underwent ESG integration.[147] With both the SEC and BaFin (the German regulator) now having launched investigations into DWS'

[144] A process consisting in investing on companies who are leaders within their respective sectors on implementing ESG considerations in their activities. This method requires a comparison of a company's ESG profile with those of its peers, notably through the quantification of ESG data and scoring practices.

[145] BARDINET, Frédérique. "*Comparaison de trois méthodologies ESG : les différences de notations des bases de données extra financières*", May 2016, p. 15. [Viewed date: 27 August 2021]. Available from: <https://hal.archives-ouvertes.fr/hal-01900607/document>

[146] BROWN, Ken and KOWSMANN, Patricia. "*Fired executive says Deutsche Bank's DWS overstated sustainable-investing efforts*", 1 August 2021. [Viewed date: 27 August 2021]. Available from: <https://www.wsj.com/articles/fired-executive-says-deutsche-banks-dws-overstated-sustainable-investing-efforts-11627810380>

[147] DWS. "*2020 annual report*", 12 March 2021, p. 93. [Viewed date: 27 August 2021]. Available from: <https://go.dws.com/Annual_Report_2020>

sustainable investing processes,[148] one can see why certain standards or practices must be set to improve reliance on in-house assessments and methodologies.

Therefore, if one takes into account the above observations, in order to improve an ESG assessment's legitimacy at the eyes of investors and reduce the potential for "score greenwashing", it is important to:

1) Deeply and actively analyze the data (instead of solely relying on ratings).

2) Resort to multiple expert ESG rating and/or data providers.

3) Base this assessment on a clearly defined, quantifiable/verifiable and transparently disclosed in-house process.

4) Take special attention to the quantification of common underlying quantitative ESG inputs of ratings (so as to improve comparability between multiple rating providers' assessment results).

5) Have a team dedicated to the consolidation and input of their data assessment in a platform shared by all the company's portfolio managers (to ensure an independence of a potential investment's ESG score).

2. *The different approaches to the integration of ESG data into investment decision policies*

The development of in-house assessment and tools has led to a further divergence in methodologies and approaches to ESG integration into asset management. While Citywire's ESG Yearbook surveyed 20 different AMCs, rare were those whose integration approach and in-house scoring methodologies converged enough to allow investors to compare their ESG assessment processes. The survey's quick and reduced format, however, may be here at fault, even though it wasn't Citywire's intention to conduct a deep comparison of methodologies to begin with.

Nevertheless, a deeper, more comprehensive analysis of an asset management company's in-house ESG scoring methodology was conducted by F. Bardinet in his 2016 paper.

[148] FLOOD, Chris *et al.* *"DWS shares slide after greenwashing claims prompt BaFin investigation"*, 26 August 2021. [Viewed date: 28 August 2021]. Available from: <https://www.ft.com/content/0eb64160-9e41-44b6-8550-742a6a4b1022>

Seeking to find how methodologies from different types of entities converge and where they diverge, he compared the means used by three companies to assess and determine a company's score for comparability reasons. Through his analysis of the methodologies used by an ESG
1360 data provider, an ESG rating provider and an SRI AMC, he constructed a table laying out the differences in integral parts of the scoring process. [149] Comparison elements included: the types of criteria used; the sources of information of each company; if sectorial and/or ethical exclusions are applied to focus ESG analysis in more sustainable activity sectors; if controversy screening/alerts are systematically set in place (thus having an influence on the overall score either from the get-go or down the run), etc.

To the purposes of this dissertation, the same comparative and analytical approach will be taken to study the differences on in-house ESG assessment and scoring processes of different types of asset managers. Like in F. Bardinet's paper, the AMCs' names will not be here disclosed, as the purpose will be to comment on the observable differences and potential "weak
1370 points" in their ESG integration methodologies. We analyzed 5 different asset management firms: 3 medium sized companies – one of which is specialized in ESG-focused and SRI funds – and 2 small structures with 2 contrasting approaches to ESG integration.

	Entity A	Entity B	Entity C	Entity D	Entity E
Entity size	Medium	Medium	Medium	Small	Small
Number of employees	300 employees	185 employees	114 employees	34 employees	51 employees
Assets under management	€70 - 75 billion	€25 - 30 billion	€20 - 25 billion	€3 - 3,5 billion	€4 billion
Offer of ESG funds	10 article 9 18 article 8 funds 18 Label ISR	46 article 8 funds 10 Label ISR	All 25 funds are article 9 funds 17 Label ISR	None of their 7 funds qualify for either articles 8 or 9 of the SFDR	2 article 8 funds (5 other article 6 funds might soon qualify for SFDR article 8 thanks to a currently on-going SRI Strategy)
Other details	NA	NA	100% SRI dedicated activity Mission-led company (B Corp certification)	ESG criteria and performance indicators not formally set-up nor systematically considered	Proprietary in-house ESG scoring tool currently in development to reinforce assessments.

[149] BARDINET, Frédérique. *supra* note 145

Article 173 disclosure on website	Last updated: March 2021	Yes Each required type of disclosures presented in one document dedicated to it; All documents are centralized in a website's page	Yes Impact report (article 173 disclosure document which voluntarily goes beyond the regulatory requirements)	Not clearly identified. Last updated: August 2018	Last updated: August 2020
SFDR disclosure on website	Yes Risks explained in various documents	Yes Risks explained in various documents	Yes SFDR-dedicated document directly linked to in all the website's pages	No	Yes

d - Comparison of entities selected for study on ESG integration divergences between medium and small-sized AMCs

This initial analysis of size, offer of ESG funds and disclosures, highlights the different levels of engagement between the five entities. Although entities A and B are larger than entity C, the latter's specialization and pro-active engagement to SRI makes it prone to a different methodology and to a deeper ESG integration in its investment policy than when compared with the former two companies. Both its 'mission-led company" nature and B Corp certification have led it to seek increasing positive impact on both environmental issues and inequality through its activity, as opposed to using familiar social sector legal forms, such as a charity. This resulted in a formalization of its objectives and, subsequently, its whole methodology of ESG assessment and integration.

Entity B's large offer of 46 different SFDR article 8-eligible funds points to an overall, entity-level ESG integration engagement, whereas entity A's diversified offer of both article 8 or 9-eligible funds suggests a more personalized approach, depending on the fund's strategy. Entities D and E, due to their small size and reduced offer, cannot be expected to have the same level of ESG integration nor of resources to accomplish so. Nevertheless, entity E's resort to ESG consideration is much more present than in entity D, due to some of its funds' promotion of ESG characteristics (alongside the ESG-dedicated tools and improvements planned to be implemented in the near future, which will allow for a deeper integration of ESG analysis into internal valorization and risk models.). This level of engagement is also reflected by the way the companies have realized their regulatory disclosures (French "article 173" and SFDR). While entities A and E have published and updated the required disclosures, entity D's disclosure is currently non-compliant, since it has not yet published its SFDR disclosure document (nor published any sustainability-risk related disclosure since it last updated its "ESG

criteria" document in 2018, which serves as a "article 173 report" and should therefore have been updated annually).

	Entity A	Entity B	Entity C	Entity D	Entity E
Sustainability issues considered	General list of 11 sustainability issues based on UN SDGs (5 E; 4 S; 2 G)	Materiality table disclosed: 6 issues (1 E, 4 S, 1 G). Each sector has its own set of essential factors: (10 factors for E dimension; 22 for S dimensions; 5 for G dimension)	6 impact pillars based on UN SDGs (3 E; 3 S)	6 qualitative issues (2 E; 1 S; 3 G)	10 issues (1 E; 5 S; 4 G) out of the 28 elements that form their "Global Quality" score assessment
Quantifiable and binary "yes or no" indicators	Each issue is assessed through 4 risk indicators to determine which issues are more worrisome for each sector: -production, - legal/regulatory - reputational - opportunity loss	Internal general ESG scoring grid disclosed: At least 10 indicators per ESG criteria + General ESG weighting (30% E, 30% S, 40% G),	Relevant indicators selected for each sector + communicated in sector-dedicated methodology sheets Example: Consumption sector (Retail, Apparel and Household): - 31 quantitative indicators - 7 qualitative indicators	None Qualitative assessments can eventually be made pre-trade, but no score is established	Only qualitative analysis But each of the 10 issues are given an individual score and an overall ESG score is established.
Sector exclusions **(Other than normative and illegal activities)**	Unconventional gas and oil extraction by 2050; Coal by 2030;	Tobacco; Coal by 2030 (quantitative assessment of importance of coal in the company's activity);	No systematic sectorial exclusions; Case-by-case analysis + Pre-set thresholds of sales derived from a controversial activity; (ex. Tobacco production and weapons sales threshold of 0%)	Casino-related activities; Software-related activities in which the software is designed for: 1) internet gambling or pornography; 2) facilitating network and personal data hacking	Only a new, recent fund excludes tobacco and pornography

1400 *e - Comparison of the selected entities' ESG methodology elements*

In order to compare the methodologies and their implementation, two other tables based on F. Bardinet's study were established. In this first table, we can clearly distinguish the

formality of approaches between the 5 entities and the extent of divergences in their data assessment and ESG scoring processes. Both entities A and C have based their dimensions (the main ESG-related issues through which a list of ESG indicators are selected to assess a company's ESG profile) on the UN SDG's as to correlate companies' activities with their contribution to sustainable development. Entities B, D and E, however, have decided to focus their quantitative measurements and qualitative analyses on dimensions that they believe to better represent an investment's ESG-related risk and/or opportunity. This may result in fund
1410 portfolios from entities A and C being more aligned and having a greater focus on positive impact for the achievement of UN SDGs, whereas entities B, D and E's portfolios will rather have a greater materiality-based approach. This assumption aligns itself with these entities' offer of article 9 funds (containing sustainable investment objectives).

There is also a difference in terms of how quantifiable and binary "yes or no" indicators are used to assess these dimensions and their underlying factors. Entities A, B and C directly attach quantitative assessment to their dimensions, with relatively different levels of reliance on qualitative analysis alongside them. Entities D and E, however, do not consider quantifiable data indicators, relying solely on qualitative assessments, to either integrate ESG scores into a Quality scoring grid (alongside 18 other financial indicators), or to simply complement a pre-
1420 trade analysis with no formal processing of the data assessed. This lack of formal integration might indicate that the ability to perform in-house assessments of quantifiable data is tied to a company's size and resources. After all, the lack of standardized disclosures by issuers requires either for deep and extensive internal research to be performed for each issuer or for considerable expenses to be allocated to (often multiple) ESG data experts and providers.

Further distinguishing these three, medium-sized companies' approaches, we can see that entity A reinforces its general qualitative analysis by an *ex-ante* quantitative risk-based approach, allowing it to decide beforehand which SDG-related issues might require deeper qualitative analysis in each investible sector. Entities B and C have taken a more direct approach to data measurement, albeit with different goals in mind, by implementing in-house,
1430 quantitative-heavy processes not just to analyze the provided ESG ratings but rather add more elements to them. For this effect, entities B and C have either resorted to multiple external experts or an internal research team to gather the data they need. Entity B has adopted an extensive quantitative integration of ESG through an internal scoring grid and ESG weighting. By comparison, entity C – conform to its advanced and SRI-focused activity – has gone beyond the general method of formalization via quantitative indicators, designing clearly-defined

qualitative in-house models through which interpret and analyze these quantitative metrics (with a different model and indicators for each sector).

As for sectorial exclusions, different levels of engagement (or ability to engage) are once again visible.[150] Smaller entities seem to focus on excluding securities related to ethically reproved sectors, such as pornography or gambling/casinos. However, these sectorial exclusions don't have any quantifiable approach, as opposed to entities A, B and C's progressive exclusion of gas, oil and coal-related activities and pre-set thresholds of sales deriving from controversial activities. Both approaches require an initial assessment and the tracking of quantifiable ESG data.

	Entity A	Entity B	Entity C	Entity D	Entity E
Sources of ESG information **(Other than ESG rating providers and brokers/ media)**	Company reports + Active research	ESG data providers/experts + Company reports + Meetings with top management	For in-portfolio assets: internal research team conducts qualitative assessments & engages with issuers For other assets: ESG data experts	Not specified	Not specified
Disclosure of third-party providers & analysts	MSCI VIGEO, REPRISK, PROXINVEST	VIGEO, GAIA RATING, TRUCOST, ETC.	ISS-ESG + Unspecified "ESG data experts"	Not disclosed	ETHIFINANCE
Controversy screening integration into scoring methods (pre and post trade)	Yes Penalties based on a qualitative scale can be applied to the issuer's ESG score	Yes ESG score adjustment but no defined penalty scale	Yes No indication of ESG scoring penalty methodology but active engagement with issuer and adjustment as final resort	Not specified	Yes Integrated into ESG scoring process in pre-trade BUT post-trade screening not mentioned
Human/ technical resources allocated	9 employees + dedicated in-house platform	3 ESG specialists + 1 ESG data manager Total number of full-time equivalent employees = 6,3	Internal team dedicated to research and coordination with provider to converge methodologies	Managers can eventually assess 6 ESG-related criteria when deciding on an investment	All 24 managers and their analysts + 5 of these analysts are assigned to ESG analysis for SRI portfolios +

[150] Although some assessments can be observed throughout a majority of entities, regardless of their size. Tobacco sales and production, for instance, seem to be agreed upon by most entities as being controversial enough to merit a sectorial exclusion.

					1 ESG dedicated team to construct and oversee ESG assessment methodology

f - Comparison of the selected entities' information gathering processes and research/assessment resources

Focusing now on how information is gathered, entity D does not mention resorting to any ESG data or ratings provider, whereas bigger entities such as A, B and C resort to multiple providers and experts. Entity E resorting to a single ESG rating provider further confirms our
1450 assumption of small entities not being able to resort to the recommended use of multiple sources of data gathering despite their desire to further develop their ESG funds offer. The human and technical resources allocated to ESG data analysis also confirm this trend, with either people or platforms/tools entirely assigned to this purpose being present in bigger firms, as opposed to entities D and E where portfolio managers and financial analysts are charged with ESG assessment as well.

Controversy screening practices also reflect this lack of resources, with small entities either not mentioning their implementation or only implementing them during initial scoring. In practice, controversies may lead to disinvestment by asset managers. But while entities A, B and C also update their ESG scores – and often engage with companies in order to correct
1460 controversial behavior before resorting to disinvestment – smaller entities seem to simply decide on either to keep or remove securities from their portfolios (neither engaging with companies nor systematically updating their ESG scores through a defined process).

	Entity A	**Entity B**	**Entity C**	**Entity D**	**Entity E**
1) Active analysis of ESG data	No ESG ratings directly integrated into in-house platform (Qualitative penalty adjustment in case of a controversy)	Yes Quantitative data of multiple providers (ESG ratings included) used for internal scoring	Yes Convergence of methodologies + Comparison with data researched and gathered in-house	NA	Yes Qualitative analysis of the 10 issues based on internal research and on external ESG ratings

2) Use of multiple ESG rating/data providers	Yes At least 4 providers mentioned in their methodology	Yes 2 ESG rating providers + Multiple data providers	Yes Only one rating provider but significant engagement with him to conduct due diligences on its process + In-house research team + Resort to data experts for some assets	NA	No Only one ESG rating provider mentioned to be consulted in its methodology
3) Disclosure of in-house scoring/ assessment process	Yes But not very detailed (no clearly defined ESG weighting, no details pertaining to indicators, etc).	Yes Internal general scoring grid, materiality table and ESG weighting + Detailed explanation of each fund's approach	Yes Detailed descriptions of overall methodology + Each sector's key indicators and qualitative approach	NA	No Description of qualitative criteria assessed, but no description of the indicators analyzed + No clearly defined scoring process
4) Analysis of underlying quantitative ESG inputs of ratings provided by third parties	Not specified	Not specified	Yes Comparison of ESG data and assessments for unlisted assets + Convergence of methodologies and indicators analyzed by its research team and provider	NA	No Only one ESG ratings provider, so no comparison. (No mention of different data provided by different third-parties being compared either).
5) ESG assessment team and/or Platform independence	Yes But regular contact during pre-selection of securities to advise portfolio managers; + Managers of portfolios without SRI restraints, conduct analysis by themselves	No ESG assessments are conducted directly by managers who act as analysts as well	Yes Internal team exclusively assigned to research during pre-trade	NA	No Team under the Investment Direction; Analysts + Managers assess the ESG scores themselves (with the ESG team's methodology); (Methodology compliance of analyses is assured by the ESG team)

g - Comparison of the selected entities' conformity to the previously recommended ESG integration practices

A final comparison was made based on the recommendations we were able to highlight before. Not surprisingly, entity D's lack of a formal integration of ESG criteria through a defined methodology did not achieve to attain any of the previously stated recommendations. Entity E did not fare much better either, with only an active analysis of the data provided being practiced by it. Its internal research process is not yet developed enough to allow for a clear comparison between their assessments and ESG ratings provided to them. Entity C, however, thanks in part to its mission-led nature, has already implemented in practice all of these recommendations, having allocated resources and continuously reviewed its methodology to ensure that its activity contributed to the achievement of its sustainability and positive impact goals.

Finally, entities A and B already apply 3 of these 5 recommendations, with each one not having specified if they analyze the underlying quantitative ESG inputs of ratings provided by third parties. And although entity B's ESG assessments are conducted by managers and analysts alike, entity A relies too much on ESG ratings (without actively comparing and completing them with other factors they or another third party researched). Furthermore, entity A does not ensure a completely unbiased in-house assessment either since it allows SRI analysis to be conducted by managers of funds without SRI restraints.

All-in-all, its assessment of a company's ESG rating is not so much a diligent effort – ensuring that the rating provided is conform to its methodology – as an interpretation of ESG ratings. Its main goal is not to improve this assessment either, by completing it with data insufficiently considered by the rating provider. It rather focuses on interpreting these risk/opportunity-based ratings through the in-house, UN SDG qualitative filters to better adapt ESG assessments to entity A's financial strategies and investment policies.[151] For these reasons – as well as the uncertainty surrounding the in-house process disclosed by entity A – entity B's model of ESG integration and its focus on quantitative assessment seems to be more transparent and efficient, despite its remaining flaws.

[151] The controversy screening, although it ultimately contributes to an adjustment of the third party's assessment, is mainly used as an update-tool for the internally overall awarded-score. In other terms, its main purpose is not to complete an ESG profile's underlying data, but rather to revamp its overall score in the short-term, allowing for asset managers to immediately understand that the company's ESG risks/opportunities have been impacted by a controversial event.

Section 2 – The use of quantification for enhanced in-house ESG assessment and regulatory compliance

Thanks to this comparison, the methods observed in entities B, C (for medium-sized AMCs' ESG integration) and E (for smaller AMCs) allow us to confirm that there is still space left for improvement in ESG integration, especially when it comes to in-house ESG assessment practices by smaller AMCs such as entity E. Its overreliance on ESG ratings (by neither completing their underlying insufficient or unclear data) and qualitative assessments made by managers increases the potential for conflicts of interest whilst reducing diligence efficiency and the overall quality of their ESG risk/opportunity analysis. The comparison of both entities A and B points, once again, to qualitative analysis not being neither the most reliable or resource-efficient method for the improvement of in-house ESG assessment. Therefore, before concluding this dissertation with a proposed selection of essential and compliance-efficient quantitative indicators **(3)** it is indispensable to attest the relevance of quantitative indicators to improve the efficiency of ESG assessments **(1)** as well as their utility in improving regulatory compliance by AMCs **(2)**.

1. *The relevance of quantitative indicators to improve the efficiency of ESG assessments*

In order to improve resource and time efficiency when performing ESG assessments, asset managers will need to increase their resort to clear and easily surveyable indicators (*e.g.*, indicators commonly disclosed in companies' CSR reports)**.** These indicators would have to be quantitative in nature, as to avoid a complete overall analysis of a company's ESG approach or future strategies/projects like qualitative assessments necessarily require in order to be as accurate as possible. On the other hand, it is important to remember that, although less subjective than qualitative assessments, quantitative indicators are not a complete substitute nor are they entirely reliable. Alone, a quantitative indicator might not be enough to assess the performance of an asset on ESG-related issues. Therefore, a resort to aggregation of different indicators is required. The methodology of this aggregation process and the subsequent quantification of the assessments made will inevitably imply a subjective definition of the ESG weighting applied to create an overall score, which indicators to aggregate, which thresholds to respect, etc. Furthermore, due to the lack of a regular resort to third party assurances, data disclosed by companies is not yet entirely reliable.

Quantification is not, by itself, sufficient, and its complementation with qualitative data does not guarantee precise results either. ESG assessments are simply not perfect and cannot correctly predict any and all risks or opportunities. All that can be reasonably expected from these assessments is “a snapshot of a company’s performance to support more sustainable investment decisions”.[152] So why resort to it at all and not stick to a general qualitative analysis? To put it simply, the more quantitative metrics and qualitative data are assessed and complement each other, the better the quality of this “snapshot” can expected to be. Warningly enough – and further adding to this need for quantified assessment – as new types of data become available and disclosure requirements increase, smaller managers “find themselves with a narrower data set” and “losing ground” when compared to bigger players, who can afford resorting to providers and conducting deeper assessments.[153] As Michael Lewis, Head of ESG Thematic Research at DWS Group puts it best, this reflects how much the current ESG financial market is not “a level playing field”.[154]

Thus, it is essential to understand that in order to compete and attract investors in the current market, smaller AMCs cannot simply rely on an overall qualitative analysis alone. The subjectiveness of these analyses, as we’ve seen in this dissertation, carries with it a plethora of transparency and inconsistency issues that make them less appealing for investors (notably institutional investors who rely on transparent methodologies and efficient practices to disclose ESG information to their clients/beneficiaries). Per contra – as we’ve seen for all the other matters pertaining to the development of sustainable finance discussed in this dissertation – the quantification of ESG assessments with both qualitative and quantitative factors may contribute to drastically improve the legitimacy (or at least reduce the subjectiveness) of their approach at the eyes of investors, even despite its flaws.

Based on our previous comparison of methodologies and ESG integration, AMCs have two possible solutions for improving their quantification processes. They can either call upon external data providers to assess data or conduct internal research on large sets of quantitative metrics by themselves. Both of these approaches require a significate allocation of resources. Some small AMCs may not even have the necessary resources to be able to resort to a third-party provider to begin with. And an internal research team requires the recruitment of experts,

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[152] KPMG. *supra* note 140

[153] HAWKER, Emmy. “*Managers need to be more hands-on with data*”, 14 April 2021. [Viewed date: 27 August 2021]. Available from: <https://www.esginvestor.net/managers-need-to-be-more-hands-on-with-data-providers/>

[154] *Ibid.*

often sought out for by larger companies as well in this expanding market. So perhaps the solution is not to measure and track as much indicators as possible. If one were to establish an in-house quantifiable ESG assessment method, the use of a small set of indicators would, of course not be sufficient, but it would already be more efficient than solely resorting to quantitative analysis. To quote Warren Buffett, one of the most successful investors of all time, "it is better to be approximately right than precisely wrong".

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2. *The use of quantitative indicators to improve regulatory compliance by AMCs*

Quantitative indicators, alongside their contribution to efficient ESG assessment, can also help improving the efficiency with which asset managers comply to ESG-related disclosure requirements. As seen previously, standardization of data disclosed is being progressively adopted by regulatory entities both regarding asset managers (e.g., the SFDR, France's article 173 and its new substitute article 29, etc) and non-financial companies (e.g., the CSRD, etc). Private efforts, such as those of professional organizations like France's AFG, have also started promoting such a standardization. Similarly, during this year's World Economic Forum, sixty-one global companies agreed to implement the Forum's common ESG metrics, setting the basis for a more standardized non-financial reporting of their activities and thus countering the

1570 difference in ESG rating methodologies by providing the same metrics.[155]

One can therefore reasonably expect for a generalized movement to set common metrics to all actors. First of all, the use of quantitative metrics would, naturally, reinforce disclosure-drafting efficiency, with less ESG-issues having to be entirely disclosed through qualitative statements. These statements can often be time-consuming, not only because they will be proof-read and "consumer tested" more often than a simple, objective numerical metric. In the case of asset managers for instance, communication compliance reviews will also be required to make sure that the information is fair, clear and not misleading.

Secondly, a correlation between data communicated by issuers and the data assessed by asset/investment managers would also enable for non-financial companies to be less requested

1580 by their investors. The divergence in ESG assessment methodologies and on indicators considered by AMCs results in non-financial companies having to continuously provide different types of data to different investors. The same effect can also be expected for the

[155] HOWITT, Richard. *"Is one set of ESG standards coming soon?"*, 29 January 2021. [Viewed date: 27 August 2021]. Available from: <https://www.triplepundit.com/story/2021/esg-standards/717961>

disclosures made by asset managers themselves: due to the difference in types of data disclosed by asset managers, institutional investors (also required to disclose ESG-related information to their ultimate beneficiaries) might end up having to solicit further details from managers of portfolio's they have invested in. The eventual qualitative nature of disclosures might also lead to an increase in solicitation from investors/clients, either regarding the interpretation of these statements or requesting further details. Reducing this kind of solicitation essential for all actors here, since it allows for better resource management. In turn, this increases the possibility, from
1590 thereon forward, for engagement to be solely focused on improving/correcting ESG-related issues, thus improving the efficiency with which to remain compliant with any eventual "sustainable investment objectives" (such as is the case for SFDR article 9 funds).

Finally, as regulatory works seem to be pointing towards further ESG quantification for increased comparability and transparency purposes, some quantitative metrics are already being proposed by regulators and professional organizations. As we had the opportunity to see before, both France's AFG and the European-level regulator ESMA have already published proposed sets of quantitative metrics. And although article 4 of the SFDR only requires the disclosure of PAI from AMCs with less than 500 employees on a "comply or explain" basis, the use or reference to the template annexed in the draft RTS's final report (and the indicators it contains)
1600 will be mandatory depending on whether PAI are considered[156] or not.[157] Therefore, by assessing at least some of these proposed indicators, AMCs could already start developing their SFDR PAI statement compliance framework in case they eventually reach a point in which they are able to consider PAI factors.

3. *The selection of essential and compliance-efficient quantitative indicators*

Quantitative metrics seem to be, consequently, the more efficient type of indicators to assess in order to optimize compliance-related practices. But how could these quantitative metrics be selected? And how to ensure that the selected metrics would inherently improve both compliance and ESG assessment efficiency?

1610 Based on our reasoning until now, we can suggest that these quantitative metrics would have to be selected according to three criteria:

[156] JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES. *supra* note 52, p. 23, article 4(2)
[157] *Ibid.*, p. 27, article 11(2)

- Their general standardization in the current market (which indicators are the most commonly used by asset managers?)
- Their future exigency by regulators (which indicators are the most advised/envisaged by regulators and professional associations/organizations?)
- Their relative public availability (which indicators are more commonly disclosed by non-financial companies?)

In an attempt to conclude this dissertation by proposing the five, simultaneously, most advised and commonly used quantitative indicators per ESG criteria, a public survey was
1620 conducted to multiple different ESG analysts.[158] To minimize the introduction of biases – and in an effort to diversify the approaches – the survey was addressed to analysts from different types of entities – AMCs (small and medium-sized), ESG rating providers (local and global scopes) and consulting firms specialized in sustainable finance. For the first part of the survey, participants were asked about the importance of creating ESG ratings and internal scoring, to assess their engagement towards quantification. This assessment turned out to be, overall, satisfactory, with none of the participants refuting quantitative assessment as being entirely expendable.

They were then asked to give their personal opinion on which five quantitative indicators (for each one of the three ESG criteria) they found to be essential to analyze a
1630 company. Taking inspiration from Mona Huys' research thesis on the value of ESG ratings for responsible investors, the data collected from the survey was then confronted with other sources (AFG and ESMA's proposed indicators mentioned before), through a social research process known as triangulation.[159] Once again, conform to earlier analyses in this dissertation, we chose to focus on France's sustainable finance environment in order to resort to tools from previously discussed actors (the AFG and the French governmental initiative "Impact" platform). The selection process was established beforehand, as it follows:

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[158] Annex 1

[159] "Triangulation entails using more than one method or source of data in the study of social phenomena" – See BRYMAN, Alan. *Social Research Methods (4th ed.)*, Oxford University Press, New York, 2012, p. 392, key concept 17.4

1) To be qualified as being "commonly used", indicators had to be simultaneously present
1640 in at least 40% (to account for an odd number of answers) of the survey's answers and in the AFG's proposed set of "essential indicators".[160] Indicators retained for this first step are highlighted in the survey's answers in Annex 1.

   - However, in case a survey's answers alone was not sufficient to select a total of five indicators per criteria, the remaining number of indicators would be selected amongst the AFG proposed set.
   - To select among these sets of indicators, a first pre-selection would be made of indicators pertaining to underlying ESG issues unaddressed by the already selected indicators.
   - In an attempt to reduce bias selection as much as possible, only pre-selected
1650 indicators either mentioned or related to those mentioned in the survey's answers (but not mentioned enough to be qualifiable) could ultimately be retained.
   - In the case AFG unaddressed-issue indicators were not mentioned in survey answers (or vice-versa), an unaddressed-issue indicator both included in the SFDR RTS template and easily available would be selected.

2) The most commonly used indicators were then juxtaposed with ESMA's draft RTS template indicators[161] in order to ensure that at least three out of the five selected indicators were envisaged by future SFDR requirements, which, according to our second selection-criteria, will further contribute to future regulatory compliance-
1660 efficiency.

   - In the case a minimum of three SFDR RTS juxtaposed indicators could not be ensured, the lesser "commonly used" indicators would be excluded.
   - The previous "unaddressed-issue" AFG indicator process would then be applied.

[160] ASSOCIATION FRANÇAISE DE LA GESTION FINANCIERE. "*Guide Professionnel : Indicateurs extra-financiers indispensables pour évaluer une entreprise*", last updated on August 2020, p. 2. [Viewed date: 27 August 2021]. Available from: <https://www.afg.asso.fr/wp-content/uploads/2020/06/guidepro-esgvf-200825web.pdf>
[161] JOINT COMMITTEE OF THE EUROPEAN SUPERVISORY AUTHORITIES. *supra* note 52, pp. 59-82

3) To assess if the data required can be easily researched, we cross-referenced these indicators with the indicators referenced on the French "Impact" platform which as we saw, present two advantages:
    1. they directly correlate with future CSRD disclosure requirements; and
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    2. the platform will eventually make its participant companies' disclosed data to be openly available by managers. Thus, although it will be specifically more helpful for French AMCs, the indicators referenced by the Platform can also be expected to be similarly disclosed by companies of other member States through the CSRD.

Furthermore, it is important to highlight that, although not yet know, the future CSRD disclosure standards are intended to ensure an alignment with other EU disclosure norms. Therefore, non-financial companies will be required by the CSRD's reporting standards to "include indicators that correspond to the indicators contained in the SFDR",[162] reinforcing the correlation between regulatory compliance and data
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availability for AMCs.

- In the eventuality that an indicator was not referenced, an assessment of how easily data can be gathered would then be used to decide on whether to retain or exclude the selected indicator.

In addition, in order to exclude some of the indicators given and enhance the selection process, survey participants were then asked which indicators they believe are imperative to also be analyzed qualitatively. In the case one indicator was mentioned more than twice, it would then be excluded.

But since none of the selected indicators were mentioned more than just once in the
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answers to this question, this fourth step was non-applicable and no further exclusions were therefore made.

Thence, the results of this selection are shown on the following page.

[162] EUROPEAN COMMISSION. "*Questions and Answers: Corporate Sustainability Reporting Directive proposal*", 21 April 2021. [Viewed date: 30 August 2021]. Available from: <https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_1806>

	Indicator selected	Source from which indicator was selected	SFDR RTS template presence	Referenced in the "Impact" platform
-	**For the Environmental criteria**			
1	GHG/CO^2 emissions	Survey (referenced to in 8 out of 8 valid answers) & AFG	Indicator number 1 of its table 1	Yes
2	Waste production/recycling management	Survey (referenced to in 5 out of 8 valid answers) & AFG	Indicator number 13 of its table 2	Yes
3	Water consumption	Survey (referenced to in 5 out of 8 valid answers) & AFG	Indicator number 6 of its table 2	Yes
4	Energy consumption	Survey (referenced to in 5 out of 8 valid answers) & AFG	Indicator number 6 of its table 1	Yes
5	Percentage of activities negatively affecting biodiversity sensitive areas	Unaddressed issue + ESMA's indicator number 7 of its table 1 + indicator easily available	Indicator number 7 of its table 1	Yes
-	**For the Social criteria**			
1	Number of hours of training per employee	Survey (referenced to in 5 out of 7 valid answers) & AFG	No	Yes
2	Gender pay gap	Survey (indirectly referenced to in 3 out of valid 7 answers)* & AFG	Indicator number 12 of its table 1	Yes
3	Pay equity (between top management and average employee remuneration)	Survey (referenced to in 3 out of 7 valid answers) & AFG	Indicator number 8 of its table 3	Yes
4	Workplace accidents rate	Unaddressed issue + AFG's first indicator for assessing a company's health/security issues	Indicator number 2 of its table 3	Yes
5	Rate of employee absences	Unaddressed issue + AFG's second indicator for assessing a company's internal environment issues	No	Yes
-	**For the Governance criteria**			
1	Percentage of board independence	Survey (referenced to in 6 out of 7 valid answers) & AFG	No	Yes
2	Percentage of gender diversity on the board	Survey (referenced to in 5 out of 7 valid answers) & AFG	Indicator number 13 of its table 3	Yes**
3	Percentage of executive compensation for the achievement of CSR objectives	Survey (referenced to in 5 out of 7 valid answers) & AFG	No	Yes
4	Amount of fines/sanctions tied to controversies	Unaddressed issue + AFG's second indicator for assessing a company's business ethics issues	Indicator number 17 of its table 3	No***
5	Presence/disclosure of the existence of anti-corruption, anti-bribery and whistleblower protection policies	Unaddressed issue + ESMA's indicators number 6 and 15 of its table 3 + indicator easily available	Indicators number 6 and 15 of its table 3	No****

* Further details provided in the results commentary under this table
** Although included as a social indicator
*** Screening processes relatively easy to perform through traditional/free means (brokers, media, etc)
**** Research on companies' websites relatively easy to perform (if not easily available, then the indicator is negative)

h – Proposal of essential and relatively easy to assess quantitative indicators following the analysis of the survey and other sources

The diversity factor being insufficiently considered by statistics in the EU, it is still not considered to be essential by the AFG who have not included it in their set of proposed indicators. Therefore, the decision to exclude it despite it being present in over 40% of answers was made according to the pre-established selection. However, the gender pay gap indicator was selected due to it being being a "representation-related” indicator referenced both in the survey answers and the AFG advised indicators as well as being included in ESMA's proposed sets of indicators. Thus, even though some answers only referred to a general “gender equality” indicator, a discretionary choice was made here to converge these answers to a single, pay-gap-related indicator. Furthermore, both the Impact platform and the French "Penicaud" index reference multiple companies' gender pay gap scores, allowing for a potentially higher availability of data.

The same choice was made regarding the Governance-criteria indicator on the percentage of executive compensation tied to CSR objectives. Despite three different answers referring to board remuneration without any mention of CSR goals, all five “board remuneration” indicators were discretionally attached to board remuneration & CSR issues, even if this particular indicator is not directly referenced within AFG’s and ESMA’s sets of indicators. The reason for this selection is that 1) this indicator is referenced in the Impact platform; 2) two other answers tied board remuneration to CSR objectives; and 3) one of the answers, despite not mentioning CSR goals, tied board remuneration to long-term goals. Therefore, with a tie between 2 answers pro-CSR goals and 2 answers solely focused on board remuneration (and a fifth answer filtering it to long term goals), the direct relevance of CSR for ESG-related issues and the availability of the data were retained as primary factors of selection.

All other indicators, however, were selected by following the pre-established procedure, proving that an enhanced selection of assessment and compliance-efficiency enhancing indicators is feasible, even for smaller firms with less resources. It is essential that AMCs, especially smaller entities, launch their own in-house methods to further improve their ESG quantification practices. Ultimately, this type of selection of quantitative indicators and their consideration in quantification models can enable an overall more legitimate and less subjective approach to ESG integration, which in turn further convinces investors of the added value that this quantification method brings about for investment decisions.

CONCLUSION

"In my role at BlackRock, I was helping to popularize an idea that the answer to a sustainable future runs through ESG and sustainability and green products, or in other words, that the answer to the market's failure to serve the long-term public interest is, of course, more market."

- Tariq Fancy, former Sustainable Investing Chief of Blackrock[163]

As this conclusion was being drafted, a three-part online essay by Tariq Fancy (Blackrock's first global chief investment officer for sustainable investing between 2018 and 2019) was published, outlining how the growing transition to sustainable investing might be a "*giant societal placebo that [is] lowering the likelihood that [we'll] ever implement the kinds of concrete reforms that (…) billions around the world need right now*". For Tariq Fancy, there is an urgent need for governments and regulators to step-in and formalize ESG and sustainable finance practices.

But these outcries for regulation might be more relevant to the current US capital market framework and its lack of norms and standards. As we saw in this dissertation, a lot of initiatives and impending regulatory works from the EU and its member States are already being set into place to better enforce and control sustainable finance practices from both financial and non-financial companies. Therefore, to conclude this dissertation in a manner parallel to how it started, it will be interesting for us to see how our analyses here above could answer Fancy's remarks and criticisms.

[163] FANCY, Tariq. "*The Secret Diary of a 'Sustainable Investor' — Part 3*", 20 August 2021. [Viewed date: 30 August 2021]. Available from: <https://medium.com/@sosofancy/the-secret-diary-of-a-sustainable-investor-part-3-3c238cb0dcbf>

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"*Unfortunately, ESG data was also generally unreliable and the ratings were everywhere. A Wall Street Journal headline at the time pointed out that whether Tesla or Exxon Mobil is more sustainable depends on whom you ask.*"[164]

This dissertation allowed us to see how ESG quantification has been developed in the past few years in response to the unreliability and divergence on simple qualitative assessments and disclosures. This quantification was both observable at EU and national levels, with member States like France showing considerable (and sometimes even stricter) regulatory and private efforts to further develop and rely on it to improve their respective sustainable finance goals.

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These goals, as we've seen, can differ depending on the private or public nature of financial actors. ESG quantification has been increasingly resorted to by public actors in order to harmonize regulatory standards and to support a more transparent and measurable transition towards sustainable economic activity.

With both the loss of the London Stock Exchange due to Brexit and the impending future development of a sustainable finance framework in the United States of America, EU's efforts to regulate practices in its member States' financial markets are capital to ensure cohesion of norms and data, coordination of practices between financial market participants and, ultimately, its overall attractiveness to sustainability-mindful investors.

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EU member States' regulatory efforts are also visible through their National Competent Authorities such as France's AMF. NCA's strategies, inspections, doctrine and "soft-law" recommendations have shaped ESG quantification practices of AMCs in ways that complete and/or even complement the European Commission and ESMA's works, with definitions and communication-level controls that contribute to fighting "greenwashing" practices.

Notwithstanding their more indirect impact on AMCs, other governmental and regulatory initiatives have also been primordial to ESG quantification's advancement. The reinforcement of ESG labels' qualifying criteria and the future standardization of non-financial disclosures by all EU listed companies have and will most probably keep contributing to an

[164] FANCY, Tariq. "*The Secret Diary of a 'Sustainable Investor' — Part 2*", 20 August 2021. [Viewed date: 30 August 2021]. Available from: <https://medium.com/@sosofancy/the-secret-diary-of-a-sustainable-investor-part-2-831a25cb642d>

increasing reliance on quantitative data and quantification methods that further support the overall sustainability transition sought by public actors.

1780 *"I believe in the power of the market. But we're not only allowed to act as active rule makers, we're* <u>*supposed*</u> *to. No rules, no market. (...) And those rules, and the market economy that results, serve society, not the other way around."*[165]

As for private actors, the rapid development of sustainable financial products and services as well as a need to efficiently assess an increasing amount of ESG-related data has led to the overall improvement of ESG quantification methods.

A strong competitive landscape between international and EU financial hubs has inevitably led to an increase of commitments and initiatives by private actors across the spectrum, representing either individual or collective interests. These initiatives have, with
1790 time, resorted more and more to ESG quantification and verifiable, quantitative data in order to put forward their results and sustainability achievements.

Of course, this competitive environment also led to the emergence of ESG data gathering and analyzing experts. Their main activity lies on the quantification of information often times difficult to assess and process in a format that allows for data from different companies to be comparable. However, the increasing consolidation of this currently unregulated "ESG data treatment" market and the divergence in overall opaque methodologies have brought about a need for AMCs to conduct due diligences on their providers.

As evidenced by our analysis, these due diligences, which are already recommended/expected by some public actors, can be built on quantification processes that
1800 could contribute to improving both the efficiency of ESG assessments and regulatory disclosures. Our own set of proposed "good practices" as well as a comparison of AMCs' integration methods allowed us to highlight how quantification processes can be improved through a further resort on quantitative indicators.

[165] FANCY, Tariq. *supra* note 162

"In finance, there's a saying that "everyone talks their book," meaning they promote what's in their financial interests (such as telling people to buy a stock you own or sell a stock you're betting against). The reason everyone in finance says it is that it's generally true: read people's incentives and you'll understand their behavior."

1810 It is interesting, to ponder upon our research and analysis, including its limits. Much like Mona Huys's approach when conducting his interviews,[166] we used a triangulation methodology to treat answers given in this dissertation's public survey, in order to reduce biases in our selection of easy and efficiency enhancing quantitative ESG indicators. However, some follow-up questions (see Annex 2) indicate that some of the selected indicators might be hard to procure directly without resorting to external providers. Indicators such as Waste production/recycling management or the pay equity ratio might be hard to find in a company's CSR report (the main source of information used by our survey participants).

However, it is important to denote that this is also the reason why the referencing of an indicator in the French "Impact" platform was one of the three criteria of selection used, since 1820 with the future application of the CSRD and the Commission's intentions on matching both SFDR and CSRD disclosures, such availability issues will soon be considerably reduced. Social criteria assessments are also said to be harder to find, which, given the weight and importance given to the Environment by the general public and public authorities, is understandable. Many companies seem to perceive their CSR and non-financial reports as marketing opportunities to further enhance their public image through the communication of environmental action and consideration. This may lead to Social-related data to be given less importance in companies' disclosures, thus confirming Fancy's above statement of disclosures being done in a way that better serves their financial interests.

Finally, one could say that the standardization of indicators and quantification methods 1830 might lead to AMCs losing their own "personal touch" in how to assess ESG profiles and how/where to invest. Nevertheless, the survey's last question, regarding the weighting of ESG criteria, shows that none of the survey participants share the same view on each ESG criterion's importance for assessing a company's global non-financial score. This shows that investment

[166] HUYS, Mona. "*What is the value of ESG ratings for responsible investors in allocating capital towards sustainable companies? Evidence from European institutional investors*", Catholic University Louvain, Louvain-la-Neuve, 2020, p. 72

strategies and policies can still influence the end result of an ESG assessment, leaving AMCs a certain flexibility to compete with each other over the quality of their ESG integration methods.

"If I was on a panel and someone asked me what's the best way to tackle climate change? Should I buy an ETF or should I call my congressperson and demand legislation and a price on carbon? The truth is someone is better off calling their congressperson."[167]

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All-in-all, the quantification of ESG data has been shown to be an essential part to the development of the sustainable finance framework. The final study, conducted by Blackrock on behalf of the European Commission, on the development of tools and mechanisms for the integration of ESG factors into the EU's banking sector further evidences how this integration can be accelerated through the definition of measurement methodologies and their associated quantitative indicators.[168] Joining Fancy's comments on how people's incentives explain/influence their behaviors, this dissertation showed that quantification methods can be used and improved upon by AMCs and other private actors to further enhance their assessment and compliance efficiency.

1850 But although, as we saw, ESG quantification can generally contribute to sustainability goals whilst improving each financial market participant's non-financial performances, one should not solely expect the market to regulate itself. Strict and clear regulatory frameworks are and will remain essential to reducing greenwashing practices. Quantification of ESG criteria is, ultimately, but one of a multitude of elements that will be essential to a successful transition to a sustainable economy. It is, therefore, of the utmost importance that we continue to implement new solutions and rules to advance and frame "sustainability" as a whole.

"Se podes olhar, vê. Se podes ver, repara."

[If you can see, look. If you can look, observe.]

1860 - José Saramago, Portuguese novelist and Nobel Prize in Literature laureate

[167] RUSHE, Dominic. "*Green investing 'is definitely not going to work', says ex-BlackRock executive*", 30 March 2021. [Viewed date: 30 August 2021]. Available from: <https://www.theguardian.com/business/2021/mar/30/tariq-fancy-environmentally-friendly-green-investing>

[168] BLACKROCK FINANCIAL MARKETS ADVISORY. "*Final Study: Development of tools and mechanisms for the integration of ESG factors into the EU banking prudential framework and into banks' business strategies and investment policies*", European Commission, Luxembourg, 2021

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ANNEX 1 – PUBLIC SURVEY ANSWERS (PART 1)

Why is it important to create ESG ratings and to track companies' scores internally (adding to or without resorting to external ESG rating providers)?	Independently of the sector of activity, which 5 quantitative indicators do you personally consider to be essential, when analyzing a company, for the Environmental criteria?	And for the Social criteria?	And for the Governance criteria?	Which indicator do you believe has to imperatively be analyzed qualitatively as well as through quantitative means for each of the three ESG criteria (one indicator per criteria)?
(Translated) The importance of ESG rating in asset management is essential for a more sustainable world. Access to quantifiable data allows a selection, according to the methodology and investment strategy, of the better candidates. This allows, at minimum, to better assess sustainability risks. Plus, data updates are essential as they account for issuers' progression in their assessment of sustainability-related issues.	*(Translated)* **- Carbon** - Biodiversity **- Energy consumption** - Energy mix **- Waste**	*(Translated)* - Value chain **- Man & Woman salary gap** - % of women in management positions - Absence rate **- Number of training hours**	*(Translated)* **- Board diversity** **- Percentage of independence** - Number of controversies - Rate of presence **- Percentage of compensation tied to long term performance**	*(Translated)* E: Environmental footprint S: Employee well-being G: Objectivity
(Translated) It is essential to track issuers internally to better understand, through research and engagement, the company's commitment and real impact towards ESG issues.	*(Translated)* - GHG emissions **- Energy consumption** **- Water consumption and treatment** **- Waste management and treatment** - Percentage of sites with an environmental management system such as the ISO 14001	*(Translated)* - Diversity - Rate of employees covered by social agreements **- Training hours and budget** - Severity and workplace accidents rate - Percentage of supplier sites having been audited	*(Translated)* **- Board and committee independence** **- Board diversity** **- Board remuneration** - Double voting rights - Executive board members	*(Translated)* E: Products or services with environmental added value S: Social impact of products/services G: Board members/executives

(Translated) Quantitative assessments are important, but qualitative assessment is also essential. Dialogue and engagement with companies contribute to appreciating a company's issues, risks and opportunities.	*(Translated)* We work with over 40 indicators accross 5 pilars (E, S, G AND Societal and Company CSR). They are essential but the weight of each criteria might differ in terms of appreciation. For the E: **- Carbon footprint,** **- Water,** **- Waste,** - Biodiversity - Product's lifecycle.	*(Translated)* - Respect for human rights, - Employee's well-being, **- Training**, - Work rights (respect of freedom to association), - Employee savings schemes **- Internal fairness ratio (*Added from Governance criteria answer*)**	*(Translated)* - Power separation, **- Number of independent members in the company's committees,** - Internal fairness ratio (*added to social criteria indicators*), **- Women on board,** **- Remuneration according to CSR achievements**	*(Translated)* E: Climate strategy as a whole.
(Translated) This allows to express the analysts' view on the matter, which may be different than that of an external provider for multiple reasons: - Thanks to a more direct engagement with a company and, thus, access to more information - It allows to better mix information from multiple providers - It allows to compensate for a provider's methodology (an American provider, such as MSCI, might interpret negatively some ESG elements of European companies such as, for example, the fact that there are no statistics or quotas related to ethnical origins, etc.	*(Translated)* **- Environmental carbon footprint (to be compared with other companies of the same sector)**, (…) But it is surely more important to perform these assessments per sector, selecting relevant indicators for each sector.	*(Translated)* (…) - Diversity percentages. (…)	*(Translated)* (…) **- Board independence percentages**, - Percentage of members to treaties, conventions, norms, organizations, etc. (…)	*(Translated)* It is my opinion that qualitative analysis must be conducted when assessing the processes of a company's different policies (Environmental, Social and Corporate Governance). Companies are detailing more and more their actions on these issues.

(Translated) This allows to go further than a mere external analysis, to implement non-financial issues in financial analysis debates. To differentiate oneself from others by performing research ourselves.	*(Translated)* **- CO2 emissions/intensity** ; - Quality of environmental actions and environmental risks consideration; - Sales contribution of green products and services to company's revenue	*(Translated)* - Rate of employees with full-time status; **- Rate of training;** **- Salary difference between top 5% pays and median pay;** **- Gender equality**	*(Translated)* - **Board independence;** **- Women on board rate**	*(Translated)* E: Quality of environmental actions and consideration of environment-related risks
(Translated) It is important to bring about a qualitative, "human eye" assessment to simple ESG scores that don't necessarily reflect their analysts' opinion.	*(Translated)* **- CO2 avoided (in tons)**, **- Water consumption (L),** **- Energy consumption (kWh),** **- Quantity of waste produced (t),** **- C**ircular economy.	*(Translated)* (Not specialized)	*(Translated)* (Not specialized)	*(Translated)* Mainly for S criteria.
Better risk and opportunity management. It also makes it possible for us to compare the opinions of external providers with those of our analysts and managers, regularly in contact with the companies present in their portfolios.	**- CO2 emissions,** **- Volume of electricy used,** - Sales derived from taxonomy green activity, **- Volume of water used,** **- Waste produced**	- Absenteeism, **- Hours of training per employee**, - Diversity, **- Equality on pay ratio (top management with average pay for employees)**, - Number of serious/fatal accidents	**- Number of independent directors,** **- Women in top management,** - Number of controversies, - C**ompensation for CSR objectives,** - Number of meetings held with Head of CSR this past year	E: Environment & Taxonomy strategy; S: Employee turnover; G: Board members
(Translated) ESG score aggregation gives investors one extra tool for assessing economic activity-related risk. In addition to this, according to psych studies, the economical actor can then, thanks to their communication, send positive indications of "good practices" to investors, further fostering investment.	*(Translated)* **- CO2 emissions**; - Their apportionment throughouts Scopes 1, 2 and 3; **- Energy consumption;** **- Water consumption**; - Energy efficiency of company sites	*(Translated)* - Board members; **- Percentage of women employed**; - Donations to cultural and sport activities; - Vacation days; - Internal amenities to promote employees' well being	*(Translated))* - Board voting system; - **Incentive payment scheme**; - Employee engagement in decision-making; etc.	*(Translated)* E: Scope 1, 2 and 3 factors, when measuring each scope's proportion for total CO^2 emissions, as well as for energy and water consumption

ANNEX 2 – PUBLIC SURVEY ANSWERS (PART 2)

Which extra-financial information are the hardest for you to procure directly and for free (without resorting to external providers)?	Which public/free platforms and sources of information do you use the most often to find extra-financial data on a company?	Which ESG weighting scheme would you use for rating a company? Example: E(50%) S(30%) G(20%))
(Translated) Biodiversity	*(Translated)* World Bank	*(Translated)* We use a weighting grid based on the criteria (*answer unclear/incomplete*)
(Translated) We don't resort to outside, third party providers. However, top management remuneration policies are not always transparent.	*(Translated)* The CSR/non-financial report	*(Translated)* E 30 S 35 G 35
(Translated) Waste treatment and equity ratios.	*(Translated)* The universal report, non-financial reports, voting resolutions prior to General Meetings and all the information available on the company's websites and social media.	*(Translated)* We work with the GICS2 classification system, which makes our weighting schemes vary for each sector and their subsectors.
(Translated) Social impact indicators.	*(Translated)* (Confidential)	*(Translated)* (Confidential)
(Translated) Majority *(*answer unclear/incomplete*)*	https://wikirate.org/	None
(Translated) The hardest for now is to determine a company's contribution to SDGs. There is a lack of information, metrics and methodologies to do so correctly by ourselves and without having to resort to a provider.	*(Translated)* The most complete and free source of information is the CSR report, directly available in the company's website.	*(Translated)* I don't think the weighting of each ESG criteria should differ, I prefer them to be equally weighted and the scoring itself to be adapted to the sectors' main issues.
Biodiversity impact	The CSR report of the company	35/30/35
(Translated) The Board's voting system, Scopes 2 and 3 (because often times the companies themselves find it difficult to assess/treat their own data)	*(Translated)* The non-financial reports of a company are usually enough to perform a classic/normal assessment	*(Translated)* E 40 S 40 G 20

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