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Sustainable finance regulation in the asset management sector and political decision-makers.

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From 16/01/2023 to 13/07/2023 – Six months

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Sciences Po
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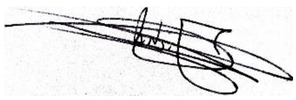
DATE : 21/08/2023 Signature : 

GLOSSARY

AM : Asset Managers

EFRAG: European Financial Reporting Advisory Group

EU: the European Union

US: the United States of America

IPCC: International Panel on Climate Change

ISSB: International Sustainability Standards Board

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INTRODUCTION

"If climate goals are to be achieved, both adaptation and mitigation financing would need to increase many-fold. There is sufficient global capital to close the global investment gaps but there are barriers to redirect capital to climate action."[1]

This citation and the overall report it belongs to, which is the latest synthesis assessment report on climate change (2023) by the IPCC (Intergovernmental Panel for Climate Change), summarize quite well the urgency of the situation and the importance of finance in a green, sustainable, and fair transition. It emphasizes that capital is here and is even sufficient to fight climate change (and possibly other environmental battles like the protection of biodiversity), but that it is not used accordingly. The protection of the environment and sustainable growth cannot be achieved without capital flowing in the right places, and with investors starting to consider non-financial criteria when making investment decisions, policymakers seem to have taken the topic up as well.

With the Paris Agreement, adopted in 2015, it seemed the world's governments had reached a consensus and pledged, almost unanimously, to fight climate change[2]. Scientists' warnings had finally been heard and taken into serious consideration, and each signatory party was required to put up plans of action, targets, and thresholds as part of their Nationally Determined Contributions (NDCs). The focus of investments was shifted to green and sustainable technology, in order to foster innovation while stimulating growth. The introduction of the United Nations' Sustainable Development Goals (SDGs) popularized the use of 'sustainable finance', or 'green finance'. To achieve these goals, new investment strategies had to be developed, considering new parameters and new information, which prompted the European Union's legislation improving transparency and due diligence on non-financial information, such as the recently adopted SFDR (Sustainable Finance Disclosure Regulation, 2021), or the CSDDD (Corporate Sustainable Due Diligence Directive) which is currently being discussed in the European Parliament. However, more

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[1]IPCC, 2023: Sections. In: Climate Change 2023: Synthesis Report. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, H. Lee and J. Romero (eds.)]. IPCC, Geneva, Switzerland, pp. 35-115, doi: 10.59327/IPCC/AR6-9789291691647 https://www.ipcc.ch/report/ar6/syr/

[2] United Nations Climate Change. "What is the Paris Agreement?". United Nations Framework Convention on Climate Change (UNFCCC) website. https://unfccc.int/process-and-meetings/the-paris-agreement

still needs to be done, and that is why sustainable finance makes for an interesting topic when it comes to the study of policymakers and the policymaking process.

"The international community's responses are currently fragmented, partial and insufficient. We therefore call for a fundamental overhaul of our approach. Together, we need to build a more responsive, fairer and more inclusive international financial system to fight inequalities, finance the climate transition, and bring us closer to achieving the Sustainable Development Goals"[3].

The term of sustainable finance, however, precedes the signing of the Paris Agreement by a few decades. While the idea behind it can be traced back to the 1970's[4], it is with the 1992's Earth Summit held in Rio de Janeiro that private finance was really considered as essential in achieving sustainable development[5]. The same year, the United Nations Environment Programme Finance Initiative (UNEP FI) was created, with its 13 original members representing public and private banking corporations, but also the broader financial institutions' ecosystem. For our interviewee, "*the idea was that people knew there was an investment gap from here to 2050, and that investments were needed to transition our economies but worldwide as well*"[6]. The financial sector hence engaged itself in providing expertise and advice, contributing to the development of solutions and initiatives. The Dow Jones Sustainability World Index was launched in 1999, becoming the first global sustainability benchmark, and answering investors' demands for more information on the sustainability of investee companies, to make sound investment decisions. The following year, the Global Reporting Initiative (GRI), an international non-governmental organization, launched its first guidelines on sustainability reporting, which became the blueprint for this type of reporting worldwide, and is still used to this day, while also being the basis for subsequent reporting standards, such as the IFRS (International Financial Reporting Standards), published under their inaugural version in June 2023 by the International

[3] Mia Mottley, Prime Minister of Barbados, during the Summit for a new global financing pact, June 22nd, 2023. https://nouveaupactefinancier.org/en.php

[4] Florea A., Morales N. April 2021. "Green financing: a look at the history and the options available for developers." Bechtel website. https://www.bechtel.com/newsroom/blog/sustainability/green-financing-a-look-at-the-history-and-the-options-available-for-developers/

[5] The United Nations Environment Programme Finance Initiative (UNEP FI). Published in 2017, updated in 2022. "From 1992 to 2022: The Evolution of Sustainable Finance. *The Evolution of Sustainable Finance*. UNEP FI website. https://www.unepfi.org/news/timeline/

[6] See Annex 1.

Sustainability Standards Board (ISSB)[7]. While the financial industry had been quite proactive in terms of standards setting and provision of advice, it is in March 2002, with the International Conference on Financing for Development, that heads of State from all over the world recognized and agreed to address the challenges of financing fir development, known as the Monterrey Consensus which stipulates it aims to "eradicate poverty, achieve sustained economic growth and promote sustainable development"[8]. The following year, the Equator Principles established a framework to assess and manage environmental and social risks, effectively introducing the concept of due diligence in decision-making processes. Sustainable finance has hence been evolving rapidly as a concept but also as tool for financial institutions and has become more and more a sine qua non condition for investments. The PRI, the "Principles for Responsible Investment", represent the financial industry's leading group for responsible investment, offering six principles for financial institutions to integrate Environment, Social and Governance (ESG) issues in their investment strategies. The signatories, over 1,000 worldwide[9], commit to implement the principles the best they can, on a voluntary basis, and they aim to offer interesting investment choices and practices for institutional investors who are concerned about environmental and social issues. Signatory institutions of the PRI still represent an important part of the sustainable finance framework and are often taken as examples by other governmental or industrial initiatives (Japan…). More recently, the Task Force on Climate-related Financial Disclosures (TCFD) was launched in 2017 by investors from various countries and the Financial Stability Board (FSB), with the support of UNEP FI. The same year, it released a few recommendations for companies to enhance the disclosure of climate-related information, to ensure sound capital allocation. According to their 2022 Status Report[10], the number of companies' disclosures is constantly growing over the years, albeit being insufficient to tackle the climate objectives adopted in 2015. 2019 marked the inauguration of one of the most ambitious industry initiatives (representing US$11 trillion and 85 institutional investors as of March 2023[11]):

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[7] ISSB. 2023. "ISSB issues inaugural global sustainability disclosure standards". IFRS Foundation website. https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/
[8] The United Nations Environment Programme Finance Initiative (UNEP FI). Published in 2017, updated in 2022. "From 1992 to 2022: The Evolution of Sustainable Finance. *The Evolution of Sustainable Finance*. UNEP FI website. https://www.unepfi.org/news/timeline/
[9] PRI Association. Unknown. "What are the Principles for Responsible Investment?". PRI website. https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment
[10] TCFD. *2022 Status Report*. October 2022. https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf
[11] UNEP FI. March 2023. "Net-Zero Asset Owner Alliance sets expectations for oil and gas investments and calls on companies and policymakers to align with 1.5C pathways". UNEP FI website.

the Net Zero Asset Owner Alliance (NZAOA), convened by the UN and PRI, requires each member to adopt bold targets to limit global warming, while committing to report on progress at regular intervals. Finally, the most recent Kunming-Montreal Global Biodiversity Framework (GBF), adopted at the 15th Conference of Parties to the UN Convention on Biological Diversity sets new goals for the horizon 2030 in terms of biodiversity loss, protection, and recovery[12]. Such a framework extends the possibilities for sustainable investment, allowing for the development of new strategies and new funds dedicated to biodiversity, and inspiring investors to define specific preferences outside climate-related objectives. The aforementioned initiatives, conventions and working groups have helped define and precise the essence of sustainable finance, and how it should be used to contribute to the protection of the environment and human societies. Consequently, one definition of **sustainable finance**, and the one we will refer to in this paper, has been detailed by the European Commission as follows: "[sustainable finance is] the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects"[13]. This non-exhaustive history of sustainable finance has shown us the evolution of the term in time, but also its growing importance for both the governments, the financial institutions, and the companies. It is bound to keep evolving with scientific recommendations and innovations, which makes it a crucial topic to study and analyze.

However, while it is undeniable that there is growing concern and attention given to sustainable finance, it does not necessarily mean that everyone agrees on its importance or its cruciality in saving the planet. As such, while some industry's practices seem to become even more careful when making decisions that can harm the environment, others might appear more on the reserve at times. For example, investors have been communicating their agreement or disagreement with companies' strategies through 'say on climate' processes during annual general assemblies, some making it on the front pages of media, as it was the case in May 2021, when four asset managers (BlackRock, Vanguard, Fidelity and State

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https://www.unepfi.org/industries/net-zero-asset-owner-alliance-outlines-new-guidance-for-oil-and-gas-investments-while-calling-on-companies-policymakers-and-investors-to-align-with-1-5c-pathways/

[12] Convention on Biological Diversity (CBD). 2022. Kunming-Montreal Global Biodiversity Framework. UN Environment Programme website. https://www.unep.org/resources/kunming-montreal-global-biodiversity-framework

[13] European Commission, 2023, < https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en>

Street Global Advisors, which manage around 20% of the world's public listed securities[14]) voted against some board directors of Exxon Mobil, effectively showing their dissatisfaction with the board members' disregard for climate change's global targets[15]. On the opposite spectrum, the countertrend is significantly represented in the United States, with for example Elon Musk, Tesla's CEO and Twitter's (now X) owner, tweeting on 18 May 2022 "ESG is a scam. It has been weaponized by phony social justice warriors"[16], moments after Tesla was removed from an ESG index[17] used by investors to choose whether to invest or not. Political figures have also been vocal about their disapproval of ESG criteria and standards being used in finance, claiming that it is against the principle of fiduciary duty, which is at the heart of any investment action. **Fiduciary duty** usually refers to lawyers and financial advisors and represents their obligation to "maintain their beneficiary's trust and act in their [clients'] best interest"[18]. For financial advisors who act as fiduciary to their clients' financial assets, there is an additional understanding that requires them to ensure their decisions maximize their clients' returns, even more so when it comes to pension funds for example. On May 26, 2022, former Vice President Mike Pence authored a piece in the Wall Street Journal stating that the promotion of ESG was led by activists rather than shareholders, and that it only aimed to advance the Democrats' political agenda. Two weeks later, 131 (of 211) House Republicans signed a letter[19] to Securities and Exchange Commission (SEC) Chair Gary Gensler demanding that the SEC rescind its proposed climate risk disclosure rule, while Republican members of the Senate Banking Committee issued a letter[20] to Chairman Gensler requesting additional and more detailed information regarding the SEC's

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[14] Bakken R. August 2021. "What is sustainable finance and why is it important?". Harvard Extension School. https://extension.harvard.edu/blog/what-is-sustainable-finance-and-why-is-it-important/

[15] Hiller J., Herbst-Bayliss S. May 2021. "Exxon loses board seats to activist hedge fund in landmark climate vote". Reuters website. https://www.reuters.com/business/sustainable-business/shareholder-activism-reaches-milestone-exxon-board-vote-nears-end-2021-05-26/

[16] Musk E. 18 May 2022. Twitter. https://twitter.com/elonmusk/status/1526958110023245829

[17] The S&P 500 ESG Index, which follows the same standards as the S&P 500 Index with the 500 biggest listed companies in the world but evaluating the performance of companies regarding sustainability criteria. It is managed by Standard&Poor's, one of the world's biggest financial rating agencies. <https://www.spglobal.com/spdji/en/indices/esg/sp-500-esg-index/#overview>

[18] Tretina K. May 2023. "How fiduciary duty impacts financial advisors." Forbes Advisor website. https://www.forbes.com/advisor/investing/financial-advisor/what-is-fiduciary-duty/

[19] Congress of the United States. June 2022. Re: File No. S7-10-22, the Enhancement and Standardization of Climate-Related Disclosures for Investors. https://financialservices.house.gov/uploadedfiles/2022-06-15_gop_letter_to_gensler_reclimate_rules_final_updated.pdf

[20] United States Senate's Committee on banking, housing and urban affairs. June 2022. Letter to Gary Gensler. https://www.banking.senate.gov/imo/media/doc/banking_republicans_to_gensler_on_climate_proposal1.pdf

ESG-related rulemaking activities. Since the Great Depression, the SEC has ensured that disclosure of financial results and business risks — specifically, those that are known to management — must be sufficient for investors to make informed decisions about how to allocate scarce capital-material risks to investors. The first manifestation of the "value reporting revolution" was in the form of Extensible Business Reporting Language (XBRL), a way of using technology to compare key value metrics between companies and across industries, which was released on December 31, 2003. Following the credit crisis of 2008-09, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. These reforms are symbolic of how financial regulatory policy issues have become highly partisan, as they were built almost from scratch by Democrats in a short time (14 months) with little input form the Republicans. The US backlash against ESG takes three forms and is primarily present at US state level at the moment: (1) prohibitions on the use of ESG ratings to guide investment decisions by the state and private investors, (2) the creation of 'anti-ESG funds' arguing that politics and economics must be separate and (3) introducing laws that support the funding of 'sin' industries where ESG ratings may discourage investing, such as oil, gas, guns and others. To illustrate this statement, we can think of such laws that were recently adopted in three Republican states:

- The government of Florida passed a regulation initiated by Governor Ron DeSantis, which restricts the ability of public fund managers to adopt ESG strategies.
- West Virginia banned public entities from considering ESG values when pursuing investments.
- Texas created two laws which restrict the implementation of ESG and help to advance funding for oil, gas, and gun manufacturing sectors: Law SB-13.

For most Republicans, their argumentation is built on the necessity to 'take the politics out of investment and ensure that monetary investments yield the highest returns possible' as Vivek Ramaswamy, founder of anti-ESG fund and Strive Asset Management, as well as potential Republican US presidential candidate, has exposed it.

The challenges and question surrounding sustainable finance, and subsequently ESG investing, have been taken at heart by a considerable part of the political class on both sides of the Atlantic Ocean. As the few examples have shown, and as we will see more in details in the following chapters of this paper, the topic seems to have become stringent for policymakers, even though they might adopt a different approach depending on the side of the Atlantic you are looking at. That is why we choose them as the focus of our interest hence referring to them as “policymakers”, a better suited notion, as we aim to study members of parliament and government, who ultimately adopt a regulatory policy (or do not). To this end, we endorse the following definition: “a member of a government department, legislature, or other organization who is responsible for making new rules, laws, etc.”[21]. Regulations are representative of policymakers’ opinion on a subject and set the direction of their government in a particular policy area. They are key in understanding sustainable finance, as our examples have started to show and as we will present more in depth in their first part of our paper and are a quite recent phenomenon. By regulation, we mean “the [promulgated] targeted rules, typically accompanied by some authoritative mechanism for monitoring and enforcing compliance”[22].

Since we have seen the challenges and furnished history that surrounds the topic of sustainability in finance, and how the world seemed to have found a consensual position with a united pledge to find solutions and actively engage in actions to mitigate climate change. Nowadays, it appears that two opposite blocs are emerging, one going further in terms of regulations to enhance sustainable investments and economy (the EU); and the other backtracking (the US). But what is it in reality? Does this opposition exist internally, within one or the other bloc? And how do policymakers position themselves on the subject? Who influences who? Those questions have led us to a final, broader research question that caters to the different interrogations we have listed:

Why do policymakers support or oppose sustainable finance regulation (in the asset management sector) across the world?

Sustainable finance regulation is a fast-evolving regulatory landscape that covers fund names, fund disclosures, entity disclosures, engagement policies and others, aiming to fight greenwashing claims, but to also encourage sustainable financing (through transparency and engagement, through the establishment of prestige and acknowledgement). It has proved to be especially stringent in the European Union and the United States, effectively delimiting the geographical borders of our study. It is important to adopt a comparative approach because financial markets are, by definition, global, and a regulatory initiative in one part of the world will have impacts in another. While we understand that the

[21] The Cambridge Dictionary. 2023. Meaning of policymaker in English. The Cambridge Dictionary website. https://dictionary.cambridge.org/us/dictionary/english/policymaker
[22] Britannica, https://www.britannica.com/topic/regulation

United States is a country and the European Union is an organization, challenging both their vision on the topic seems particularly relevant to the current situation. Besides, the regulation of financial markets is a competence of the EU, and albeit its implementation usually rests within national authorities, it is not the step we will focus on here. Financial markets are a location where it is possible to "match buyers and sellers to set a price for financial assets"[23].

To propose an answer to this question and develop our understanding of the subject, this paper will be divided into three main parts. We will first provide a state of the art regarding the current legislation in place both in the United States and the European Union, in order to fully comprehend the starting point of our quest. Then, we will delve into the factors that might be an influence on the policymakers, and to what extent they do. Finally, because we face both EU and US elections in the coming months, we will provide some insights that might fuel further thoughts on the future of sustainable finance.

[23] Bank of England. November 2022. "What are financial markets and why are they important?". https://www.bankofengland.co.uk/explainers/what-are-financial-markets-and-why-are-they-important

Short presentation of the internship leading to the research topic:

As this paper is written to conclude five years of study, I believe it relevant to give a brief explanation regarding the internship that prompted the choice of research topic, the missions that I endorsed and how they were determinant in obtaining the insight and content of this research.

I occupied the post of Public Affairs Attache for the duration of six months, from mid-January to mid-July, within the Asset and Wealth Management section of Natixis Investment Managers (NIM). NIM is a global asset manager that aims to propose dedicated answers to each investor, according to their preferences and to their goals. My work was organized around three main axes: active monitoring of political developments and regulatory changes that have an impact on the French and foreign subsidiaries of Natixis Investment Managers, through an international scope concerning the asset management business and covering several jurisdictions (EU, UK, US, Singapore, global, ...) ; analysis and drafting of summary and strategic notes, in connection with the political and regulatory landscape ; formalization of Public Affairs documents (stakeholder mapping, advocacy papers…). These missions have allowed me to cover broad topics in the financial markets, effectively building on intense research. I was especially mobilized on actions pertaining to sustainable finance and ESG investment, which fueled my interest on the subject and motivated this research topic.

Working in the Public Affairs team means to act as a link between the political sphere, the legal teams and considerations, and the practical technicalities of finance. I had to be sure to follow the political sentiment on sustainable finance at any given time, keep track of changes in opinion and opportunities and challenges that are most susceptible to happen. Given the missions of my internship, it became clear quite rapidly that I would focus on sustainable finance, because of the simmering of initiatives, regulations and projects in the area. It is when I started working on ESG consideration from a cross-country point of view that the rift in opinion between policymakers from one side of the Atlantic to the other became apparent. It intrigued me, and motivated me to search for explications, and to verify whether this difference in opinions came from cultural factors or others. In that sense, the scope of this paper will focus on regulation that covers **asset managers**, which represent the investors' side of the market, as they are the ones who impact the economy and the companies, and because banking or insurance regulations are another story. To ensure clarity on the definition of asset management and what the sector entails, we propose this meaning: "the practice of increasing total wealth over time by acquiring, maintaining, and trading investments that have the potential to grow in value".[24]

I find that inquiring about the factors that influence policymakers proves useful and interesting from both a political science point of view and a more professional approach, as the heart of the Public Affairs' work is to understand political actors and how to make yourself heard depending on their preferences.

[24] Ganti A. (2023). "What is asset management, and what do asset managers do?". Investopedia, https://www.investopedia.com/terms/a/assetmanagement.asp

I) Literature review: what is sustainable finance and why is it a relevant political issue?

We have provided a small introduction to the history of sustainable finance from an international organizations' perspective, in order to understand its inherent cooperative characteristic. However, the topic of sustainable finance can be quite complex to apprehend, even more so given its evolutive nature, as its purposes adapt to the targets and goals set by governments. Industry initiatives are often mixed with financial services regulators' guidelines and advice, but neither hold the power needed for a mandatory implementation. That is why we decided to focus on the legislation surrounding sustainable finance, as it is the outcome of the policy-making process and hence represents the political preferences of the government[25]. We will hence aim, in this paper, to assess whether there is a stark difference of support between the United States' policymakers and the European Union ones when talking about sustainable finance and how it should be regulated. According to our interviewee, who assisted to an event from the DG Energy of the European Commission, sustainable finance is seen by the institutions as "*an investment opportunity, but [...] also an investment challeng*e"[26].

This presents two main interests: one of an academic kind, the other related to social preoccupations.

a. Academic relevance

In terms of academic relevance, we believe the topic of sustainable finance regulation to be one that should not be forgotten by the political sciences. Per their functions and their characteristics, financial markets are influenced by political dogmas but also represent the practical implementation of some of them. The factors weighting in political decisions-making have been covered by political sciences, and the links between policies, politics, and financial markets as well. However, there does not seem to be enough coverage of decision-makers' motives and reasoning when it comes to sustainable finance regulation. While there have been quite a few papers researching the influence of public opinion on policymakers,

[25] Brown A., 2011, "Regulators, policy-makers, and the making of policy: who does what and when do they do it?" in *International Journal of Regulation and Governance*, 3, p.1-11.
[26] See Annex 1.

notably by Manza et al (2006), or of the media's (Cohen et al, 2008), they have not been translated to the world of finance and sustainability. This paper will aim to bridge that gap but also to consider other variables. Furthermore, this research will prove itself two-fold, trying to add to the knowledge regarding sustainable finance legislation, both existing and under negotiations, on one side, while tapping into the factors that might weight in policymaking on the other side.

Additionally, there exists a relatively important number of guidelines and toolkits prepared by working groups from sustainable finance initiatives and NGOs to help policymakers create appropriate guidance and rules in the area, yet no study (to our knowledge at least) of the policymakers' opinions and behaviours when approaching the topic. It appears they seem to be taken from granted by the experts. For example, UN PRI published on December 16th, 2020, the first part of their toolkit to provide some insight to policymakers in the implementation of policies and regulations in support of effective sustainable finance[27]. It is a comprehensive report illustrated by multiple examples from various countries on different policy frameworks, from corporate ESG disclosures to investor regulations, and from stewardship codes to taxonomies. Another report created for the same purpose was published on June 28th, 2021, by The Economist Intelligence Unit, explaining the importance of the current context for sustainable finance, its potential and the best way to address climate change through a holistic approach[28]. Both reports also show the intricate link between policymakers and regulators of the financial markets, even more stringent in the implementation phase of policymaking. So, with our research we also hope to add more depth in the comprehension of policymakers by experts.

[27] Priovska M, Stewart F., Dalhuijsen E., Sullivan R., Martindale W. (2022). HOW POLICY MAKERS CAN IMPLEMENT REFORMS FOR A SUSTAINABLE FINANCIAL SYSTEM PART I: A toolkit for sustainable investment policy and regulation. UN PRI. https://www.unpri.org/download?ac=12247

[28] Woodley M. (2021). Financing a more sustainable future. The Economist Intelligence Unit. Pillsbury, https://impact.economist.com/perspectives/sites/default/files/eiu_financing_a_more_sustainable_future_june_2021.pdf

b. Social relevance

Regarding the relevance of this paper and what may be its added value to social issues, we advance that the race to sustainability is crucial for the whole planet and all of its inhabitants. The protection of the environment, the fight against climate change and the recovery of biodiversity are urgent issues that must be endorsed by the political decision makers quickly if it has not been done yet. Scientific reports have been alerting the world and its governments of the urgency of climate change, biodiversity loss, air pollution, water shortages and others for years, but they have been even more alarming recently. The latest IPCC report, the AR6 Synthesis Report published in March 2023 has reiterated its previous warnings while emphasizing the damage already done to the planet, explaining that without quick and powerful action from the world's governments, such damage would mostly be irreparable. As a response to the six (in total) assessment reports provided by the IPCC since its creation in 1988, most governments have put forward transition plans with quantitative targets and limited timeframes. International events have been held continuously by some governments in attempts to position themselves as world leaders for a just, equitable and sustainable financing. The latest example is the June 2023's Summit for a "new global financing pact"[29], which endorsed an ambitious objective: to find a solution to reduce the inequalities and the increasing debts of developing countries while they are forced to face the harsh consequences of climate change, among other things[30]. The summit ended on the adoption, by the 30 countries that were present, of the Paris Agenda for People and the Planet[31], which accepts the necessity of a "strong financial stimulus"[32], both from public and private funds, to deliver on both social and environmental global objectives. This is coherently expressed in President Macron's speech for the summit, as follows:

"*We will take a major step, as we will start by establishing a new consensus. The fight against poverty, the decarbonization of our economy in order to achieve carbon neutrality by 2050, and the protection of biodiversity, are closely intertwined. We therefore need to*

[29] « *Le Sommet pour un nouveau pacte financier Mondial* » hosted by President Emmanuel Macron in Paris, France, from the 22nd to the 23rd of June 2023.
[30] Sadoun E. (2023). "Dette climatique : qui doit passer à la caisse ? ». L'OBS. https://www.nouvelobs.com/opinions/20230622.OBS74820/dette-climatique-qui-doit-passer-a-la-caisse.html
[31] Sommet pour un nouveau pacte financier mondial. (2023). Website. Ministère de l'économie, des finances et de souveraineté industrielle et numérique et Ministère de l'Europe et des affaires étrangères. https://nouveaupactefinancier.org/
[32] Idem.

agree together on the best means to address these challenges in the poor and emerging countries of the developing world, when it comes to the amount of investment, to comprehensive reform of infrastructure like the World Bank, the IMF, and public and private funds, and how to set a new process in motion" [33].

The reasons that motivate decision-makers to endorse or not the financing of sustainable projects, and the regulation of such financing are worthy of interest, as it can provide a better understanding of the stakes for all the field's actors (industries, NGOs, civil society…), but also for other policymakers regarding their foreign counterparts, while also levelling up the floor for leverage to influence decision-making that impacts the society and the world. From a private sector point of view, especially for Public Affairs teams, this allows for a global view of what is done and can help better apprehend the future, through a prospective perception of the issue. This might also help in explaining and comprehending the consequences some political decisions can have on the market, linking the regulatory and the political perimeter of the EU with its decision-making processes.

[33] Emmanuel Macron, President of the French Republic, during the Summit for a new global financing pact, June 22nd, 2023, https://nouveaupactefinancier.org/en.php

c. Contribution to political science theories

We decided to put the focus on policymakers as individuals, to study the choices they make and how they make them. We hope to improve the understanding of factors and their influence on the behavior of policymakers. As such, we first sought the input of the behavioralist approach, as it "assumes that political institutions largely reflect underlying social forces and [it believes] that the study of politics should begin with society, culture, and public opinion"[34], because it brings the individual at the center of political choice, by opposition to institutionalist theories that emphasize the role of institutions, their rules and historical decisions in current policymaking processes[35].

Behavioralism is an approach that started its development in the 1930's and originated from the United States. It revolutionized political sciences in the sense that it made the individual the center of attention and sought to understand political actions and decisions through what it aimed to be an unbiased and quantifiable method, effectively building upon natural sciences[36]. One of the most striking examples of behavioral studies is the analysis of elections and voting results. Such studies drew on voting results and the occasional notable shifts in voters' preferences to create concepts such as "party identification"[37], linking such feeling of attachment to various factors such as personal values, religion, social class, or region of origin. Behavioralism established sound research methodologies, mostly statistical, introducing the use of dependent (the topic of research) and independent (the possible explanation for the aforementioned) variables to explain political phenomena. Another important addition of behavioralism to political sciences resides in the use of cross-national data, popularized by Stein Rokkan and Seymour Lipset in 1967, in their quest to understand national political cleavages[38]. Cross-national comparison is an interesting tool

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[34] Roskin M. G. "*Behavioralism*", in *Britannica*, Politics, Law & Government, Politics & Political Systems. https://www.britannica.com/topic/political-science/Behavioralism

[35] Hoefer, R. Institutionalism as a Theory for Understanding Policy Creation: an Underused Resource. *J of Pol Practice & Research* **3**, 71–76 (2022). https://doi.org/10.1007/s42972-022-00059-0

[36] Guy, James John (2000). People, Politics and Government: A Canadian Perspective. Pearson Education Canada. ISBN 0-13-027246-9. For a more acute definition, Guy says in page 58 Guy, p. 58 "Behaviouralism emphasized the systematic understanding of all identifiable manifestations of political behaviour. But it also meant the application of rigorous scientific and statistical methods to standardize testing and to attempt value free inquiry of the world of politics... For the behaviouralist, the role of political science is primarily to gather and analyze facts as rigorously and objectively as possible."

[37] Campbell A., Converse P., Miller W., Stokes D. 1960. *The American Voter*.

[38] Seymour M. Lipset and Stein Rokkan, "Cleavage Structures, Party Systems, and Voter Alignments: An Introduction," pp. 1–64, in Seymour M. Lipset and Stein Rokkan (eds.), *Party Systems and Voter Alignments: Cross-National Perspectives.* New York, NY: Free Press, 1967.

that allows the researcher to study one or more variables across two or more countries, hence offering some insight in the differences that might exist across States, and why they might exist[39].

Behavioralism proposes tools, concepts and theories that fit with our objective of researching the factors that influence policymakers in their choices. We will hence consider these political decision-makers as individuals because we believe that knowing how they construct their preferences and which variables weigh more when they consider finance and sustainability might help us better understand the way sustainable finance policies and regulations are made, their meaning and consequences. As the words of Dwight Waldo rightfully express in his 1975's chapter from the Handbook of Political Science:

« *Political scientists, personally and collectively, should be more concerned with "values," with issues of justice, freedom, and equality, with political activity. In a period of stress, turmoil, and gross inequities, it is irresponsible to carry on "as usual" in academic detachment. At minimum, political scientists need to be concerned with issues of public policy and political reform; perhaps they should become engaged with issues of radical sociopolitical reconstruction* »[40].

Behavioralist is the footprint of the study of the individual. It was challenged, however, starting in the 1960's, both from external and internal critics, because of their over-emphasis on quantitative methods of researching, diving too deeply in mathematics in an attempt to bring the political sciences on an even step with natural sciences, which are built on complex empirical tools. For some of its detractors, this approach distanced the political scientists too much from the issues of the real world and the concerns of the people[41]. Human behaviors go beyond mathematical and chemical equations, and multiple factors that are more often than not far from quantifiable play a defining role in shaping them. The quest for neutrality in numbers undertaken by behavioralists resulted in the loss of understanding, consideration and touch with the reality and its political problems. For David Easton, a former advocate

[39] Thompson K. 2020. "Cross National Comparisons" in Sociological Concepts. Revise Sociology. https://revisesociology.com/2020/09/07/cross-national-comparisons/

[40] Waldo, D. (1975). "Political Science: Tradition, Discipline, Profession, Science, Enterprise", p.114 in Greenstein, Fred; Polsby, Nelson (eds.). *Handbook of Political Science*. Reading, Mass: Addison-Wesley. ISBN 9780201026092.

[41] Sarma H. "Post-Behaviouralism: Causes and Characteristics of Pots Behaviouralism". In *Preserve Articles*. < https://www.preservearticles.com/political-science/post-behaviouralism-causes-and-characteristics-of-post-behaviouralism/30554>

for behavioral studies and leader of the "post-behavioral revolution", "substance must precede technique"[42], and political science must not aim to be value-free, but instead embrace them: "[…] to understand the limits of our knowledge we need to be aware of the value premises on which it stands and alternatives for which this knowledge could be used"[43]. This revolution aimed to break the unspoken rule of thumb that political scientists, as their natural sciences counterparts, should not intrude in contemporary issues nor hold any judgmental analysis, confining themselves in the description and understating of social phenomena, without delving too much in their future. Dwight Waldo expresses this feeling as follows, in 1972:

"*Political science, and especially behaviorally oriented political science, it is charged, has been too much concerned with technique, too little with goals and values; too much concerned with science and too little concerned with society, with urgent public problems*"[44].

That is why we believe the present paper falls within the borders of post-behavioral studies. The topic of sustainable finance has been growingly tackled in the media, as legislative initiatives in both the EU and the US have been expanding, but also as scandals regarding greenwashing accusations have been under booming coverage and scrutiny. As we have mentioned earlier, and as is a globally accepted fact, climate change is the most important fight if humanity wishes to keep on existing, and all available tools must be put to use in this direction. Finance is one of them, but the coherence between public declarations and acts is not always granted, hence prompting controversies which in turn attract the public eye, for better or worst. Sustainable finance is one of the solutions considered by public authorities and private actors to answer the most urgent public (global) problem that is the degradation of the environment (as climate is only one side of the bigger picture). *The Great Green Investment Investigation*[45], whose results were published in November 2022, is a cross-border study project endorsed by nine European media, among which *El Pais* and *Le Monde*, with one aim: is the money of the so-called green funds really going to green companies?

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[42] Easton D. (1969). "The New Revolution in Political Science", p.1052 in *The American Political Science Review*, Dec., 1969, Vol. 63, No. 4 (Dec., 1969), pp. 1051-1061.
[43] P.1052 of Easton D. (1969).
[44] Wald D. 1972. "Developments in Public Administration", p.234 in *The Annals of the American Academy of Political and Social Science*, Nov., 1972, Vol. 404, American Higher Education: Prospects and Choices (Nov., 1972), pp. 217-245
[45] *The Great Green Investment Investigation*. 2022. Follow the Money, Investico, De Tijd, Borsen, Le Monde, Handelsblatt, El Pais, Der Standard, Luxembourg Wort, Luxembourg Times, IRPImedia.

They found that as of mid-2022, 4.18 trillion euros represented assets in European funds labelled as sustainable, which “amounts to the stock market value of Alphabet, ASML, Coca-Cola, Nestlé, Pfizer, Samsung, Shell, Toyota, Walmart and Walt Disney combined”[46]. A smaller portion of this amount[47] is invested in funds that have been labelled as Article 9, the greenest funds possible as per European legislation[48], and from those they managed to get data on, half invested in fossil fuel industries or in the aviation industry, sectors which are actively contributing to global warming[49] and cannot be considered green. Such results were shared in publications from the nine European media that contributed, and hence fueled further discussion and criticism on the subject. However, this is a study by financial reporters. Public action has made an even bigger impact in terms of coverage, as has shown the formal notice issued by three French environmental NGOs, *Notre affaire à tous*, *Oxfam France* and *Les Amis de la Terre*, against the first French bank BNP Paribas in October 2022 on the basis of its failure to comply with its duty of care obligation[50]. The NGOs expressed at that time that should the bank not comply with the law, they will sue it in what would be the world’s first climate liti gation without a State or an oil group involved. The motivation behind this action is expressed by Cécile Duflot, Director General of Oxfam France, as follows: "*BNP Paribas is responsible for the climate crisis, because it finances fossil fuels. Since the Paris agreement [on the climate, concluded in December 2015, at COP21], despite its great promises, France's leading bank has still not turned off the tap. We are convinced that the courts will help us to put an end to a hypocrisy that is becoming deadly*”[51]. As time would have it, the same group of NGOs found the bank’s answer to their accusations insufficient and have effectively taken legal action against it on 23 February 2023[52]. The investigation is still ongoing, but it made quite an impact, nonetheless, putting the financial sector at the heart of the green transition and the issues that stem from its implementation. October 2022 was an

[46] Idem.
[47] Amounting to 619 billion euros. *The Great Green Investment Investigation*. 2022.
[48] We will see more details below, but this stems from the EU SFDR, the Sustainable Finance Disclosure Regulation, which sets some transparency rules in terms of the definition of sustainable funds.
[49] In their methodology, they mention the specific definition they used to assess whether an investment was green or not: if it contributed to global warming, it could not be considered green. They have not incorporated other environmental or social factors. See “The Great Green Investment Investigation: Methodology”. 2022. Follow the Money. https://www.ftm.eu/ggii-methodology
[50] Mandard S. 26 October 2022. « BNP Paribas warned to stop financing fossil fuels and 'climate chaos' » in *Le Monde*. https://www.lemonde.fr/en/environment/article/2022/10/26/bnp-paribas-warned-to-stop-financing-fossil-fuels-and-climate-chaos_6001882_114.html
[51] Idem.

interesting month in that sense, as the HSBC bank was under fire from the United Kingdom's Advertising Standards Authority regarding misleading posters hiding the bank's contribution to fossil fuel companies under their green investments, effectively banning their use[53]. As such, the topic of sustainable finance can be considered an urgent public problem, and its relationship with policymakers an issue worth analysing under the post-behavioural theory.

As this paper is based on the assumption of notable differences in the acceptation of sustainable finance as an urgent matter between US policymakers and EU policymakers, we need to have a framework that allows us to build some comparison between them, with respect to both their stance on the topic and the factors that incentivize them. Cross-national analysis will provide us with information that may contribute to a better apprehension of reasons behind the contrasted adoption or rejection of sustainable finance ideas between the European Union and the United States. As Scott Arnell explains in an article for Forbes in April 2023[54], the ESG part of sustainable finance is attracting growing support from investors in both markets, however the EU has been leading both on the worldwide market with assets under management (AUM) representing half of the global assets in ESG investments in 2021[55], and in the overarching regulatory environment with the Commission's proactivity in terms of sustainable initiatives and the European Parliament's votes on requirements in terms of targets, transparency and transition plans for both countries and companies. The US policymakers have appeared to be more cautious, even reluctant, to adopt laws that would set national targets to mitigate climate change or to promote investments that respect and protect the environment, despite the national market observing the biggest growth in ESG assets as of 2021[56]. Both markets have some specificities, notably in the legislative processes, however they are still quite similar, especially given that both have the same degree of development and comparable structures, so the apparent strong ESG backlash that is observed in the US makes for an intriguing event, even more so considering

[53] Madelin T. 19 October 2022. « Greenwashing : HSBC accusé d'avoir trompé les consommateurs au Royaume-Uni » in *Les Echos*. https://www.lesechos.fr/finance-marches/banque-assurances/greenwashing-hsbc-accuse-davoir-trompe-les-consommateurs-au-royaume-uni-1870928

[54] Arnell S. (April 11, 2023) ESG Headwinds: Embraced In Europe, Under Fire In America in Forbes. https://www.forbes.com/sites/forbesfinancecouncil/2023/04/11/esg-headwinds-embraced-in-europe-under-fire-in-america/

[55] Bloomberg Intelligence. 2021. "ESG assets may hit $53 trillion by 2025, a third of global AUM. Bloomberg Professional Services. https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/

[56] Idem.

the possibility it might spread from the US to the EU following the next elections. A cross-country analysis embedded in behavioral concepts will also provide us with some basis to navigate the current status quo of sustainable finance in both legislations, and to conceive some conjectures as to what it could became, given that sustainable investing seems here to stay as pressure to face environmental changes and endorsement of sustainable goals[57] is increasing.

One final consideration that supports our topic of research is the fact that most studies on sustainable finance consider the impacts and consequences on companies, avoiding to tackle the decision-making process from the point of view of policymakers. While such studies present great interest and meaningful insight for finance professionals or investors, they fail to bring light to the political debate brewing in the institutions. When we wrote key words such as "sustainable finance" or "ESG" in a browser's searching bar for academic papers, the first that appeared on the page studied firms. For example, one consisted of a comparative study on the effects of ESG disclosures on a firm, drawing from the institutional theory and comparing the consequences of Denmark's framework to Malaysia's and whether ESG scores impacted financial performances[58]. Another study that was high in the list focused on controversies regarding ESG factors, aiming to provide a map of such scandals to help investors make sounder decisions, and to assess which factors were higher drivers of such controversies[59]. With respect to "sustainable finance", most articles that pop up aim to review the literature defining a sustainable investment[60], to understand how Corporate Social Responsibility (CSR) interacts with sustainable finance[61], or to explain the changes in

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[57] According to a PwC Luxembourg survey from June 27, 2022, with 3,354 respondents form the European asset management industry, "72% of asset managers are willing to halt all non-ESG product launches" and "66% of European Institutional Investors plan to stop investing in non-ESG funds […] by end-2023". PwC Luxembourg. 2022. *The ESG Opportunity in Europe*. https://www.pwc.lu/en/press/press-releases-2022/european-esg-interactive-dashboard.html

[58] Atan R., Razali F. A., Said J., Saunah Z. 2016. "Environmental, social and governance (esg) disclosure and its effect on firm's performance: a comparative study" in the *International Journal of Economics and Management* 10 (S2): p. 355 -375.

[59] Passas, I.; Ragazou, K.; Zafeiriou, E.; Garefalakis, A.; Zopounidis, C. "ESG Controversies: A Quantitative and Qualitative Analysis for the Sociopolitical Determinants in EU Firms". *Sustainability* 2022, 14, 12879. https://doi.org/10.3390/ su141912879

[60] De Souza Cunha F., Meira E., Orsato R, (2021). Sustainable finance and investment: Review and research agenda in Business Strategy and the EnvironmentVolume 30, Issue 8 p. 3821-3838. https://doi.org/10.1002/bse.2842

[61] Liang H., Renneboog L. 2020. Corporate Social Responsibility and Sustainable Finance: A Review of the Literature in European Corporate Governance Institute – Finance Working Paper No. 701/2020. http://ssrn.com/abstract_id=3698631

financial management needed to correctly assess the risks linked to sustainability goals[62]. Michel Aglietta has also chosen to explore the subject through the companies' governance and the best way for it to be efficient while achieving the transition towards a green economy[63], and while it explicitly mentions some European policies and international initiatives such as the IFRS, it does not aim to understand the process that created them. As such, we are convinced this paper can provide some introductory findings pertaining to the interaction of sustainable finance in the political field, and complete the existing research that considers economic, financial, and managerial arguments.

In this chapter, we have explained the reasoning behind the choice of our subject, and why it is relevant both for political science and the society. We have referred to the political theories and tools that have shaped our research, and that have defined the scope we decided to adopt when analyzing the topic of sustainable finance in politics. We will now draw from this part to detail the design of research we have used.

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[62] Al Muhairi M.M., Nabanee H. 2019. Sustainable Financial Management. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3472417

[63] Aglietta, M. & du Tertre, R. (2022). IV/ Quelle gouvernance d'entreprise pour la transition énergétique et écologique ?. Dans : CEPII éd., L'économie mondiale 2023 (pp. 55-69). Paris: La Découverte.

d. Research design

Given the nature of the internship that fueled our interest for the topic at hand, we have had the chance to attend several conferences on the various possibilities and evolutions of sustainable finance and its regulation. The panelists ranged from professionals of the finance industry to parliamentary members, going from ONG representatives and sustainability experts to regulatory agencies. As such, we believe that this makes for interesting study material, as it is almost exclusive content gathered from a first-person perspective. We have also had the opportunity to conduct an interview with a representative of a professional association for the asset management industry. We will hence incorporate some of the meaningful insight such an expertise has provided us with. Since we have decided to follow the post-behaviouralist dogma, we think that a qualitative approach will be the best fitted option to provide a deeper understanding of policymakers' reasoning.

The present research has, however, some important limits and constraints. Firstly, we must consider the short amount of time we disposed of to define our topic of interest, which needed to find its roots in our internship, to research it and structure our findings accordingly. As such, the material we have been able to work with is quite limited itself. Secondly, despite being the subject of our curiosity, given the finite network we have access to, it proved impossible for us to get in touch with policymakers involved in the debate surrounding sustainable finance. We have hence referred to other sources of information, sometimes from third parties, but collected directly without interference. The transcript of the material used (namely an interview and conferences) can be accessed through the annexes. We will also integrate the personal analysis we have conducted during our missions as an intern, regarding topics and issues relevant to sustainable finance.

i. The variables and hypotheses

Understanding the interaction between politics and finance can prove to be quite tricky, because despite their complex linkages, there is a variety of factors that interact in between the two areas but also outside of them. Finance especially, due to its nature, is at the crossroads of different sectors, both public and private, and hence needs to compose with the demands and rules of all. In our quest to better grasp the intricacies of sustainable finance policies, we have defined our <u>dependent variable</u> as the position decision makers adopt towards sustainable finance, first in a general manner, second in a more specific way when it comes to sustainable finance regulation.

Following our review of literature, of media coverage and the knowledge we developed through our internship, we have come up with several independent variables, that may bear an influence on policymakers' behaviour towards sustainable finance. Their importance will be subject to the outcomes of our interview and of the conferences we attended.

1. Public opinion (consumers, employees and stakeholders in corporations)
2. Media (corporate scandals, importance of reputation)
3. Regulators' proactivity (notably in the EU, or ie the SEC's forthcoming climate disclosures)
4. Partisan belonging
5. Financial industry lobbying
6. Energy independence/ Strategic and economic autonomy
7. Ecology, fight for climate-change/ Respect of human rights
8. Importance given to scientific methodologies and claims (i.e. the last IPCC[64] report)

Our hypotheses are based on the aforementioned variables:

1. If public opinion has voiced support for sustainability in finance, decision-makers will support sustainable finance regulation.
2. The more conservative/right-wing a decision-makers is, the less they will support sustainable finance regulation.
3. If media coverage of corporate scandals regarding environmental, social, or governance controversies has been strong, decision-makers will support sustainable finance regulation.
4. The more national regulators adopt a proactive stance towards sustainable finance regulation, the more likely decision-makers will endorse it.
5. The more stringent financial industry's lobbying is, the more likely targeted decision-makers will support sustainable finance regulation.
6. The more a country is dependent on another country for energy, or the more reliant its GDP is on energy production, the less likely decision-makers will support sustainable finance regulation.

[64] Intergovernmental Panel on Climate Change, March 2023 <https://www.ipcc.ch/report/sixth-assessment-report-cycle/>

7. The more a government advocates for the preservation of the environment and/or the respect for human rights, the more likely decision-makers will support sustainable finance regulation.
8. The more a government gives importance to scientific claims, the more likely decision-makers will support sustainable finance regulation.

We believe such hypotheses make for an adequate guide for a deeper understanding of the policymaking process when it comes to sustainable finance. They are quite numerous, and all will not be treated equally depending on the answers the interviewee has given us but taken together they can shape a first picture mapping the formation of sustainable finance policies.

ii. The guide of interview

At the beginning of our reflection process, we thought that interviews would be the most effective way to gather evidence on behaviors, as such cannot be fully expressed through numbers. Indeed, interviews provide more depth, they hold a sense of familiarity as if sustaining a daily conversation and are flexible and dynamic in nature. We had hoped to interact with around four people, drawing on the connections we gained through our internship. It proved to be quite difficult however, and only one person was able to make some time for us. To get a more in-depth understanding of the reasons that push political actors to be for or against sustainable finance in the law, we have opted for a semi-structured interview design, as this type of interview allows the discussion to feel more natural, and to evolve in a fluid manner. It also often leads to new topics, hence going further than what the literature review has highlighted. As we have had only one interview, the "semi-structured" characteristic is not obvious, however it is what we aimed for, and as Piergiorgio Corbetta rightly expressed in 2003, "*this way of conducting the interview gives both the interviewer and the respondent ample freedom, while at the same time ensuring that all the relevant themes are dealt with, and all the necessary information collected*"[65]. This guide ensures the reproducibility of the interview, shall the need arise.

The interview was hence structured around two main themes:

[65] Corbetta P. 2003. *Social Research: Theory, Methods and Techniques*. SAGE Publications. ISBN 0 7619 7252 8. p.270

- **How salient sustainable finance issues are** in the country/perspective of the respondent, which ESG topic is the most controversial and why?
- **What is the opinion of the politicians towards the aforementioned sustainable finance topics**, and what are the **reasons**, according to their understanding and expertise, of such a positioning?

Through this interview, we aimed to understand why sustainable finance appears to be such a hot topic in the EU, with numerous legislative initiatives that are quite broadly supported by the Parliament members, while it is such a controversial issue in the US, with vehement and vocal opposition forming. When the financial markets are so intertwined with each other that they became global, one can wonder what variables can explain such stark contrasts.

<u>Who to interview</u>?

In an attempt to propose some answers, we focused on experts from professional associations, who possess a comprehensive understanding of the topic across the markets, playing the role of a bridge between financial professionals on one hand and policymakers on the other. We had elected to ask a representative of a US professional financial association, a political sciences teacher with a focus on sustainability, a think tank member and an expert close to decision-makers. We ended up with detailed information from a representative of a global financial association with close ties to European policymakers and institutions, effectively covering the full scope of our topic. To respect the interviewee's integrity, we have chosen to protect their identity under anonymity, with their consent. We have also been able to record the exchange, ensuring the precision, clarity, and exactitude of the given answers. We had never interacted with the interviewee before, so there were no biases in this regard, however, considering the missions we undertook during our internship and the consequent analysis, there might have been a bias with respect to the phrasing of some questions, despite our best efforts to avoid it.

<u>Questions:</u>

Our questions were organized around the two aforementioned main themes, with a part that focused on the factors and their weights in the policymakers' thought process.

1. Can you tell us who you are, what post are you occupying and what area do you cover?

I) How to define sustainable finance? Are there different understandings of the topic?

2. What is the definition of sustainable finance, according to you?
3. How has the topic of sustainable finance been treated in your country? Has it been a politically salient issue?

II) State of play: where does sustainable finance stands in policies and legislation?

4. Could you explain a bit to use the current state of play relevant to your country? What stringent regulations are already in place in terms of sustainable financing and ESG investing?

What are the upcoming pieces of legislation/initiatives in ESG, if any? III) Political stakes of sustainable finance.

5. According to you, why do political actors (understood as decision-makers, policymakers) are against, or in favor, of ESG regulation in finance?
    a. Follow-up: Our research has helped us identify a few factors that could be relevant, do you agree? Can you think of more relevant variables?
        i. Public opinion (consumers, employees and stakeholders in corporations)
        ii. Partisan belonging
        iii. Media (corporate scandals, importance of reputation)
        iv. Regulators' proactivity (notably in the EU, or ie the SEC's forthcoming climate disclosures)
        v. Financial industry lobbying
        vi. Energy independence/Strategic and economic autonomy
        vii. Ecology, fight for climate-change/Respect of human rights
        viii. Importance given to scientific methodologies and claims
6. Why are the pieces of legislation and policies promoting (or opposing) sustainable finance are only now being the focus of policy-makers' attention? And why is it divisive now, when in the 2015 COP in Paris almost everyone seemed to agree that environment protection was the most important cause? (ex: CS3D in the EU is only now being voted on, but the Razza disaster happened in 2014…)

7. More relevant to the US: After President Trump retired from the Paris Agreement, and President Biden brought it back in, why is the topic of sustainability coming back, is it related to a new awareness of political actors?

IV) The future of sustainable finance?

8. What do you see happening to sustainable finance regulations and initiatives in the future? Do you believe it will continue to grow? Or do you think some violent criticism (in the US…) can make it lose its attractiveness to investors and financial actors? For example, do you see a race to protectionism in sustainable innovative sectors (cf the US IRA, the EU Green Industry Act…)? Will the industry's practices be determinant, even faced with political opposition?

Through this interview, we hoped to tackle the reasons behind the observed difference of position regarding sustainable finance depending on the region, and our hypotheses will – or not – provide a suitable explanation for it. We have also opted to inquire about the future of our topic, seeing as elections are approaching in both the US and the EU, and that a change of paradigm is a reasonable possibility. While it is not the main theme of this paper, a more sustainability-oriented finance is embedded in conjectures for the future and is hence of an ever-evolving nature.

iii. The conferences and the analysis of political discourse

As we have mentioned earlier, additional material will be in the shape of conferences we have had the opportunity of attending, with some interesting and worthy input from political actors, financial professionals, and academicians; but we will also consider some policies in the field that interests us here, to keep a global view of the issue. The conferences are divided into two distinct events, one panel being from the Paris Europlace that was held in July 2023, and four panels were taken from a roundtable held in the College des Bernardins in Paris, in June 2023. As the post-behaviouralist approach acknowledges the importance of values and ideas in political science, discourse analysis appears as a designated tool to grasp the meaning of such ideas, as blurry they may be. Taking a qualitative approach to such analysis also seems to be the most adequate strategy, considering the overall direction we have taken with this paper[66]. Indeed, we are convinced that the quality of the understanding superseded the quantity of interviews or of discourses, because values exist outside of numerical explanations. As such, we define discourse as a combination of two views that find their roots in the post-structuralist theories of philosophy and linguistics. On one hand, we consider discourse as "*an ensemble of ideas, concepts, and categories through which meaning is given to phenomena. Discourses frame certain problems; that is to say, they distinguish some aspects of a situation rather than others*" (Hajer, 1993, p.45)[67]. On the other hand, we believe that the more customary meaning behind the word is also worth considering, as it includes the notions of "discussion or debate, as in a formal or political argument"[68], which are particularly fitting when analysing sustainable finance policies and regulation across jurisdictions with different approaches to the topic.

To ensure sound interpretation and analysis, we will refer to some of the main angles developed by Des Gasper and Raymond Apthorpe in their chapter on discourse analysis and policy disclosure in *The European Journal of Development Research* of June 1996. We will hence focus on the concepts that may or may not be recurring in the discourses and policies, on both sides of the Atlantic, trying to highlight the words that are most used or repeated, and whether they seem to mean the same thing across the arguments. We will also consider how the issues and questions surrounding sustainable finance have been framed throughout speeches and media releases, to understand which, if any, aspects have been distinguished in opposition to others (Hajer, 1993)[69]. We will also try to stress the possible stories or narratives used in political discourses around sustainable finance, as it is usually a common tool for political actors to make their opinion more easily comprehensible to a larger public. We will include the use of comparisons or associations of ideas in this angle, as we have seen it used by detractors of sustainable finance to make their statement more impactful. Finally, a smaller part of our analysis will aim to highlight the interpretative gap that may

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[66] Sgier L., Blanchard P., Exadaktylos T. 2015. *Analysing political discourse: confronting approaches*. Endorsed by the ECPR (European Consoritum for Political Research) Standing Group. https://ecpr.eu/Events/Event/SectionDetails/461#:~:text=It%20has%20gained%20considerable%20momentum%20over%20the%20last,Gender%20Equality%20in%20the%20European%20Union%29%20amongst%20others.

[67] Hajer, M., 1993. Discourse Coalitions and the Institutionalization of Practice. Pp.43-76 in F. Fischer & J. Forester (eds.).

[68] Cambridge Dictionary. Meaning of discourse in English. Cambridge Dictionary website. https://dictionary.cambridge.org/dictionary/english/discourse

[69] Hajer, M., 1993. Discourse Coalitions and the Institutionalization of Practice. Pp.43-76 in F. Fischer & J. Forester (eds.).

exist in some policies. Indeed, despite policymakers' best efforts to limit interpretation to a minimum, some sentences and requirements may lack clarity and an interpretation might be needed. While choosing to endorse one interpretation rather than another does not mean it is the best one, it is sometimes necessary to grasp the meaning behind legislative initiatives. In following such a framework, we think we can correctly stress the importance of values in policymaking, and to what degree they hold influence over it. This is expressed in Louise White's third perspective regarding discourse analysis: "*Because preferences are always being interpreted and because they can and do change, [policy] entrepreneurs are not limited to traditional brokering roles, but can and do trade in the currency of ideas and problem solving strategies to build coalitions and promote change. The lesson is that political conflict is less about negotiating clear interests and more about framing policy issues*" (White, 1994 p.516).

We hope such research design will allow us to dive deeper in the role of values and the reasoning behind policymakers' opinions on sustainable finance, and that it might also help us shed some light on the divergence between the United States and the European Union on the topic. Again, we are aware this choice of perspective presents its limits, even more so given our time constraint and the difficulty to gather evidence which have affected our ability to create a more rigorous and systematic framework. As it stands however, and as an introductory study on the analysis of policymakers' choices towards the regulation of sustainable finance, we believe it will provide some meaningful insights that can form the basis of subsequent studies, either through interviews and discourse analysis, or through other methods that could fall within the quantitative research theories.

Now that we have presented the paradigms that will accompany us in shaping our analysis, we can use them in practice and confront our hypotheses with the reality of the field, through the policies that are already implemented or that were at least adopted.

II) State of play: what already exists in terms of sustainable finance regulation, and why is it challenged?

The financial sector has been through a considerable regulatory process since the 2007-2008 crisis, with an especially strong focus on the banking system and the overall resiliency of the market[70]. Transparency and risk management have been key words for policymakers ever since, and it is shown quite clearly in the panel of regulations that the European Union's institutions have designed throughout the years, and also in that of the United States, albeit less binding in essence. In this section we will provide an overview of the existing regulation, the processes to get there and the role each of our independent variable may or may not have had on decision-making.

As our interviewee mentioned, "*the EU and the US come from different places and have travelled a different journey*" regarding responsible finance, "[…] *and the EU has clearly sought a leadership role*"[71].

a. The European Union and its sustainable finance strategy

The European Commission 's first official action plan on sustainable finance was adopted in March 2018, almost two years after it instituted a High-Level Expert Group on sustainable finance and three years after the adoption by its Members States of the Paris Agreement and the UN 2030 Agenda for Sustainable Development (both in 2015). It is structured around three main goals, that are expressed as follows:
"1. Reorienting capital flows towards sustainable investment in order to achieve sustainable and inclusive growth;
2. Managing financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and

[70] Sironi A. 2018. The evolution of banking regulation since the financial crisis: a critical assessment. In BAFFI CAREFIN Centre Research Paper No.2018-103. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3304672
[71] See Annex 1.

3. Fostering transparency and long-termism in financial and economic activity"[72].

As we can see, risk-management and transparency are explicitly mentioned, and the Commission has chosen to support sustainable investment, hence promising to provide tools and guidelines for the industry to adapt its practices without having to sacrifice economic growth and savers' returns. Three months after the structuration of its agenda on the topic, the Commission proposed a comprehensive legislative package that followed the three aforementioned objectives, with some proposals aiming to amend existing regulation and others hoping to create a whole new piece of law. Valdis **Dombrovskis**, Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union, presented the package in these words: *"We should put our money into projects that are compatible with our decarbonisation objectives and the fight against climate change. This is important for the environment and the economy, but also for financial stability. Between 2007 and 2016, economic losses from extreme weather disasters rose by 86%. The proposals presented today show that the European Union is committed to ensuring that our investments go in the right direction. They are about harnessing the vast power of capital markets in the fight against climate change and promoting sustainability"*[73]. There is a clear focus on climate change in this speech, and behind the expression of "decarbonisation objectives" lies the shadow of the Paris Agreement. It is also interesting to note here that the quantified argument he uses seems to appeal primarily to market participants and investors, but not necessarily to the broader European public, as if to justify the need for a greener finance not only because of ethics and moral, but for the sake of financial returns. Will we see such narrative in other policymakers' discourses?

We also need to keep in mind that the EU's policymaking process can be quite complex, with the organization of its regulatory power divided among three bodies: the Commission that proposes legislation, the European Parliament and the Council of the European Union whose members vote on the adoption (or rejection) of a law, as well as on the budget of the Union. In general, people aiming to influence the content and the

[72] European Commission. (March 2018). Communication from the Commission. Action Plan: Financing Sustainable Growth. COM/2018/097. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097 and summary of the Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth on the Commission's website. https://finance.ec.europa.eu/publications/renewed-sustainable-finance-strategy-and-implementation-action-plan-financing-sustainable-growth_en

[73] European Commission. (2018). Sustainable finance: Making the financial sector a powerful actor in fighting climate change. Press release. https://ec.europa.eu/commission/presscorner/detail/en/IP_18_3729

implications of a legislation set their sights on members of the EP or Commissioners, as they hold a great power over the wording of the texts. They are also usually more accessible and open to the input of both the civil society and the industry. We can now investigate the different policies that are included in the EU's strategy and look at their content in order to gather the key strategic points which might be related to the factors we mention in our hypotheses. In its response to the issue regarding the ways to ensure a smooth reorientation of capital flows towards the financing of projects that contribute to a more sustainable world, the Commission proposed various legislative texts that were gradually adopted by the European Parliament. We will go over the most important ones, their content and their objectives.

i. Taxonomy

The Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment[74], commonly referred to as the EU Taxonomy, is often considered the foundation stone of the sustainable finance framework. The EU Taxonomy provides to the market a classification of economic activities considered as environmentally sustainable. In addition, the EU Taxonomy Regulation adds disclosure requirements to financial institutions and corporates that publish a non-financial reporting both at entity-level and product-level. The reporting requirements have been finalized in 2021. The categories were created through a set of criteria depending on the types of goals to follow for the enhanced protection of the environment and the planet.

The criteria in relation to the climate objectives have been determined, along two nominations: Climate Change Mitigation (CCM) and Climate Change Adaptation (CCA). CCM refers to an economic activity that reduces or enhances the removal of greenhouse gas. CCA refers to an activity that reduces or prevents adverse impacts on climate. Criteria for an acute categorization of economic activities with respect to other environmental objectives such as water and marine resources protection, circular economy and waste prevention, pollution prevention and control and protection of healthy ecosystems (biodiversity), were adopted through a Delegated Act in June 2023.

[74]Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088. EUR-Lex. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852

ii. EU Green Bonds

In the words of the World Bank, a green bond is "a debt security that is issued to raise capital specifically to support climate-related or environmental projects"[75]. A provisional agreement was reached in February 2023 on a European standard for this type of bond, which states that all the income from green bonds that fall under the requirements for the EU Green bonds categorization must be used to finance economic activities that are contained within the taxonomy framework[76]. In the speech given by the Commissioner for Financial Services for the occasion, Mairead McGuinness, there is a clear intent to put the EU in a leading position on the topic, and to encourage the transition of all sectors of the industry: *"Led by Europe and European issuers, the green bond market is growing into an important source of funding for companies that need to fund large-scale climate-friendly investments, such as renewable energy, clean transportation, and energy-efficient buildings"*[77]. Sustainable finance seems to be fully endorsed by the European Commission.

iii. MiFID II

MiFID II is the second Markets in Financial Instruments Directive, adopted in 2014 after a thorough assessment of the first directive. It sets rules and principles for the performance of activities in financial markets and investment services. Its ESG delegated acts, published in 2021, describe how ESG preferences need to be taken into account in the client relationship (suitability assessments and the product governance). They create new sustainability requirements into the assessment of suitability required in the MiFID II framework for any type of investment advice and portfolio management provided to retail clients (and professional clients where relevant)[78]. Banks being the main intermediary for retail clients, the new requirements impact them primarily. They need to collect client's ESG preferences that can be expressed according to 3 categories:

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[75] The World Bank. (2015). *What are green bonds (English).* Washington, D.C. : World Bank Group. p.23 http://documents.worldbank.org/curated/en/400251468187810398/What-are-green-bonds

[76] European Council. (2023). Sustainable finance: Provisional agreement reached on European green bonds. https://www.consilium.europa.eu/en/press/press-releases/2023/02/28/sustainable-finance-provisional-agreement-reached-on-european-green-bonds/

[77] Mairead McGuinness. (01.03.2023). Sustainable Finance: Commission welcomes political agreement on European green bond standard. Daily News of the European Commission. https://ec.europa.eu/commission/presscorner/detail/en/mex_23_1301

[78] Deloitte. (2022). ESG mandates for UCITS, AIFs, and MiFID Investment Firms. https://www2.deloitte.com/mt/en/pages/financial-services/articles/alerts/2022/mt-fsi-alert-22-03-ESG-mandates-for-UCITS-AIFs-and-MiFID-Investment-Firms.html

a) The client determines a minimum proportion of investments aligned with the Taxonomy,
b) The client determines a minimum proportion of investments considered as "sustainable investments" under SFDR,
c) The client determines qualitative or quantitative elements demonstrating that the product takes into account principal adverse impacts on sustainability factors[79].

Once the sustainability preferences of clients have been collected, distributors are required to match those preferences with their ESG product offering.

The operationalization of the new rules, and in particular the standardization of the data needed by distributors from producers, was undertook by an industry-led association (FinDatEx). The outcome of this work materialized in the European ESG Template (EET): an excel file of 600+ data fields (mandatory + optional) was completed by producers by June 2022 to provide distributors with sufficient implementation time.

This text is mostly dedicated to the protection of investors, and less on motivating companies to endorse ESG criteria by themselves, as compared to the other pieces of legislation. Current discussions are held regarding the introduction of a consolidated tape for enhanced transparency on the use of financial instruments[80].

iv. BMR

A benchmark is an important tool used in finance to measure the performance of an investment against a standard of similar investment types[81]. As part of the Commission's action plan on financing sustainable growth, a review of the Benchmark Regulation (EU) 2016/1011[82] was considered, and the Regulation (EU) 2019/2089[83] amended it in order to

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[79] COMMISSION DELEGATED REGULATION (EU) 2021/2616 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms. EUR-Lex. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM:C(2021)2616

[80] Think Tank. (2023). Amendments to MiFID II and MiFIR: The EU's markets in financial instruments. European Parliament. https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733546

[81] Chen J. (2022). Benchmark: what it is, types, and how to use them in investing. Investopedia. https://www.investopedia.com/terms/b/benchmark.asp

[82] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014. EUR-Lex. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32016R1011

[83] 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. EUR-Lex. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2089

add provisions and rules regarding benchmarks aligned with the Paris Agreement's objectives and ESG criteria[84]. Here again, the aim was to enhance the transparency of disclosures regarding sustainability-related themes, to ensure the quality of information given to investors and its verifiability. Benchmarks and ratings play a considerable role in the attractivity of funds that are labelled as sustainable, and their regulation is quite a hot topic in the field, with calls from the industry to establish transparency and disclosure requirements for these agencies as well.

The Commission has also issued proposals for a better management of financial risks linked the degradation of the environment.

i. SFDR[85]

SFDR is the Sustainability-related disclosures in the financial services sector directive, adopted in 2019. It requires asset managers to disclose ESG-related information at entity-level and at product-level (precontractual & periodic documents, website). Due to the many operational challenges raised by financial institutions, the European Commission has published different sets of Q&As, guidelines, statements etc. and announced more are yet to come. However, national regulators are in the meantime also facing questions from market participants that can lead them to take positions that are not aligned with EU authorities or other national regulators. The directive established the PAIs, which stands for Principal Adverse Impacts, which is designed to help investors assess the way sustainability risks and impacts are included in the decision-making process of the company they wish to invest in. SFDR also provides, for the first time, a clear legal definition of what constitutes a sustainable investment: it "*means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators […], or an investment in an economic activity that contributes to a social objective […], provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices […]*"[86]. This definition hence

[84] European Commission. (2020). EU labels for benchmarks (climate, ESG) and benchmarks' ESG disclosures. https://finance.ec.europa.eu/sustainable-finance/disclosures/eu-labels-benchmarks-climate-esg-and-benchmarks-esg-disclosures_en

[85] 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. EUR-Lex. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R2088&qid=1692377690592

[86] SFDR, Article 2.17.

recognizes each characteristic of ESG, namely the environment, social issues and governance.

ii. CSDDD

On 23 February 2022, the European Commission published a proposal for a new EU directive on Corporate Sustainability Due Diligence (CSDDD). Once adopted, the directive CSDD will require Member States to adopt or adapt their own corporate Due Diligence law: in France for example, the "devoir de vigilance" law adopted in 2017 will need to be amended. The new proposal aims at creating a legal framework requiring companies (including financial institutions) to identify and mitigate risks in their value chains linked to human rights and environmental adverse impacts. The directive will impose the implementation of due diligence policies (including new legal clauses to be added to contracts with business partners, and the inclusion of transition-related criteria into directors' variable remuneration) and creates a new liability for financial institutions. This directive was put forwards as a response to recent scandals like the forced labor of Uyghurs in China, among others. Both EU and non-EU large financial institutions would be subject to the new directive. A consensual position on the text was adopted by the European Parliament in Aprils 2023, but it has yet to be approved by the Council. Following this decision, the French MEP Raphael Glucksmann posted the following message on his LinkedIn page: "*A historic victory! It's done: the legislation aimed at making multinationals like Nike and SHEIN responsible for environmental destruction and human rights violations in their production chains has just been adopted by the European Parliament. After more than three years of mobilisation and struggle, this is a huge victory for human rights, social rights and the environment*"[87]. We can here see that human rights and the protection of the environment seem to be the motivators for this MEP who is part of the S&D (Progressive Alliance of Socialists and Democrats, center-left) group in the EP.

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[87] Translated from the French: « Victoire historique ! C'est fait : la législation qui vise à rendre les multinationales comme Nike ou SHEIN responsables des destructions de l'environnement et des violations des droits humains sur leur chaîne de production vient d'être adoptée par le Parlement européen. Après plus de trois ans de mobilisation et de lutte, c'est une victoire immense pour les droits humains, les droits sociaux et l'environnement.» Raphaël Glucksmann, June 2023. https://www.linkedin.com/posts/raphaelglucksmann_victoire-historique-cest-fait-la-l%C3%A9gislation-activity-7070033578377519104-6PxH?utm_source=share&utm_medium=member_desktop

Finally, in its last aim to foster transparency in the financial sector, the Commission has proposed one central piece of legislation:

i. CSRD

The Corporate Sustainability Reporting Directive reviews the former Non-Financial Reporting Directive (NFRD)[88] and proposes to develop a standardized non-financial reporting standard for European and non-European entities. With the CSRD, the European Union intends to strengthen the current EU rules (NFRD) on non-financial reporting in adopting a comparable standard applicable to EU and non-EU companies above a certain size. The NFRD indeed increased transparency from large entities regarding their non-financial performance, but the lack of standardization of the reporting impedes comparability. The new reporting standard was developed in 2 phases:

- Political and high-level principles are developed in the document of the CSRD itself, with its publication in the OJUE in December 2022.
- The technical standard is being developed by EFRAG in parallel. After multiple consultations with the public and the national agencies, it was adopted in its final version by the Commission in July 2023. It will apply to all companies according to a chronological implementation phase. The sector-specific standards are expected to be developed in a later stage.

One of the key challenges for the European authority was to build a standard that will be usable by companies while ensuring international convergence with other standardization projects launched (including the international standard project launched by ISSB beginning of 2022 or the GRI[89]). A form of coordination between the different entities responsible for the development of the standards was hence necessary and appears to have been quite successful.

The following figure summarizes the strategy of the Commission regarding sustainable finance and the ways it will take to implement it.

[88] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. (2022). EUR-Lex. https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2022%3A322%3ATOC&uri=uriserv%3AOJ.L_.2022.322.01.0015.01.ENG

[89] European Commission. (2023). The Commission adopts the European Sustainability Reporting Standards. https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en

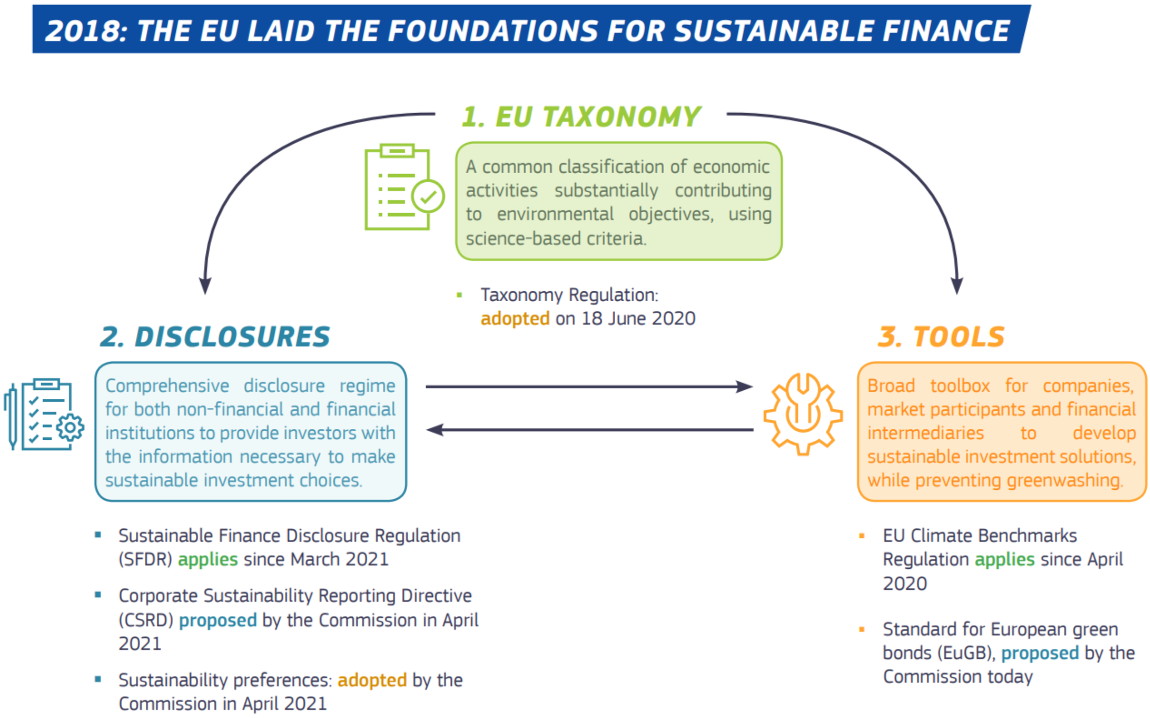

Figure 1. The EU Foundations for Sustainable Finance. European Commission. 2021. EU Sustainable Finance Strategy, p.1.[90]

We have tried to provide an overview of the most impactful legislative texts and initiatives making the Commission's agenda regarding sustainable finance in the EU. While it is not an exhaustive list, it does show the extreme focus of the EU on regulating the finance sector and the sustainability-related goals and plans. The political will appears clearly enough, and it is an attempt to position the EU as a global leader in the field, some going so far as to call it and "ESG powerhouse"[91], with proactive and ambitious proposals and standards (and an underlying hope that such standards will be the blueprint to follow in other parts of the world). According to an article from the International Financial Law Review's website, "*the EU has the most stringent ESG reporting regime among the jurisdictions mentioned in this article in terms of breadth, coverage, and assurance*"[92]. A rather opposite

[90] European Commission. EU Sustainable Finance Strategy. (2021).
https://finance.ec.europa.eu/system/files/2021-07/210706-sustainable-finance-strategy-factsheet_en.pdf
[91] Byrne D. (2022). The ESG landscape in Europe. Corporate Governance Institute.
https://www.thecorporategovernanceinstitute.com/insights/news-analysis/the-esg-landscape-in-europe/
[92] Chong J., Tang Y., Gao I. (2022). Development of ESG in capital markets: global trends to watch. International Financial Law Review's website.

phenomenon can be observed in the United States, with strong criticism from conservative policymakers who deem the movement "too woke"[93]. We will now see if such a statement is true, and to what extent, in order to better understand the arguments behind the decisions of US policymakers.

https://www.iflr.com/article/2apuokth6p513om2qe1a8/sponsored/development-of-esg-in-capital-markets-global-trends-to-watch

93 Byrne D. (2022). The ESG landscape in Europe. Corporate Governance Institute. https://www.thecorporategovernanceinstitute.com/insights/news-analysis/the-esg-landscape-in-europe/

b. The US and sustainable finance regulation

Unlike in the EU, the rules that govern financial markets and financial services are a competence of the States in the US and differ along the political preferences from one State to another. The debate regarding sustainable finance and ESG investment between the Republicans and the Democrats can be traced down to a difference in understanding of the fiduciary duty principle[94]. Ultimately, investment decisions need to take into account the preferences of the client first and foremost. However, because ESG and sustainable finance are blurry concepts, there is a large variety of interpretation, and the evaluation of associated risks might be challenged. Main critics of sustainability-related criteria revolve around the loss of profit when divesting from oil and gas companies, which have made significant benefits in 2022[95]. However, it has proven quite difficult to assess with certainty whether returns linked with sustainable investments are lesser in amount as compared to the returns from investments that do not consider sustainability-related criteria[96]. Data is often insufficient, and various factors influence the expected returns from an investment. Another interesting take on the antagonism shown by the Republican Party to anything related to any ESG criteria in finance is how they feel might like they are losing a part of their political allies to "woke capitalism"[97], as more financial firms are adopting sustainability criteria in their strategies. As a form of retaliation, and maybe in an attempt to win back the financial industries, Republicans are pushing for various anti-ESG legislation to be endorsed in their states, as we will see below.

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[94] Rives K. (2023). A 'fiduciary question' looms large over the ESG debate in 2023. S&P Globa Market Intelligence. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/a-fiduciary-question-looms-large-over-the-esg-debate-in-2023-73830569
[95] Idem.
[96] Stangler D., Snyderman R. (2022). The ESG debate: to woke or not to woke? Bipartisan Policy Center. https://bipartisanpolicy.org/blog/esg-debate-to-woke-or-not/
[97] Petillon A. (2022). The Republican war on "woke capitalism" is really just a war on capitalism. Slate. https://slate.com/business/2022/06/woke-capitalism-esg-investing-republicans-mike-pence.html

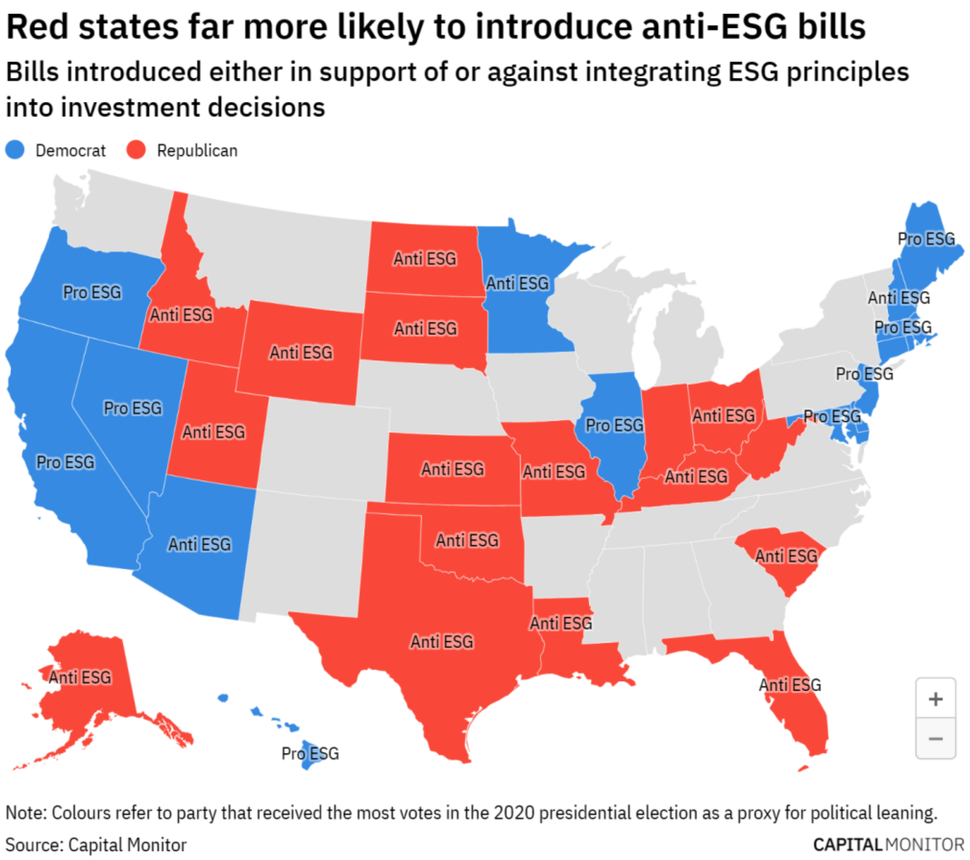

Figure 2. Map of ESG-related legislation in the US as of October 2022[98]

To provide some examples, in the year of 2023, four bills with clear anti-ESG sentiment in Utah were adopted: HB 281 has made provisions to ensure that fiduciary duty and proxy voting are used exclusively to ensure maximum returns to the investors, effectively making it harder to follow sustainable factors when designing a strategy. HB 449 allows citizens to sue a financial firm should they prove that the advisor has referred to subjective standards. The Treasure of Utah Marlo Oaks calls it "corporate cancel culture"[99]. Similarly, Kentucky has voted a law that forces asset managers to only pay attention on the purely financial interests of their clients[100]. Arkansas has proven to be more straightforward, passing the law HB 1307[101] which prohibits discrimination against energy, fossil fuel or weaponry. However, a lot of pension funds have expressed serious

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[98] Meager E. (2022). Mapped: The polarisation of ESG in the US. CapitalMonitor. https://capitalmonitor.ai/regions/america/mapped-the-polarisation-of-esg-in-the-us/

[99] Green J, Kishan S. (2022). Why ESG Investing Is Under Republican Attack?. Bloomberg https://www.bloomberg.com/news/articles/2022-05-20/why-esg-investing-is-under-republican-attack#xj4y7vzkg

[100] Fang F. (2023). Kentucky Governor signs bill banning ESG investment in Public Pensions. NTD. https://www.ntd.com/kentucky-governor-signs-bill-banning-esg-investment-in-public-pensions_910823.html

[101] Arkansas House Bill 1307. (2023). LegiScan. https://legiscan.com/AR/bill/HB1307/2023

concerns over the costs and the difficulties of lacking choices if some funds are automatically excluded for consideration based on their preference for ESG factors. The state of Oklahoma adopted in 2022 the Energy Discrimination Elimination Act (HB 2034)[102] which requires state agencies to divest from any financial firm that has decided to discriminate against an energy company. This targets financial advisors that have chosen to follow sustainable criteria for their investments, and it keeps them away from some types of state clients, affecting their business. New Hampshire is working on comparable provisions, albeit potentially more ambitious and not confined to the boycott of energy companies.

According to some experts from an US financial professional association (SIFMA), there are some hot spots of anti-sustainable finance initiatives to follow, but they appear to be workable and less problematic than first anticipated. For example, the state of Louisiana is considering an ESG resolution encouraging state pensions to refrain from using ESG criteria. Arizona is planning eight House Bills regarding pecuniary interest, proxy voting, social credit score, firearms, and others. The fact that this state has a Democratic governor is good news, as most experts expect she will veto most of the proposals (as she vetoed the first bill on state contract with firearms). For example, HB 2156 would require governmental entities to invest based on pecuniary considerations only, and the State to publish a list of investment and asset managers that fail to comply with this provision. Missouri has adopted a more tempered approach, requiring written certification from clients that they agree to investing in ESG portfolios even if they might produce less returns. While the language can be considered as a form of incitation as it implies ESG funds are less beneficial in terms of financial gain, the idea is quite similar to what is asked of financial firms in the EU, in MiFID II for example. To summarize the overarching feeling of the Republican party towards ESG and the heart of the debate in the US, the following words fit quite well: "*ESG investors worry that unchecked climate change is a threat to human existence. The GOP appears to worry that unchecked ESG investors are a threat to Republican existence*"[103].

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[102] Ray M. (2023). 'Economic boycott' squabble could affect Oklahoma utility. Southwest Ledger News. https://www.southwestledger.news/news/economic-boycott-squabble-could-affect-oklahoma-utility#:~:text=All%20of%20those%20measures%20mimic%20House%20Bill%202034%2C,any%20financial%20company%20that%20boycotts%20an%20energy%20company.
[103] Petillon A. (2022). The Republican war on "woke capitalism" is really just a war on capitalism. Slate. https://slate.com/business/2022/06/woke-capitalism-esg-investing-republicans-mike-pence.html

This does not concern red states only, as several blue states (with a Democratic government and majority) have made recent changes that require their state pension funds to account for ESG factors. Traditionally, in the US the questions regarding corporate law are an area of state jurisdiction, which explains the freedom and the range of bills that can be adopted by states' governments. Such principle has, however, an exception, which resides in the creation, in 1934, of the SEC – Securities and Exchange Commission. Two other federal laws, Sarbanes-Oxley[104] in 2002 and Dodd-Frank[105] in 2010 regulate transparency and accountability against fraud and conflicts of interests with the aim to sustain financial stability. The debate between political ideologies is fueled by the regulators' activity, which can be seen as quite prolific despite the growing opposition: the SEC has proposed guidelines and standards on climate risk disclosures[106] and ESG fund names, while the Department of Labor's latest rule (2022) regarding fiduciary duty and the incorporation of ESG considerations as understood under the Employee Retirement Income Security Act (ERISA)[107] of 1974. As such, this rule aimed to overrule the rule made under the previous Republican administration to remind financial firms that the inclusion of sustainability-related factors was permitted as long as a sound risk-return analysis was performed[108].

As we have already mentioned earlier, sustainability concerns are not new, and discriminating against companies that were under fire for scandals (whether they be linked to respect of human rights or the protection of citizen's health in the case of tobacco industries) was quite common starting in the 1960's. The US saw another surge of interest and support for ESG factors after the murder of George Floyd in 2020 and the need for more money to fight for racial equality and a better respect of human rights in general. More investors felt concerned with the beneficiaries of their money and whether it would be used for just objectives[109]. However, such enthusiasm was quick to be toned down with the Russian invasion of Ukraine in 2022, which resulted in an increase of prices in the energy

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[104] H.R. 3763 – Sarbanes-Oxley Act of 2002.Congress.gov. https://www.congress.gov/bill/107th-congress/house-bill/3763

[105] H.R. 4173 – Dodd-Frank Wall Street Reform and Consumer Protection Act. (2010). Congress.gov. https://www.congress.gov/bill/111th-congress/house-bill/4173/text

[106] U.S Securities and Exchange Commission. (2023). Climate-related disclosures/ESG investing. https://www.sec.gov/securities-topics/climate-esg

[107] ERISA. U.S. Department of Labor. https://www.dol.gov/general/topic/health-plans/erisa

[108] Levy J., Lund J., Shea R. (2022). DOL's New Rule on ERISA Investment Duties and Its Relationship to ESG. Covington. https://www.cov.com/en/news-and-insights/insights/2022/12/dols-new-rule-on-erisa-investment-duties-and-its-relationship-to-esg

[109] Petillon A. (2022). The Republican war on "woke capitalism" is really just a war on capitalism. Slate. https://slate.com/business/2022/06/woke-capitalism-esg-investing-republicans-mike-pence.html

sector and a global fear of inflation that is especially present in the US[110]. While such risk is even more pregnant in the EU for geographical reasons, the US Republicans have capitalized on this fear to gather support and voters against anything that could hinder the most essential US energy companies that provide heat and electricity to millions of homes[111]. However, in 2022, according to a study by US SIF, about $8,4 trillion of US assets under management were invested in line with any type of ESG strategy[112]. They also found that out of the 497 institutional investors they surveyed, the ones that have reported to include ESG factors in their investment process the most are public funds[113]. This shows that the Republican crusade against sustainable investment might find itself at odds with the ambitions of the financial industry and that of investors and might effectively lose their support. The stance Republicans adopt when talking about ESG can be quite extreme, as shown in an opinion paper former Vice President Mike Pence wrote in May 2022 where he compared ESG ratings to an invention from the Chinese Communist Party[114]. The geopolitical factor hence seems to be crucial for the detractors of sustainable finance in the US.

In Europe, there is a tendency to separate ideological oppositions for the sake of environment protection. However, this anti-ESG feeling might spread to Europe despite the legal framework surrounding responsible investment. Such a debate centers around the definition of future that policymakers decide to focus on when reflecting on returns, and the place non-financial considerations can hold in investment strategies. Political 'cultural wars' might also raise opposition in an Europe that risks to become more divided shall the energy prices continue to rise.

The situation in the US is however quite nuanced, since the Democrat President Joe Biden has proven to be inclined towards the fight against climate change, considering the Inflation Reduction Act (IRA) that became law in August 2023. This bill raised up quite a scandal internationally, prompting a rather discontented reaction from the EU regarding the

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[110] Miller R. (2022). Age of inflation in US will last much longer than pandemic spike. Bloomberg. https://www.bloomberg.com/news/articles/2022-05-13/age-of-inflation-in-us-will-last-much-longer-than-pandemic-spike#xj4y7vzkg

[111] Green J, Kishan S. (2022). Why ESG Investing Is Under Republican Attack?. Bloomberg https://www.bloomberg.com/news/articles/2022-05-20/why-esg-investing-is-under-republican-attack#xj4y7vzkg

[112] US SIF Foundation. (2022). 2022 Report on US Sustainable Investing Trends. Executive Summary. p.2 https://www.ussif.org//Files/Trends/2022/Trends%202022%20Executive%20Summary.pdf

[113] Idem. p.4

[114] Pence M. (2022). Republicans can stop ESG political bias. Wall Street Journal. https://www.wsj.com/articles/only-republicans-can-stop-the-esg-madness-woke-musk-consumer-demand-free-speech-corporate-america-11653574189

subsidies it will provide to US companies operating in clean energy and both environmental and social projects[115]. The bill will put in place, in addition to State subsidies, tax reductions for electric vehicles and batteries, which, from the EU's point of view, can represent unfair competition. As our interviewee pointed out, "*I would say some economists have argued quite convincingly that the IRA with the way it is structured may be an accelerator for some of the critical value chains in low carbon technologies than maybe some of the measures of the Eu adopted on sustainable finance*"[116]. To avoid the flight of EU green companies to the US given the more favorable conditions, Ursula von der Leyen announced the launch of the Green Deal Industrial Plan. This plan aims to relax the rules governing state subsidies and redirect €250 billion from existing EU funds (REPowerEU, InvestEU, the Innovation Fund and the Recovery and Resilience Facility)[117] to avoid fracturing the single market through different levels of subsidy. Italy and Spain (and no doubt a large number of Member States) have expressed their concerns about the opening up to national subsidies, which they believe would greatly benefit France and Germany, whose companies already receive a great deal of government aid. Spain has already indicated that it expects strict requirements and compensation. On the other hand, as the re-use of existing funds is not sufficient in the long term, new financing will have to be put in place. The Commission will be presenting a proposal for a sovereign wealth fund that has already been criticized by the northern countries (Germany, the Netherlands, Finland and Denmark)[118]. The President of the Commission seems however determined to install the EU as a leader in green technology, and to ensure that companies in that field receive the money they need to bring their projects to a successful end: "*We have a once in a generation opportunity to show the way with speed, ambition and a sense of purpose to secure the EU's industrial lead in the fast-growing net-zero technology sector. Europe is determined to lead the clean tech revolution. For our companies and people, it means turning skills into quality jobs and innovation into mass*

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[115] Smith K.A., Bailie K. (2023). The Inflation Reduction Act is now law – here's what it means for you. Forbes Advisor. https://www.forbes.com/advisor/personal-finance/inflation-reduction-act/#:~:text=The%20Inflation%20Reduction%20Act%20is%20a%20slimmed-down%20version,of%20prescription%20drugs%20and%20raises%20taxes%20on%20corporations.

[116] See Annex 1.

[117] Scheinert C. (2023). EU's response to the US Inflation Reduction Act (IRA). Policy Department for Economic, Scientific and Quality of Life Policies. European Parliament. https://www.europarl.europa.eu/RegData/etudes/IDAN/2023/740087/IPOL_IDA(2023)740087_EN.pdf

[118] Marro-Dauzat F. (2023). Plan industriel vert: réactions partagées des Etats membres sur les propositions de la Commission européenne. Toute l'Europe. https://www.touteleurope.eu/economie-et-social/plan-industriel-vert-reactions-partagees-des-etats-membres-sur-le-nouveau-plan-de-la-commission-europeenne/

production, thanks to a simpler and faster framework. Better access to finance will allow our key clean tech industries to scale up quickly"[119].

[119] Ursula von der Leyen. (2023). The Green Deal Industrial Plan. European Commission. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/green-deal-industrial-plan_en

c. The factors that influence policymakers in sustainable finance regulation

Thanks to the insight from the study of policy content and the discourse of some policymakers on the topic of sustainable finance in both the EU and the US, we can wager that partisan belonging does play an important role in determining the position policymakers adopt on responsible finance. We have seen that the American right-wing, the Republicans, gave been quite vehement in their criticism of anything sustainability related in finance, while the Democrats (more on the left side of the spectrum) seems more welcoming of it. From our interviewee's expertise, we gather that, in the EU, "*[groups like the Greens, the Social Democrats, the Left] traditionally have been absolutely fine with very ambitious sustainable finance regulation*"[120]. The parties more on the right side of the political spectrum are "more pro-business", and while they're not necessarily against the objectives of sustainable finance, they "*have been more skeptical about whether the policies adopted have been the most effective or whether it was necessary to have such level of complexity in the sustainable finance agenda to achieve the same goal*"[121].

Public opinion also plays a decisive role for policymakers' opinion formation, as the heart of politicians' considerations are to cater to the largest electorate possible. However, as our interviewee pointed out, "*it goes both ways*"[122]. Policymakers that lean towards the left "*tend to be very open towards the NGO community […] which has participated in the experts' groups at the European Commission's Sustainable Finance platform*"[123]. Decision-makers on the right side, who tend to be closer to small and medium-sized enterprises, will be more warry of sustainable finance regulation as it requires an important amount of reporting which represents a huge burden[124]. Sustainable finance in itself is gathering the public interest as well, as our interviewee told us about an anecdote on how the EU Taxonomy was mentioned twice in mass radio channels in both France and Germany, at random moments[125].

[120] See Annex 1.
[121] See Annex 1.
[122] See Annex 1.
[123] See Annex 1.
[124]See Annex 1.
[125] See Annex 1.

We have seen that media is often used by policymakers as a mean to share their opinions to their voters, but do the media, and especially corporate scandals, affect this opinion? For our interview, it is the case. Orpea showed it quite well in France, and "*in the financial community one of the asset managers that got a really bad name was DWS in Germany because there were raided by the police over questions about greenwashing, and around allegations on that*"[126]. Reputation is something that is as important for companies and financial institutions as it is for policymakers.

Regarding the impact of regulators' proactivity, albeit the SEC has proposed some guidelines on climate disclosures in the US, it did not appear to provoke important changes in policymaking. It is "*the other way around, policymakers that are interested adopt legislation and policies which have actions and requirements for those agencies to undertake some work*"[127].

The lobbying of the financial industry has not shown to be decisive in the formulation of policies, either in the EU nor in the US, from what we saw. Our interviewee pointed out that reports form NGOs, who represent the civil society, or lobbying from specific industry sectors are more impactful. "*To give you an example, the reason we don't have an agriculture chapter in the taxonomy has nothing to do with financial institutions but has all to do with the agricultural sector lobbying the commission not to do that*"[128].

The respect for human rights and environment's protection are key factors for some policymakers, that lean towards the left side of the spectrum. We can see that "*very starkly discussed in the legislation that's called due diligence, the CSDDD, where the left side of the political spectrum is on the idea that investors can hold companies to account and change companies whereas the right says it's not realistic*"[129]. It appears to be more difficult to reach a consensus on social issues than on environmental issues, as there are differences depending on cultures for example.

While scientific reports are often used as references for standard-setting, the implications can be quite blurry for most, as shown by the US Republicans who disregard it.

[126] See Annex 1.
[127] See Annex 1.
[128] See Annex 1.
[129] See Annex 1.

The objective is clear for most, but how to achieve that is "*subject to different opinions and points of view*"[130].

Geopolitics are the last key factor in influencing policymakers. We have seen that energy prices have risen following the Russian invasion of Ukraine, and it "*has put the whole equation for Europe in term of decarbonizing the energy mix and the security of supply and the security of access to energy and access to energy at a cheap and competitive price*"[131]. Our interviewee mentioned that the exclusion of gas in the Taxonomy would have been handled quite differently now compared to post-invasion. Another angle that we did not consider before our interview, for it appears more strikingly in legislation under current discussion, is China. Indeed, "*when it comes to low carbon technologies in the mining and the refining of minerals needed for these technologies the fact is for most of these value chains China dominates the value chain from upstream to downstream*"[132]. Commercial competition is an important variable, and it is seen in both the IRA and the Green Deal Industrial Plan.

To explain the differences in approach between the EU and the US, our interviewee raised an interesting point: "*In Europe early on, in the sustainable finance agenda I think the consensus was it's absolutely fine to use financial regulation in the financial sector to achieve other policy goals like the transition, like more sustainability. I think we're now reaching maybe a point where we're starting to realize the limits of financial regulation achieving policy objectives, but that's a different discussion. I think in the US there's always been a strong belief that financial regulation is there to have efficient markets, transparent markets, competitive markets, last but not least proper investor protection. I think the US regulatory community is skeptical about using financial regulation to achieve policy goals outside of that focus*"[133].

We want to briefly deepen the discussion on the factors to consider regarding the future elections, and what they might change to the sustainable finance framework, but also what is needed to make it work.

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[130] See Annex 1.
[131] See Annex 1.
[132] See Annex 1.
[133] See Annex 1.

III) A bit of insight into the future: what will be done, and why has there been a turn of events on what was considered a global consensus?

In this section, we aim to open the discussion on what the future holds, based on our interview results and on the variables that weights more when it comes to decision-making in sustainable finance regulation. This is even more interesting keeping in mind that the next EU elections are to be held next year, in spring 2024, and that their outcome will influence sustainable finance regulation.

a. Who will impose the green transition?

We have seen in the previous chapters how important the correct transition of the economy was for most policymakers, both in the EU and in the US. Various actors are involved, from industrials to financial companies, from investors to regulators. During the Paris Finance Forum of July 2023 (in Annex 2), the central role of financial institutions in accompanying smaller and medium businesses was stressed, but so was the necessity of other actors to participate in the transition. As such, "regulation is needed to achieve the transition, and so is the engagement of public authorities"[134]. Authorities need, in the opinion of the conference's panel, to be more proactive and create structures that will lessen the risks linked with green investments, while also implementing serious consequences for companies that fail to perform on environmental and social criteria. Nonetheless, as Sébastien Raspiller from the French Directorate-General of the Treasury[135] has pointed out, nothing can be achieved without the support from the public opinion: as a scientific consensus on climate change has been reached, so needs to be a social consensus[136].

When answering the question above, 'who will impose the green transition?', the panel has provided different answers: for some, it will be the younger generation, more sensibilization to the consequences of climate change ; for another, it is only through democratic systems that the transition may be achieved, for the shared will of the people to

[134] See Annex 2.
[135] Directorat-Général du Trésor.
[136] See Annex 2.

transition the economy is essential, as well as through collective planning. All in all, to ensure an effective transition, all the actors involved, industrials, financial services, regulators, governments, and the civil society need to be mobilized, for a law has little effect if there is no compliance nor frameworks to implement it. Such a conclusion has been shared by the participants of the POLITICO Finance Summit of March 2023, during the panel on sustainable finance (see Annex 3). For them, an issue that needs to be addressed, on top of the need for consensus, is the lack of reliable data. They are confident that the newly adopted CSRD and its disclosure standards will contribute to bridging the gap, but as Lucie Pinson (Reclaim Finance) has explained: "*data supports action but does not lead to action*"[137]. Greenwashing is obviously an issue that the panel feels should be addressed simultaneously, and once again transparent data will be the key, as it can be used to keep companies accountable. Patrick de Cambourg (EFRAG) warned the audience that the EU should adopt a prudent approach to keep leading the way in the field and avoid becoming disconnected from the political reality, even more so given the approaching US and EU elections. The political agenda seems disconnected from the long-term agenda, and policymakers need to keep in mind that standard setting is a long process that cannot enact short-term changes[138].

[137] See Annex 3.
[138] See Annex 3.

b. The need for an economy of war?

The idea of 'climate war economy', translated from the French 'économie de guerre climatique' was introduced by the French deputy François Ruffin, from the Left party alliance (NUPES). Making a parallel with the functioning of the Western economies during the Second World War, he believes the only way to save the planet and humanity is to direct all capitals, workforce, and know-how towards the smooth green transition of every side of the economy: the industry, the transportation, the energy…[139]. For him, common law is the best vector of change[140], untrusting the self-regulation of the financial institutions. For Delphine Batho, another deputy from the Left alliance, but from another independent party, this concept is not the solution that is needed to face the challenge the Earth is facing, as it goes beyond just climate change (but concerns biodiversity, water, etc). For her, growth is driven by beliefs and hopes, while science and reason are calling for degrowth[141]. Societies need to rethink themselves and think differently about their purposes. Aurélien Pradié, the last member of the panel, deputy for the French right party (LR), is fundamentally opposed to the idea of degrowth which would go against the main purpose of States: to keep ameliorating the life of its citizens. He mentions that should the quality of life stagnate or deteriorate, there will be no public support which is needed to lead the transition effectively. However, he is convinced, similarly to political actors from the former panels, that the democratic way is the only way through which the green transition and sustainable finance will be achieved, emphasizing the need to rethink the democratic tools for an ecological way of State-planning.

For the Admiral Marc-Antoine de Saint-Germain, who was invited to one of the four panel regarding a climate war economy (see Annex 4), "*transition planning must be "co-planning", hand-in-hand between the State and local authorities, in order to develop territories accordingly. Planning is democratic if the goal is shared by all parties and is clear. War is waged against an enemy, but in this case the climate is not an enemy: the logic of planning must be defense*"[142]. There is here an interesting thought that would benefit from being studied more in depth in another instance: what role should local communities hold in

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[139] Ruffin F. (2020). Pour une économie de guerre climatique. https://francoisruffin.fr/pour-une-economie-de-guerre-climatique/
[140] See Annex 4.
[141] See Annex 4.
[142] See Annex 4.

the green transition? Where do they situate themselves when talking about sustainable finance? We have seen that the topic of counties and pensions' money going towards sustainable funds and projects is quite controversial in the US, but is there something else that can be done? The effects of climate change, of biodiversity loss and water scarcity concern every single being on this planet, so it is not a surprising idea to engage local communities and authorities in the decision-making process, as they are also closer to the realities of the citizens.

CONCLUSION

This paper aimed to provide an introductory analysis of the opinions and positions taken by policymakers in both the EU and the US with respect to sustainable finance regulation in asset management. We were motivated by the curiosity that the internship we carried out sparked, for the topic of sustainable finance appeared to us worthy of investigation. The choice to follow the behavioralist paradigm was prompted by our wish to understand policymakers, to grasp their way of thinking and to explain how they choose to approach a highly technical topic such as sustainable finance.

With respect to the hypotheses we developed in the beginning of this paper, we can now see a bit more clearly what factors are important for policymakers, and to what degree.

1. Public opinion is decisive for policymakers. The type of public opinion (civil society, industries, shareholders) that will ring more with decision-makers depend on their political party.
2. Right-wing policymakers will tend to be more skeptical towards sustainable finance regulation, not necessarily because they do not believe in its goals, but because they disapprove the reporting burdens it brings on companies.
3. Corporate scandals are decisive in the support for sustainable finance regulation, because they show the information gap and lack of transparency that exists and the need to mitigate it.
4. The possible proactivity of regulators in terms of sustainability-related guidelines and standards does not affect policymakers. The opposite seems more likely to be the case.
5. The lobbying of the financial services is not the most decisive in influencing policymakers, as it tackles technical issues, Industrial sectors or agriculture's lobbying seem more impactful.
6. Energy and raw material independence is a strategic issue for both the EU and the US, and whether it be towards China or Russia, it seems that is has prompted decision-makers to support investments in sustainable initiatives and green energy projects (through the IRA or the Green Deal Industrial Plan). Commercial competition is a key issue.
7. Environment and human rights arguments hold more influence on policymakers on the left side of the political spectrum, as they resonate more with their ideology.

8. The importance given by policymakers to scientific claims is debatable because there is a clear objective, but no clear way to achieve it, and views diverge quite vastly on it.

Some results have been quite surprising as they went against our first intuition, but they allow us to understand a bit better the complex relationship policymakers hold with sustainable finance regulation. We had the pleasure to briefly meet the former French Prime Minister Bernard Cazeneuve at the Paris Finance Forum, who said to use that public opinion was the most motivating factor for policymakers. For former French Finance Minister François Barouin, it is the protection of climate and environment that is the most important factor.

Sustainable finance is an issue that will keep on attracting both support and opposition from policymakers and the public opinion alike, as the deadlines set for the completion of the climate objectives are coming closer, and the social accountability of companies is viewed as a key issue as well as a solution for the transition of the economy towards a more responsible practice. Whether a green growth can be achieved or a degrowth is the only solution to save the planet is another debate. But the evolution of sustainable finance and of the policymakers' discourse is a topic that deserves more interest, especially given the approaching EU and US elections that might be game-changing, for better or for worse depending on the point of view. Laurence Parisot, former President of the MEDEF[143], only a universal carbon tax can motivate policymakers to fully engage themselves in support of sustainable finance. Such a proposition might make for good study material, exploring how policymakers can really make a difference.

[143] Mouvement des Entreprises de France, the biggest industrial association in France.

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Annex 1: Interview's transcript

Greetings, introduction of the topic and why we interview this person. Thank them for taking their time to answer our questions.

1. Can you tell us who you are, what post are you occupying and what area do you cover?

I am the Managing Director for ICI Global, for the Brussels Office. ICI Global is the association representing globally active asset managers, and our members manage collectively around 35 trillion euros in assets and invested capital worldwide. In this capacity as well as in my previous capacity I've followed for a long time the sustainable finance agenda the EU has rolled out in the last couple of years.

I) How to define sustainable finance? Are there different understandings of the topic?

2. What is the definition of sustainable finance, according to you?

We can spend more than 45 minutes on this. No, I think that, without making it too hypothetical, the idea is, from the start is, we know more or less, from here to 2050, the investment gap, or like the investment needs that are needed to transition our economies in Europe but worldwide as well from the current business model to a much lower carbon business model. I was at an event yesterday from DG Energy where the Commission said it is an investment, it is an investment opportunity, but it is also an investment challenge the transition predominately. And from that vantage point, the fact is that we're looking at the public balance sheets of Member States, of international organizations, we know that we cannot fund that on EU public money, so the trick will be to leverage private funds and I think that's the starting point of sustainable finance was : how to leverage the vast amount of private capital to invest in what' needed for the transition.

3. How has the topic of sustainable finance been treated in your country? Has it been a politically salient issue?

I can give you my personal observations, they're not necessarily the full ICI position but I will give the observations as I've followed the discussions for a number of years. If you take the EU first, so the EU and the US are on a different place and have travelled a different journey. So, the EU started off as the first major jurisdiction in this space, on the back of the Paris Agreement, a couple of years after saying "we need to leverage private finance it is vital' and they've sought a leadership role. They've accelerated they've put out a lot of regulatory frameworks, complex regulatory frameworks, quite demanding, both on the asset managers, financial institutions but also on companies. We're now at the stage where this has been rolled out, and I think we can be fair saying that there is quite significant challenges both in the application and the rollout, but also, I would ascertain ahead of the elections next year in Europe that there is also, you can sense that there is maybe some skepticism emerging more than before, and the skepticism I think is not so much a challenge to the objectives, I don't feel like the Green Deal objectives are challenged, but there are great, serious questions asked in terms of evaluating the effectiveness of the policy to achieve the goal. In the US it is very different, we now got a new dem Biden administration which I think has taken a different stance than the previous administration on climate issues I think it's fair to say. I don't see either Republicans or Democrats, I don't really see the US travelling in the same direction as the EU with regulation, it's also a big difference because the US has the balance sheet of a federal government and they have adopted the so-called Inflation Reduction Act, the IRA, and I would say some economists have argued quite convincingly that the IRA with the way it is structured may be an accelerator for some of the critical value chains in low carbon technologies than maybe some of the measures of the Eu adopted on sustainable finance. Now, what's interesting is that the EU has also responded to the IRA by considering its own plans and understands that there is a question fox economic competitiveness at the heart of that. Who is going to have the technologies of the future tomorrow, who is going to be producing them. What does it mean for economic wealth jobs, for all these questions are out there. And I think that on top of that one debenture not to forget is geopolitics. That's become much more salient than it was say 3 years ago.

- Okay, when you say geopolitics, what do you mean? Do you have something in mind?

For me there's two major events: one is obviously the Russian invasion of Ukraine, has put the whole equation for Europe in term of decarbonizing the energy mix and the security of supply and the security of access to energy and access to energy at a cheap and competitive price. There has been a really strong focus on that and has forced policymakers to really consider dramatically their stance. To give you one example in the sustainable finance area, again in the conference yesterday: if you look at the complementary delegated act on the

Taxonomy including gas, and that we fought about including gas that were not in the Taxonomy, we would not have the same discussion now post invasion of Ukraine. It would be completely different dialogue, so I think that's how you see that the world has dramatically shifted.

And the second geopolitical dimension is obviously the whole focus situation on China and the reason for that is, whatever we think of the foreign relationship with China, if it's the US or Europe and probably there's some sort of difference and I'm not an expert on that but the fact is that when it comes to low carbon technologies in the mining and the refining of minerals needed for these technologies the fact is for most of these value chains China dominates the value chain from upstream to downstream. And you're actually seeing it now literally the last couple of days with increasingly public questions about "is China now reducing the export of critical minerals for some technologies and is it politically driven or is it pure competition that they do not want a similar low carbon technology value chain emerging in the EU or in the US"? So, you see that there is real commercial competition out there as well. I wo9uld say those two geopolitical dimensions are extremely important to understand the broader context around sustainable finance.

II) Political stakes of sustainable finance

4. How did the political actors react to these proposals? Has there been a public interest?

Which political actors and what public interest?

- The decision makers, more specifically the parliamentarians, and the public interest, I would say the public opinion.

Okay I see. No, I think there's been a lot of interest from decision makers. It depends on very much what, we would need to be more specific. When it comes to some of the more 'real finance' requirements, the SFDR legislation or the low carbon benchmarks legislation or the MiFID sustainability preferences, I think there has been less interest. What's catered obviously more interest from decision makers has been the taxonomy and the question of what is green, what is sustainable, what is not, what is the transition, what is acceptable. It's been hotly debated both because of the proxy for other policy debates, around technologies, the other thing with taxonomy is it has yet to fully assess agriculture, we know it is a very sensitive area. So, there is clearly a lot of interest by policymakers, and I would say the taxonomy, ironically, is also the one piece of legislation in this area that's garnered public opinion attention. And I recall that because of a funny personal anecdote: last January we were about to see the complementary delegated act, and I went with my family on ski holiday, and we were driving the car, listening to the radio and suddenly in Germany, news item number 1 was the Taxonomy delegated act. I never thought it would make to regional radio news in Germany while driving on the motorway. And it was also in other countries as far as I can tell it was quite extensively in the French press – nuclear energy- but also in the Belgium press, it was in the press in Netherlands on the front pages of newspapers, so that's the only I've seen something of the sustainable finance agenda being picked up so vigorously.

5. Why are the pieces of legislation and policies promoting (or opposing) sustainable finance are only now being the focus of policymakers' attention? And why is it divisive now, when in the 2015 COP in Paris almost everyone seemed to agree that environment protection was the most important cause? (ex: CS3D in the EU is only now being voted on, but the Razza disaster happened in 2014…)

In the EU or in the US?

- Well, I do not know if you agree, but it seems like there is a flourishing of what could be seen as 'pro-sustainable finance' legislation, while in the US it is quite the opposite?

We need to be a little bit more nuanced, because, yes there is the USA but there is also the 50 States that are of different political colors, so some States with strong Republican orientation will mostly express their skepticism on the acronym ESG, there's all sorts of political reasons for that as well, not only protecting the environment which is what is commonly referred to in the media as culture wars. But I would say that the burl out to that, you have seen, the SEC adopt rules, proposals around the funds' disclosures on ESG, rules around company reporting on climate issues, so it's not that there is no activity, but here it comes back to the point I've made earlier, there is also the core question of what do we think is the role of financial regulation in what policy objective want to achieve. In Europe early on, in the sustainable finance agenda I think the consensus was it's absolutely fine to use financial regulation in the financial sector to achieve other policy goals like the transition, like more sustainability. I think we're now reaching maybe a point where we're starting to realize the limits of financial regulation achieving policy objectives, but that's a different discussion. I think in the US there's always been a strong belief that financial regulation is there to have efficient markets, transparent markets, competitive markets, last but not least proper investor protection. I think the US regulatory community is skeptical about using financial regulation to achieve policy goals outside of that focus. So that's where I think you see the slight divergence.

6. More relevant to the US: After President Trump retired from the Paris Agreement, and President Biden brought it back in, why is the topic of sustainability coming back, is it related to a new awareness of political actors?

I think that's pretty hard to see a connection so clearly, I would say. I think President Trump removed the US from the Paris Agreement for obvious political partisan views. Now, I would say that, looking as a European based in Brussels, we as Europeans have complained that Trump pulled out of the Paris Agreement, then President Biden reintroduces the US in the Paris Agreement and we know that the US needs to be at the table otherwise the Agreement does not have much of a chance. But then, we're not happy when the US adopts the Inflation Reduction Act but let's be honest the IRA has been the biggest fiscal stimulus for green and low carbon technologies in a while. In a way, the US went from not being in the Paris Agreement to potentially passing one of the largest fiscal support measures for those industries ever adopted, not bad for a country that just came back into the Paris Agreement. You'll just see maybe more activity in the sustainable finance area in the EU because there is a belief that you can use financial regulation for other purposes, that objective does not seem to be there in the US, it does not mean that nothing is happening but it's just that policy makers think that financial regulation is not the most effective policy to achieve that goal. And I think, that's my personal views, the last couple of years have shown that yes sustainable finance is important but when looking at the discussion on what types of investment are needed for energy transition and the transition of the economy, yes sustainable finance can help but at the end of the day there's other buttons for those industries that are far more important, and the problem; is not access to capital. The problem is access to faster permitting procedures for renewable energy projects more skilled labor able to deploy those low carbon technologies, it's access to the raw material necessary for solar panels, wind turbines… and we know now as well there is a massive investment need in the electricity grid. Our electricity grid in Europe, if we move to a decarbonized energy mix, much more than we have now, our grid cannot sustain the additional electricity consumption that it will involve so we need to evolve it. It's not access to capital that's restraining the investments, it's other factors.

7. According to you, why do political actors (understood as decision-makers, policymakers) position themselves against, or in favor, of ESG regulation in finance?

I would say, I will try to categorize it and maybe that's a slight oversimplification, but I thin characteristically, politicians more on what you would call the left side of political spectrum traditionally have been absolutely fine with very ambitious sustainable finance regulation. In European political terms it would be groups like the Greens, the Social Democrats, the Left, and then there is a political group in the middle called Renew Europe that is divided, and then everything that's more on the center right or traditional conservative they've always relatively more pro-business and they want effective regulations that work, in achieving the objective without adding unnecessary red tape or administrative burden. I would say they've never been against the objectives but have been more skeptical about whether the policies adopted have been the most effective or whether it was necessary to have such level of complexity in the sustainable finance agenda to achieve the same goal.

a. Follow-up: Our research has helped us identify a few factors that could be relevant, do you agree? Can you think of more relevant variables?

   i. Public opinion (consumers, employees, and stakeholders in corporations)

Yes. But it goes both ways. So, I would say for example, as I said earlier on, the politicians on the left side of the spectrum, they will tend to be very open towards the NGO community, and some NGOs have been very vocal on this agenda. They've also over a number of years participated in the experts' groups at the European Commission's Sustainable Finance platform. Some of are currently no longer there because they were dissatisfied with the decision and the politics around that. They've been very much in favor. But what you see in other constituencies that have been less in favor, I think it shouldn't be a surprise to anyone but in some MSs with particularly business community in the more small and medium size enterprise, that is an important political constituency, for them it's a lot of reporting, an enormous amount of red tape and reporting burden and we see now that some politicians that are more pro-business are very attune to that, and obviously that's coming more to the front now as elections are coming soon.

   ii. Media (corporate scandals, importance of reputation), like the Orpea scandal for example.

Absolutely, Orpea in France, and in the financial community one of the Am that got a really bad name was DWS in Germany because there were raided by the police over questions about greenwashing, and around allegations on that. I think the investigation is going on and they haven't necessarily found a lot but they keep on being mentioned in the press again and again, so yes reputation is something important that people do care about I think you see now the heightened focus on greenwashing has been a particular area of vigilance for financial institutions and companies. But obviously politicians will also follow that closely.

iii. Regulators' proactivity (notably in the EU, or ie the SEC's forthcoming climate disclosures)

You can see from my reaction that I'm a little bit more skeptical. And the simple reason is that often those agencies are executing what the operators want them to do. So, I wouldn't say that for example, in France, I wouldn't say it's the activity of the AMF or ESMA that are driving policymakers to be interested. I think that's the other way around, policymakers that are interested adopt legislation and policies which have actions and requirements for those agencies to undertake some work. There I would say that the mandate or the agenda by those regulators is mostly set by policymakers. You do see those regulators having a bit of imitative at times, that's true, but I would say that's still a small minority of the cases.

iv. Financial industry lobbying

Maybe some others will say I'm not entirely objective but having followed the lobbying in Brussels and the agenda from the beginning, I'm always fascinated some of the NGO reports describing the financial lobby as the big dark force behind the scenes changing everything. I'm very skeptical about this hypothesis. What I've seen throughout the years is that the financial industry comes in and explain what it can do and what are the limitations about what's being asked, because there's a lot being asked and some of the requirements are frankly unrealistic. So, there that. In terms of what is included or not in the taxonomy and some of the outcry there frankly the financial industry has done no lobby, and most institutions have stayed away from what sector should be included or not because that's politically very fraught. Energy companies, manufacturing companies, member states' governments and the list goes on, they've done a lot of lobbying to get into the taxonomy. What I find interesting if some people are unhappy about the outcomes of financial regulation on some points, it's often not because of financial industry lobbying, but of more certain sectors lobbying. To give you an example, the reason we don't have an agriculture chapter in the taxonomy has nothing to do with financial institutions but has all to do with the agricultural sector lobbying the commission not to do that. I think some NGOs are overexaggerating the power of the financial lobby.

v. Energy independence – talked about it as well.
vi. Strategic and economic autonomy
vii. Ecology, fight for climate-change/Respect of human rights

There, I would say that is important for part of the political decisions makers, particularly om the left side, and less on the right side of the political spectrum. And the reason is a fundamental divergence of opinion between both, here again I'm simplifying it's a little bit more complex than that, but at the core, the question is what is the role of private companies and particularly investors to hold companies into account on things they do not control, ant there the left side says it's absolutely fine it's their job to do it, and the right says that's not the job of private companies to do that. So, there are politically ideological differences. And you see that now very starkly discussed in the legislation that's called due diligence, the CSDDD, where the left side of the political spectrum is on the idea that investors can hold companies to account and change companies whereas the right says it's not realistic. Personally, I do think that the engagement to companies by investors has a role to play but I do think also some policymakers are overexaggerating what it can achieve, to give you an example, a French one, Carrefour Danone are operating worldwide : yes you can ask them about whether they're operating according to the best practices on biodiversity and human rights everywhere, and if hypothetically an incident is discovered investors will have a view on it, but you mentioned Orpea, but prior the scandal there were not many questions asked by investors to Orpea. A few investors I know a few AM had some questions to identify some governance weaknesses in the company but by large a lot of people were holding Orpea stock, so you know I think you see that divide very clearly. And I think on climate change there is a strong consensus, I think on biodiversity the consensus is growing, that goes hand in hand with climate change, from a pretty scientific and environmental policy perspective you can't divide the tow. On social questions, not human rights I think that's a little bit more complicated, and the reason is that by and large it tends to have quite a degree of subjectivity, not everyone feels the same way about some social aspects and particularly, within Europe there might be differences, and if you extend that to the rest of the world there will be stark differences. There it's much harder to forge a kind of universal consensus.

viii. Importance given to scientific methodologies and claims, do you think it also depends on the political spectrum.

I think the way I would summarize it is that there is broad awareness of the science and what the science tells us. I think it's a very complex matter even for decision makers so I'm not sure that everyone, and even I don't fully understand what it means for 2050, if I'm honest we have to stay very humble on that. What I do think is though the objective is clear I think the way there is subject to many different opinions and points of views on how to achieve that. And at the end of the day, I think in economic terms the transition is like any change, it creates opportunities and threats, there's going to be some winners and some losers and the question is how do you navigate the transition, who are going to be the losers and who are going to be the winners, and who is going to pay the price and who doesn't pay the price.

I can give you a good example of my home country the Netherlands as we have a very vigorous debate around limited nitrogen emissions. If you put it very starkly there Is a question of intensive farming, our major airport which an international hub for flights and the question of building more houses because there is a shortage of houses in the market as building houses also emits nitrogen. Who gives? What needs to shrink first? Do we reduce the agricultural footprint, do we stop building houses, do we reduce the airport's activity? Ans which constituency politically pays the price? And that's just one example out of many examples that would occur. And I think in France, the debate is for example on water shortage in some regions over the summer: gulf courses, people bathtubs or agriculture to water less the crops.

8. Maybe for the expert: how were the negotiations in the EU going on sustainable finance? Were the bigger industrial countries (France, Germany, Italy…) against more transparency and accountability?

IV) The future of sustainable finance?

9. What do you see happening to sustainable finance regulations and initiatives in the future? Do you believe it will continue to grow? Or do you think some violent criticism (in the US…) can make it lose its attractiveness to investors and financial actors? For example, do you see a race to protectionism in sustainable innovative sectors (cf the US IRA, the EU Green Industry Act, any APAC counterpart?) Will the industry's practices be determinant, even faced with political opposition?

This is truly, as one would say, taking out the crystal ball and guessing. I may be completely wrong, my guess is we will, and we are already seeing a slowdown in the sense that we will not see as many legislation proposals as we have seen in the last 5 years. There is a risk of regulatory fatigue, so one needs to be careful there. There's frankly a question about the policy execution, because it's been a very complicated, very conflicting, and contradictory agenda sometimes, different regulators, the commission MSs coming up with new requirements that didn't align with other pieces of legislation and creating a lot of confusion. A lot of people would say you get an 8 out of 10 for the policy intent and you get a 4 out of 10 for the policy execution, so I think we need to be mindful of that. I think there's a lot of work needed to streamline that.

And there will be inevitably for me 2 questions that will be critical:

- Do we need to make it as complex as we did or can we sometimes and, in some places, roll back some requirements because they are frankly too complex and too detailed. That's the first question. And here to give you one example we are now having a debate over the content of the sustainability reporting standards published by EFRAG and the latest proposition of the Commission has rolled back significantly on some of the points. But at the same time what nobody has been talking about is there's a whole other set of reporting that EU companies need to do under the Taxonomy. How their business aligned with the EU taxonomy which is an extremely complex and costly process for companies. I'm curious whether we'll maintain those two parallel systems or if someone will say this is overkill, this is so much reporting for the sake of reporting are we sure it is adding value? I think well have some questions and evaluations about the level of complexity of the policy.
- And finally, the big question will be evaluation. Is the agenda actually helping us to achieve what we want to achieve. And there I think the answer may be very nuanced in that it helps us in some cases but I'm not sure it helps in all cases. To give you an anecdote, recently talking to an investment banker specialized in infrastructure in clean energy projects he told me something very interesting, saying "my clients in the wind and solar space they don't need to report under the taxonomy so that potential investors know what they're doing. They know its sustainable." So, I actually they tell people "please don't ask us to report under the taxonomy because its costly and investors know that were sustainable". And that's one anecdote, that I

think is telling, is that we will need to continue evaluating whether it needs to be that complex and whether it always helps in achieving what we want to achieve.

Thank you again for your time and your precious answers and expertise, and those telling examples.

Annex 2: Shareholders, industrials, financial institutions, regulators…: who will impose the green transition?

Paris Finance Forum – Europlace – 04.05/07/2023

Moderation : **Pauline BECQUEY** (DG, Institut de la Finance Durable)

Participants :

- **Jean-Jacques BARBERIS** (Directeur pôle Clients Institutionnels, Corporate, ESG, Amundi),
- **Nathalie BLYTH** (Global Head of Commercial Banking Sustainability, HSBC),
- **Ulrike DECOENE** (Comex, directrice Communication, Marque et Développement Durable Groupe, AXA),
- **Thomas FRIEDBERGER** (DG adjoint, Tikehau Capital),
- **Sébastien RASPILLER** (sous-directeur – Financement de l'économie, DG Trésor).

The transition needs to be financed, by definition, and the smaller/medium enterprises need to be addressed (as they represent 90% of the economy) to tackle climate change. Commercial banks need to accompany them and contribute to risks mitigation. Financial institutions can equip their clients through the products they propose, in different ways: reduction of carbon emissions and alignment with scientific targets through investment solutions to finance the transition's pillars; encouraging the clients to propose adequate business strategies.

Financial institutions cannot be the only actors of the transition, and while the Paris Agreement was a major step, whether and how it is implemented is what truly matters.

Regulation is needed to achieve the transition, and so is the engagement of public authorities. It is up to elected representatives to determine which activities need to be progressively abandoned and to public authorities to regulate the offer and demand balance, not to financial services. Industrial planification is needed. EU public authorities need to defend the established model overseas**. Transparency requirements will help to have better access to quality data**. ISSB standards are welcome, especially for companies that operate in various countries and that is why harmony and interoperability of standards are key. **There is a missing lens for small/medium companies**. However, nothing will work without **the support of civil society**, and it is important to not deter innovation with too much regulation. A scientific consensus was reached (IPCC, for biodiversity too), and a social consensus must be achieved for public authorities to propose adequate regulation.

The pace of transition is not up to the challenge yet. Need to adopt a forward-looking approach, to know where to deploy capital. Authorities need to give clarifications, but also put **frameworks in place to derisk investments** in transition. **Collaboration between public and private finance is key**, and public money needs to subsidize the right sectors. There is momentum for all to act, the EU, the US and the emerging economies. To accelerate the transition, there need to be **severe economic consequences for non-performance on extra-financial criteria**. Energy transition in the context of deglobalization is a competitive advantage. As everyone is responsible for what will happen in 2050, both a top-down (State planification) and bottom-up approaches are necessary.

Who will impose the transition? Various answers: young generations; end-users ; the risks ; system thinkers and ecosystems' organizations ; democracies ; collective planning.

Annex 3: POLITICO Finance Summit – Sustainable finance

POLITICO Finance Summit – 23/03/2023

Sustainable Finance: are we moving on to greener pastures?

Participants:

- Lucie Pinson (Reclaim Finance)
- Jean Boissinot (Central Bank & Supervisors)
- Mirela Durand (Groupama AM CEO)
- Patrick de Cambourg (EFRAG Chair)

Most are positive we can achieve the net-zero goal. However, there is a clear lack of data, and while the adoption of CSRD (Corporate Sustainability Reporting Directive) will contribute to bridging the gap, but it is key, for Patrick de Cambourg, to keep in mind that the implementation of this framework will take 3 to 4 years. In any case, all agree that reliable data – that is, comparable, understandable, and verifiable data – will drive change and allow us to: understand where to go, establish relations with stakeholders, attract capital. For data to be reliable, there also needs to be interoperability between the different standards that already exist, and it is for this purpose EFRAG has worked with the ISSB. For Mirela, data is necessary, but it must not be used as an excuse to not engage with transition strategies. Lucie supported this statement, adding that from her perspective, it is more political will than lack of data that is holding back initiatives and action in the field of sustainable finance: "data supports action but does not lead to action".

The financial industry insists that transition should be the main objective of both political and private sectors' commitment, and that accompanying businesses that have yet to be green is the only way to ensure the proper transition of the economy. Capital exists and it is ready to be invested, but because data is lacking there is an increased risk of mismatch with the strategies put forward by investee companies, which slows the transition process of the economy and enhances the risk of financial bubbles. For the representant of the French Central Bank (Banque de France), there are various risks that need to be considered: technological, risks of carbon bubble or of green bubble… For him, the question that needs answering is: 'are the risks properly understood by the market?'.

When talking about sustainable finance, another key challenge is to tackle and avoid greenwashing. For this, transparency, a sound and detailed methodology and accurate reporting and monitoring are required. A solution is the creation of labels, as it keeps the companies and the financial institutions accountable.

The European Central Bank has a mandate to monitor and supervise financial stability, effectively putting emphasis on the real economy meanwhile the other EU institutions, notably the Commission, put emphasis on sustainability. For Jean Boissinot, this shows a lack of coordination in the EU's climate policy.

Social justice is connected to climate justice. CSRD is not only looking at risks but also at the impacts. Each of the three pillars of ESG (Environment, Social, Governance) are important, as they represent the three parts of the transition. The Russian invasion of Ukraine has pushed forward the Environment pillar of ESG, but balance is key. Patrick de Cambourg raises a warning with regards to the approaching US and EU elections, and the prudence the EU should employ in order to keep leading the way in the field and avoid becoming disconnected from the political reality. The political agenda is disconnected from the long-term agenda: standard setting is a long process that cannot enact short-term changes.

In conclusion, the panel showed optimism but emphasized that all forces are required to go in the same direction to achieve the climate goals.

Annex 4: Conference at Collège des Bernardins - Towards a climate war economy?

I) Managed economy: from productivism to sovereign sobriety?

Magali Raghezza (geographer, Haut Conseil pour le Climat), César Dugest (engineer), Anais Voy Crilis (geographer).

195 countries are members of the IPCC, which in 2022 established scientific certainties concerning global warming and its link with the accumulation of greenhouse gases. If current trends remain unchanged, the planet will have warmed by more than 2°C by the end of the century, triggering unstoppable chain reactions. France alone is responsible for less than 2% of global emissions, so action must be global. For Magali, the money is there and must be used to finance carbon neutrality.

César refers to the example of COVID, which has reduced emissions by an average of 7% over the year 2020. To ensure carbon neutrality, this order of magnitude would have to be maintained additively, every year until 2050. But despite the fact that the population is virtually at a standstill, the socio-technical fabric (machines and behaviors) continues to run, and therefore to pollute. In his view, public action is essential to transform this fabric and ensure a sober society. The transition cannot take place without profound structural changes, and a reduction in demand that would enable us to modulate the supply of energy. There is a link between the individual and the collective, and changes must be made at both levels.

Although companies are required by French and soon European legislation (CSRD) to publish their carbon footprint and targets, they are in fact under no obligation to achieve results, as there are no controls or penalties. They "offset", for example through the voluntary carbon market.

Since March 2020, we have seen the reindustrialization of Europe, with relocations and increased support for sovereignty. However, there is no list of strategic assets, and the central issue of territorial planning has not been considered. We also need to think carefully about logistics and energy infrastructures. "Better is better than more". The European Green Deal represents a change of narrative, encouraging companies to reflect on their purpose rather than focusing exclusively on negative externalities and modalities.

II) Governing the ecological transition: how to plan democratically?

Admiral Marc-Antoine de Saint-Germain, Razmig Keucheyan (sociologist), Philippe Rio (mayor of Grigny, PCF).

There's a difference between operational planning and resource planning. The CEA (Centre pour l'Energie Atomique - Atomic Energy Centre) is a fundamental organization in both energy and military planning. The economy is politicized in wartime: the state is subject to purchasing obligations, rationing is sometimes necessary, power is concentrated in the executive, and there is a clear demand for justice. The concepts of sacrifice and concession were mobilized. Finally, the army has three obligations in wartime: to limit destruction, to economize the use of armed force (war to the just need), and to anticipate and prevent climatic risks.

Transition planning must be "co-planning", hand-in-hand between the State and local authorities, in order to develop territories accordingly. Planning is democratic if the goal is shared by all parties and is clear. War is waged against an enemy, but in this case the climate is not an enemy: the logic of planning must be defense.

Today's market economy is focused on purchasing power and the creation of fictitious needs. The transition must make it possible to decouple the satisfaction of market needs, and this will be achieved through public services. French planning institutions need to be reinvented. China uses institutions to politicize the economy. India has had to reinvent its economy in order to use it as a lever for creating power, to alleviate its water problems.

III) Accompanying change: what kind of social model?

Lucas Chancel (economist, Sciences Po), Benoît Osterag (CFDT), Léa Falco (Intérêt Général think tank).

It's important to remember that most of the population is already living frugally, since the richest 10% of the planet are responsible for 50% of global emissions. We need to move away from the logic of prices and return to planning and re-establish the market in society and nature. Historically, France has never been so rich, but it's all a question of distribution.

We need to stop subsidizing pollution, and that means taxing certain pollutants, the revenues from which would make it possible to finance the transition, using both public and private money. The question will then be: who will own tomorrow's ecological capital?

IV) One or more models of climate war economy?

François Ruffin (NUPES), Delphine Batho (NUPES), Aurélien Pradié (LR)

For François Ruffin, today's market no longer works, and its place must therefore be reconsidered as part of the societal change required for climate transition. Delphine Batho does not support the concept of a climate war economy, preferring the concept of degrowth as the only desirable end in her view. The problem we're facing is not just a climatic one (biodiversity, water, etc.), it's an unprecedented one that calls for a reduction in production while ensuring the security of the population’s basic needs.

A National Resilience Council could perhaps provide solutions. For Aurélien Pradié, there is a phenomenon of trivialization of the word "war" which is not beneficial. The war economy did not create social justice, and there was no permanent consensus, only occasional agreements after the Second World War. It seems more appropriate to speak of reconstruction rather than war. The use of the concept of war also raises the fundamental question: against whom? An ideological shift is needed in the face of the climate battle to put an end to the liberalism followed since 1983. For François Ruffin, a desire for something else has emerged, and degrowth cannot be its end, but rather a means to an end. There's a decorrelation between producing more equals producing better.

The COVID crisis saw the rules of the Stability Pact suspended, and the legitimacy of the state as a source of solutions for companies returned to center stage. State intervention is not automatic, however, since it was not triggered at the onset of inflation, which was observed before the Russian invasion of Ukraine. It is therefore necessary to determine not only the triggering factor for state aid, but also the purpose of such intervention.

For the traditional right, there is no question of an ideological shift towards ecological planning, as they have been aware of the seriousness of the issue since the 1970s (President Pompidou mentioned in his Chicago speech the possibility that consumer society would be the undoing of human society). For Aurélien Pradié, degrowth is an ideological and tactical error, because the ultimate goal of every state is to increase the quality of life for each of its citizens. What's more, if the quality of life doesn't improve, the mobilization of the people won't follow. The tools of democracy need to be revamped to entrust the people with the task of making decisions about the common good, for therein also lies the key to strategic independence - as well as energy independence, considering hydroelectric dams to be part of the common heritage.

For Delphine Batho, belief leads to growth, but science leads to degrowth. The problems of our century cannot be solved by past institutions. François Ruffin doubts the effectiveness of self-regulation, preferring common law as a vector of change. The transition of companies will take place sector by sector, but without forgetting the right to development of the countries of the economic South.

The most appropriate method is also a matter for debate: a common objective must be clearly defined if mobilization is to be widespread, but for example, a European electricity market makes no sense to the three MPs. For Aurélien Pradié, the European Union leads to the dispossession of decision-making, whereas sovereignty corresponds to the mastery of destiny. Finally, for François Ruffin, indices of well-being must take precedence over GDP (Gross Domestic Product) in order to solve society's problems. Political contradictions must be overcome to call for a citizen-initiated referendum in France to determine financial and climate policies. Purely mercantile reasoning that considers only profitability is self-destructive, and results in the destruction of nature because it is not seen as an economic asset or a participant in the accounting profit that has prevailed until now.

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KEY-WORDS: sustainable finance, regulation, policymakers, behavioralism, green transition.

ABSTRACT

Sustainable finance seems to be endorsed by policymakers as one of the solutions to tackle climate change and both environmental and social issues. While a strong regulatory activity can be observed in the EU on the topic, the US seem to be torn between those who support a more responsible way to invest, while others are firmly against considering any criteria other than pure financial returns when investing. What is it in practice? Adopting a behavioral approach, some factors will step out as more decisive for policymakers when deciding about sustainable finance and its regulation, or its prohibition. A quick look at what the future might hold for the topic will also be considered, as policymakers are getting more and more involved and opinionated.