

Sustainable Finance & Life Cycle Assessments (LCAs)

How do markets integrate the environment, and more precisely the
concept of LCA ?

Seminar - SCORE LCA, 21st of March 2019

A study covering “hot topics” of sustainable finance

- Increasing interest for environmental footprint
 - New tools being developed

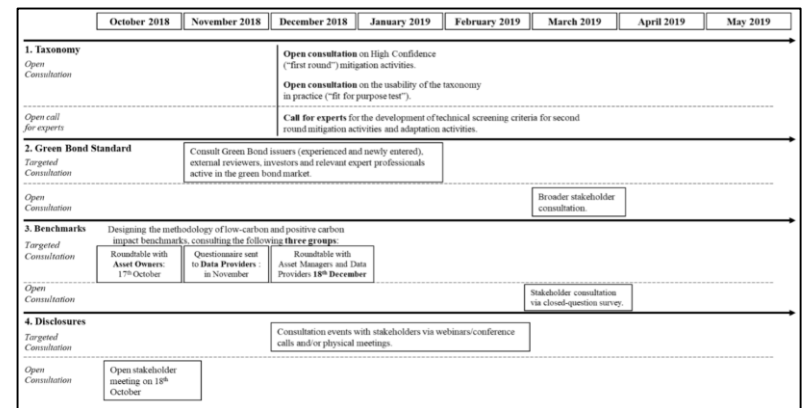
TCFD, article 173



2°C Alignment, impact measures, positive contribution,
...

Standardization efforts already initiated

- A « Taxonomy » on green activities, a normative cornerstone on sustainable evaluation ;
- Law voted by the European Parliament on the 11th of March 2019.



Objectives and needs covered by the study

Objectives

Develop a cartography of financial mechanisms integrating environmental footprint approaches, in particular LCA approaches.



Elaborate practical and concrete recommendations on strategies/approaches to put in place to make sure existing work on the environmental footprint is known and promoted.

Needs

01

State-of-art of existing mechanisms, through a detailed analysis

02

Cartography to map all mechanisms part of the financial ecosystem and identify their degree of LCA integration

03

Recommendations on strategies to adopt in order to promote existing work on the environmental footprint.

Reminder : stakeholders in the financial ecosystem

Supply of capitals

Demand of capitals

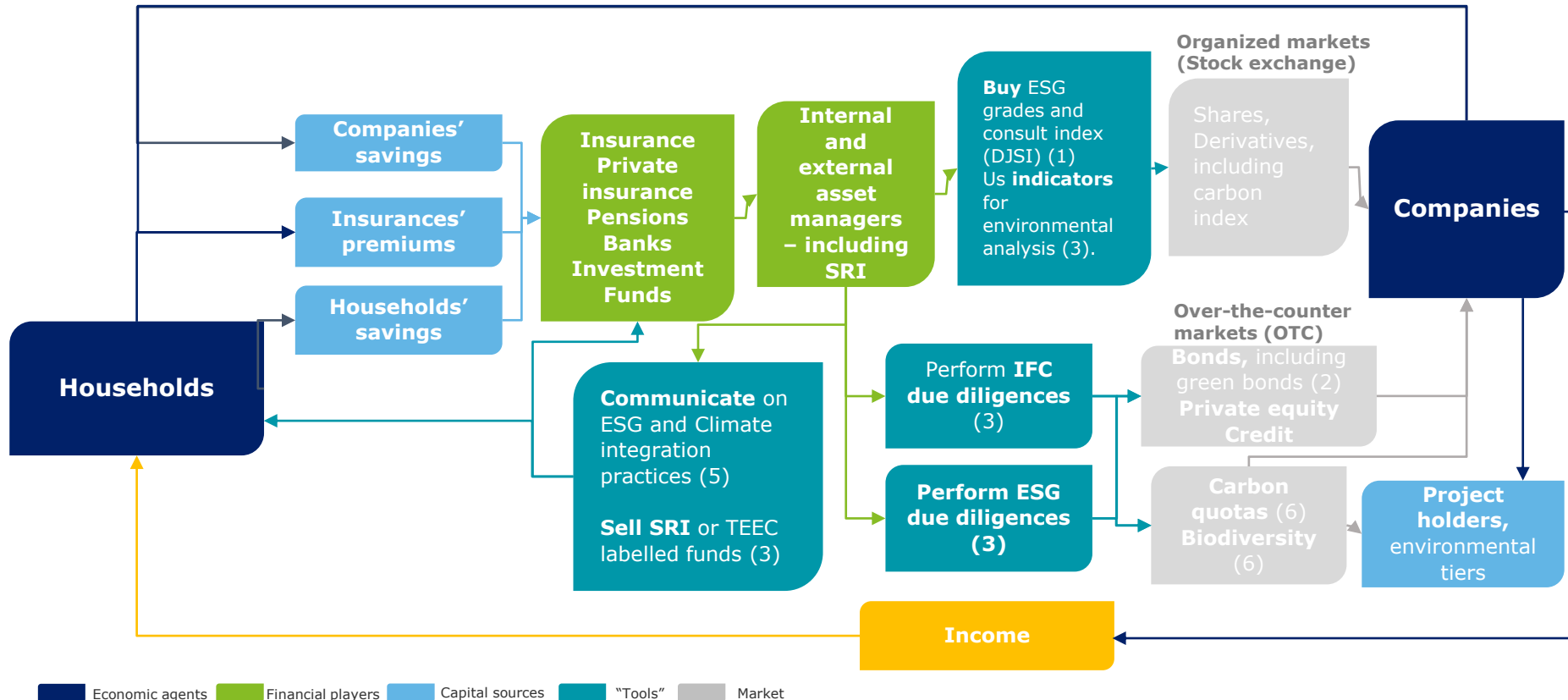
Savings and premiums constitute the principal sources of capitals ...

... those capitals are managed by professional investors ...

... who take their decisions on the basis their own analysis or via specialized intermediaries ...

... in order to buy financial assets directly or on the financial market ...

... to provide funding for a company or a project.



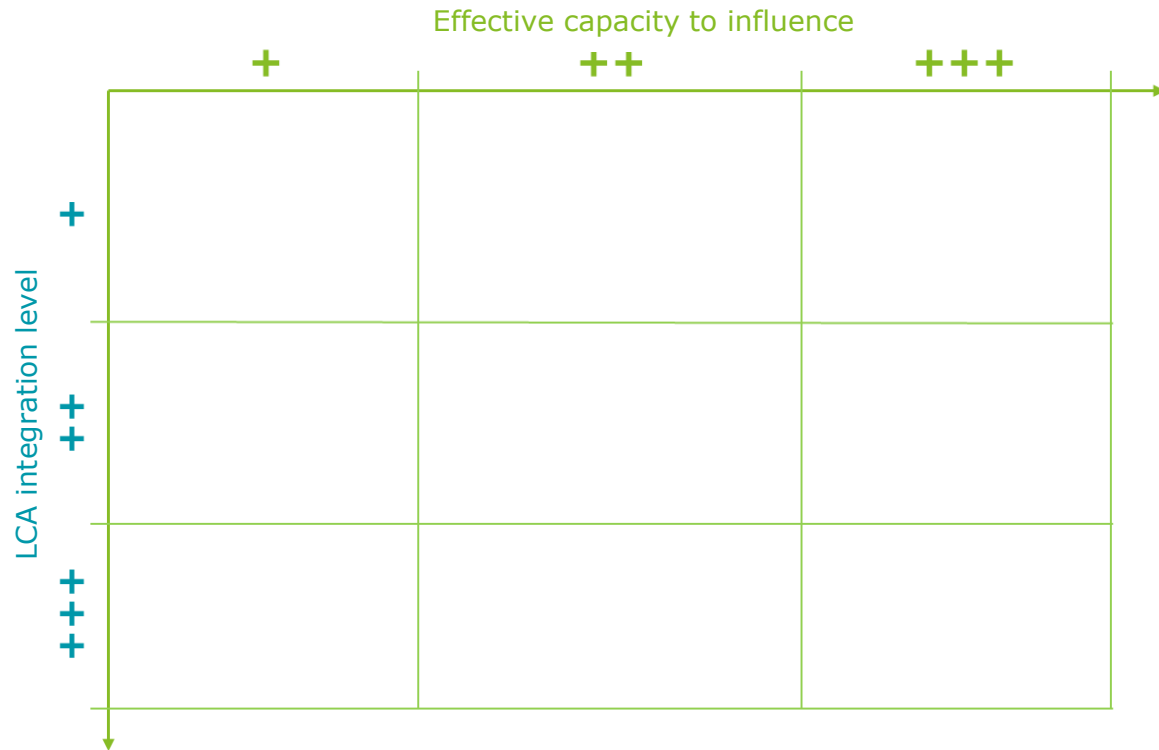
Cartography of financial mechanisms that may be influenced by the environmental footprint

Cartography of mechanisms following 2 axis

Integration level of LCA criteria and effective capacity to influence investments

- Capacity of mechanism to influence investment
- Volume of investment covered by mechanism

- Weight of environment criteria in mechanism
- Value chain / Life cycle approach
- Multi-environment issues
- Quantified approach



Initial cartography

A contrasted positioning

Effective capacity to influence

	+	++	+++
+	<ul style="list-style-type: none"> ✓ Due Diligence 	<ul style="list-style-type: none"> ✓ SRI financial indicators ✓ SRI Label ✓ Asset management communications ✓ Biodiversity compensation ✓ Voluntary carbon compensation ✓ Carbon footprint 	<ul style="list-style-type: none"> ✓ Companies' external communications
++	<ul style="list-style-type: none"> ✓ 2°C Alignement 	<ul style="list-style-type: none"> ✓ Green Bonds ✓ TEEC Label ✓ Green share 	-
+++	<ul style="list-style-type: none"> ✓ Net Environmental Contribution (NEC) 	-	-

LCA integration level

General framework for our recommendations

Objectives, approach and priorities

Objectives

- Ensure LCA is a **well-known and understood tool**
- Enable financial players to take investment decisions based on **practical and scientifically proven elements**
- **Direct** investment decisions towards products with positive environmental impacts
- Promote LCA as the **reference method** for the evaluation of environmental impacts
- Promote the use of LCA in a **cost/benefit approach**

Recommendations

1

Promote LCA practices in the marketplace works

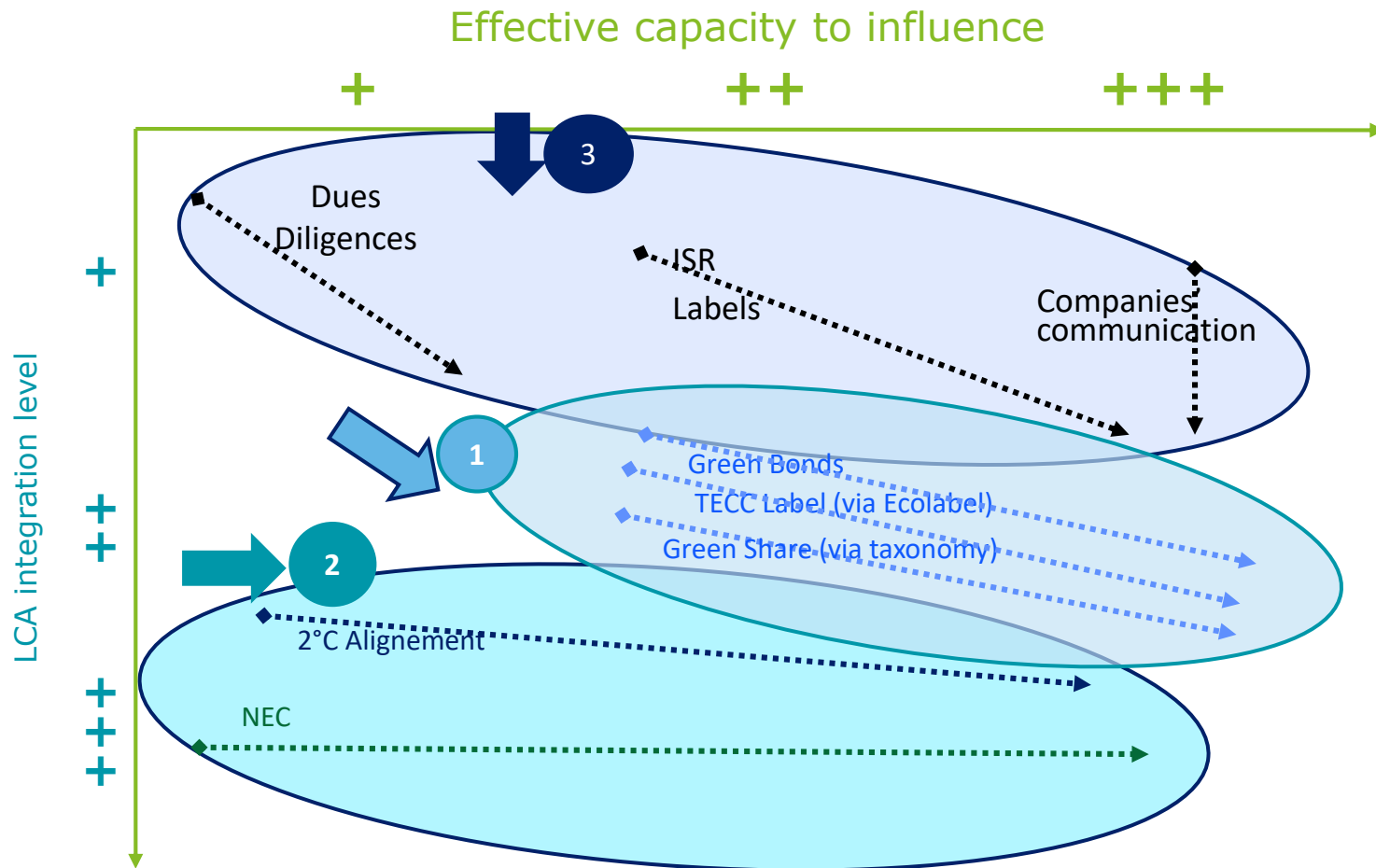
2

Support the expansion of mechanisms already integrating some or all LCA criteria, and for which effective influence capacity may be reinforced

3

Promote the use of LCA for mechanisms which do not yet integrate these LCA criteria

... and their intended impact on analysed mechanisms



1st priority: Promote LCA practices in the marketplace work

European taxonomy

- The European taxonomy will be a standard to define green activities
- LCA is theoretically registered as a criteria ... nonetheless, its actual use to evaluate economic activities remains a challenge

Green Bonds

- We are still missing a standardised definition of what a green bond is
- However the green bonds market keeps increasing and there are clear links with the work done on the taxonomy

European financial ecolabel

- Work on a European financial ecolabel should start in 2019/2020
- This European ecolabel should lift existing obstacles that green labels currently face (TEEC label, ..)

#1 Participate **urgently** to the European Commission work on the European taxonomy in order to make sure LCA is correctly used for the definition of « sustainable » activities. Beyond current work (2019), the taxonomy will have to be regularly reviewed thanks to private sector inputs and close monitoring.

#2 Encourage companies putting green bonds on the market to integrate LCA criteria in their specification. The objective is to select projects with a proven positive impact throughout the entire life cycle.

#3 Promote the use of LCA as an eligibility criteria within the Climate Bond Standard or the Green Bond Principles. This should be done by participating to the market place work, especially at the European level.

#4 Support the development of a European ecolabel for financial products. This label will ensure that financial products have strong capacity of influence and also integrate LCA criteria.

2nd priority: Support and improve mechanisms integrating LCA criteria

Net Environmental Contribution

- The NEC is the most advanced mechanisms in terms of LCA criteria integration (supply chain, multi-stakes, quantitative)
- Its effective influence is still limited in 2019 (< 10 users) ...
- ... nevertheless, this methodology becomes a collaborative initiative open to a number of investors and other stakeholders.

2°C Alignment

- 2°C Alignment methodologies have supply chain sectorial approaches which are limited to climate.
- Its effective influence remains limited ...
- ... but its deployment potential is important. The majority of French institutional investors intend to comply with the 2° trajectory objective

#1 Support the outreach of these two metrics with 3 recommendations

- Specify interactions between the evaluator calculating the NEC and the company being evaluated
- Build a certification/validation system in order to ensure the homogeneity of hypotheses, calculations etc.
- Work on indicators' materiality, meaning draw the link between the evaluation of the environment performance and financial transitional risk.

#2 For the **NEC metric**, support the **collaborative initiative** (NEC Initiative) with the aim to improve **transparency** on the sectorial methodologies and on the **input corporate data** used in this methodology

#3 For the **2°C alignment metrics**, encourage the **convergence** of the methodologies (SBT, ACT, PACTA, SB2A), **extend the number of** sectors and company size covered and enhance **the value chain / LCA approach**

3rd priority: Promote deeper integration of LCA methods in mainstream mechanisms

On investors' side

- For three mainstream mechanisms, there are opportunities to start integrating LCA principles :
 - Investors reporting : answer clients' and stakeholders' demand for environmental reporting
 - Due Diligence: need to evaluate the materiality of environmental issues in companies acquired
 - SRI Label : participate in the current label revision process in order to take greater account of environmental topics

#1 Promote the use of **environment reporting** metrics which focus on LCA principles (multi-stakes, supply chain)

#2 Regarding the SRI label, promote LCA as the methodology of reference regarding the environment criteria

#3 With regards to due diligence processes, use LCA approaches as a dialogue tool with investors, precisely when it comes to environmental risks but also opportunities with regards to their business models

On companies' side

- Environmental performance evaluation indicators used by analysts and investors depend on the quality and reliability of environmental data disclosed by the companies ...
- ... however the data disclosed by companies is currently limited and, most of the time, do not integrate LCA principles

#1 Raise companies' awareness on the growing analyst/ investors' need regarding LCA data (supply chain, multi-impacts), whether at the organization scale or at the product/services scale.

#2 Make sure data provided is understood by all and clear, notably in comparison to a normative referential (ex: taxonomy) or a market average.

Questions / Answers