Finance, a driver of the green transition?



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CHAIRMAN'S MESSAGE

The green transition presents a significant challenge in terms of innovation and investment for most major companies. Some view it as an area of strategic concern – a perspective also shared by numerous investors. The investments expected from corporates are huge, amounting to several billion euros annually for France and decarbonisation alone, not to mention the transition-related issues of biodiversity, water and other resources.

Several questions arise regarding the funding for these investments, primarily whether they are or will be profitable.

The answer varies: while they may be profitable at times, in the current scheme of things there is no guarantee they will always be so. Green investments have the potential to be profitable if there were a carbon price applied to all emissions, making solutions with lower greenhouse gas emissions more competitive compared to those with higher emissions. Currently, there is a carbon price for large emitters in Europe and some other countries, but it covers less than a quarter of global emissions. Large differences in carbon pricing create uncompetitive conditions for heavy industry in countries that have more ambitious environmental policies compared to those that do not.

Transition investments adhere to a complex innovation rationale, often linking lower footprints to the user-friendliness of products and services. It is essential that funders, to whom companies turn, understand the solutions, dynamics, risks and opportunities of these business models to effectively finance them.

This means everyone trusts the consistency of assessment of these new models, allowing financial players to compare various investments, projects, companies and corporate transition plans, while measuring and managing associated risks and opportunities.

In the absence of a universal carbon price and other externality pricing that would allow environmental issues to be treated on a par with other company costs and revenue, European public authorities have introduced disclosure requirements for economic and financial players and their stakeholders, primarily investors. These requirements consist of enforceable directives and regulations that require environmental data to be of comparable quality to financial data.

This shift transforms the relationship between finance and business departments within companies, introducing new decision-making criteria, innovative business models, novel operational methods, and specific development and investment funding arrangements.

Given the broad impact of this shift, we think it is useful to assess the initial changes brought about by the increased involvement of finance in decarbonisation, along with the innovations and solutions implemented by EpE's financial and industrial member companies. We hope this publication serves as a valuable resource for the growing number of participants seeking to engage in this transition.

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INTRODUCTION

The financial system at the core of organisations and the world economy

Finance is the foundation on which all our economic interactions are built. It has a powerful influence on today's world through such universal indicators as profit and corporate profitability, but especially through market valuations of goods and services. We all rely on financial data to assess the performance of organisations and the economy at large. The main problem is that this framework, as it now stands, fails to integrate the environmental and social dimensions. As a result, an organisation's performance assessment is usually limited to its financial statements, from which the environmental and social performance related to the dependencies and impacts of activity on the environment and human beings has been all but excluded. However, as the consequences of climate change, biodiversity loss and demographic and social changes are felt and continue to increase, the viability of economic models based solely on financial performance proper is being called into question, with various methods being implemented to reduce this gap.

The oldest method is regulation to limit impacts (via classification of plant and equipment, marketing authorisations for certain products, etc.) and is easily integrated into economic models. Another method is the internalisation of externalities through public policies. The best example is carbon pricing. Whether created by a tax or by a cap-and-trade system, it allows a business's emissions to be included as a factor of production: the higher the price, the more the company seeks alternative production methods, and the more decarbonised solutions find profitable markets. However, the internalisation of negative externalities is difficult to mainstream, for various reasons. On the one hand, it can be done only by government, be it at a central or regional level. This would end up distorting the conditions of competition and competitiveness in a globalised world. On the other hand, because it often entails costly adaptations, stakeholders (SMEs, underprivileged households) are not always able to bear the cost of the transition, making it socially and politically problematic. Finally, it does not work for impacts and pressures which are difficult to quantify. For example, how do you integrate the increased risk of introducing invasive species? How does one measure the consequences of a project in terms of habitat fragmentation?

Civil society, states as well as the business community have therefore sought other ways to ensure that economic activities take into account these negative externalities, giving rise to the concept of sustainable development in 1991 with the Brundtland Report. Known as Corporate Social Responsibility (CSR), its purpose is to factor direct and indirect environmental and social issues into business activities.

Integrated finance-CSR reporting subject to increasing regulatory pressure

Companies and financial institutions have accordingly outlined voluntary or regulatory Corporate Social Responsibility (CSR) policies depending on where they are located in the world, gradually accompanied by increasingly sophisticated reporting procedures at least for the largest companies or those funded through public savings. In Europe, following several years of inconsistent CSR reporting across countries, the 2018 Non-Financial Reporting Directive (NFRD) standardised practices. This was followed in 2020 by the EU taxonomy, a classification system designed to identify economic activities according to their sustainability, and consequently to encourage investments in that direction. Similarly, the SFDR[1], which came into force in 2021, harmonises ESG[2] disclosures by financial institutions in order to promote investment in sustainable financial products.

Transparency obligations in terms of risks, opportunities, dependencies and social and environmental impacts increased under the CSRD[3], which came into force in 2024. This regulatory framework reveals a new dimension: double materiality, i.e. the impact of a company on society and the environment, and the influence of social and environmental issues on its performance. The directive also requires transition plans to reduce negative impacts and ultimately aims to question the viability of a company's business model by placing environmental and social performance on a level footing with financial performance.

1 Sustainable Finance Disclosure Regulation.
2 Environment, Social, Governance.
3 Corporate Sustainability Reporting Directive.

Even though the future, in the short term, remains uncertain with regard to the effective adoption of new CSR regulations by EU institutions, the last few years have seen an increasing number of obligations concerning sustainability and the financial modelling of environmental and social performance.

Businesses and financial institutions - major players in directing capital flows towards the green transition

While 2024 ended with three Conferences of the Parties - Biodiversity (COP16 UNCBD[4]), Climate (COP29 UNFCCC[5]), and Desertification (COP16 UNCCD[6]) - and the urgency of a fair green transition has never been so strongly stressed, the provision of financial resources for this transition continues to lag behind. The need for innovative and sustainable finance is, however, compelling, especially since, despite being less costly than long-term inaction, the investments required for the transition are huge, amounting to hundreds of billions of euros more each year globally.

People's expectations of governments are high but cannot be met with current public funding arrangements. Private players and financial market participants are therefore being called upon as well to play a role in channelling capital into the green transition. Their collaboration with public authorities and environmental experts is key to developing joint solutions, aligning flows and overcoming the apparent low profitability of so-called 'green' projects.

Converging finance and CSR - an opportunity to transform economic models and enable business resilience?

The purpose of factoring CSR issues into the financial decisions of companies and financial institutions is to align investments and financial assets with sustainability objectives.

The convergence of finance and sustainability, pushed by European regulation, appears to be an opportunity to transform business models and make organisations more resilient to the challenges threatening them. Corporate finance can be seen as an essential component in the green transition's implementation, albeit a highly complex one where multiple players interact, a financial language is required to take ownership of environmental and social concepts without reducing them to just measurable elements, and efforts are made to simplify dialogue and avoid further slowing down the transformation of economic models. Will this development trigger sufficient changes in investor behaviour?

This publication is based on the experience of EpE companies, shared within the association's corporate finance committee, under the co-chairmanship of Pierre-Yves Pouliquen, Director of Plural Performance and Sustainable Development, and Philippe Hermann, Director of Sustainable Finance, at Veolia Group. The participants' contributions made it possible to focus on three key areas of study dealt with across various chapters.

Accordingly, this study first describes the regulatory and voluntary frameworks that give prominence to sustainability in finance, as well as the organisational changes and skills development derived from them, based on the observed practices of EpE member companies. The implications of the convergence between finance and sustainability are subsequently examined, including the challenges of data (governance, quantity, quality, availability, consistency, and weighting) and data integration tools, and how this data, central to corporate communication, is used by stakeholders, in particular investors through rating agencies. Lastly, the publication examines the funding requirements of the green transition, the instruments being developed to meet them, and the redirection of capital flows to the necessary investments.

4 United Nations Convention on Biological Diversity.
5 United Nations Framework Convention on Climate Change.
6 United Nations Convention to Combat Desertification.

1

Emerging sustainability in corporate finance

The purpose of corporate finance has so far been to ensure the production of reliable financial information for informed decision-making. Its tasks include financial planning, accounting, taxation, treasury and financing, budgetary control, optimisation of financial resources, and dialogue with the company's financing partners. As a result, it plays a key role in companies and contributes, through standardised and comparable economic performance processes and indicators, to sound corporate management and resilience. Today, however, it faces a new challenge: the surge in corporate social responsibility (CSR) issues that pose new environmental and social risks with potential consequences for corporate strategy, investment decisions, and finance. Regulators, particularly in the EU, now require economic players, financial market participants, and corporate issuers to take those aspects into account systematically, like financial data, in their communication and decision-making. This involves corporate finance taking ownership of the new challenges and substantive work being conducted on the company's internal structure, skills development, and change management procedures to commit financial institutions and companies to the path of the green transition.

Understanding changes in regulatory, standards, and voluntary frameworks when factoring environmental and social issues into finance yields insight into the changes taking place in areas such as internal departmental organisation, multi-skill requirements, and the risks of CSR incorporation into corporate finance.

1 Evolution of regulatory and voluntary frameworks

Worldwide, companies and financial institutions are factoring into their corporate social responsibility (CSR) policies the social, environmental, and economic concerns associated with their and their stakeholders' activities. The degree of development of the regulatory reporting framework on these issues varies among regions. While this trend is global, several concepts coexist or even conflict over the content of sustainability reporting.

The international IFRS[7] framework backed by the ISSB[8] is voluntary but standards-intensive. Two of its standards (IFRS-S1 and IFRS-S2), published in June 2023, require the translation into accounting language of the financial consequences of climate-related risks and opportunities for a company's outlook. These standards thus lead companies to focus on the risks CSR issues pose for them, including the possibility of regulatory risk if their activities are deemed sufficiently impactful to warrant further regulation. While awaiting other potential changes, corporate finance has adopted this standards-based issue and expressed interest in sustainability themes to maintain its continued role in corporate governance.

In Europe, following an initial fifteen-year period of disparity between countries over CSR reporting - voluntary for some and regulatory for others such as France with its 2002 law on New Economic Regulations (NRE) and the 2012 Grenelle 2 law - the European framework was standardised under the NFRD directive which came into force in 2018. This directive, transposed into French law as DPEF[9], has given rise to structured approaches aimed at shifting from declarative CSR to CSR-based business transformation models.

More recent, regulatory requirements for non-financial reporting have been significantly strengthened with three frameworks: taxonomy, SFDR for financial institutions, and CSRD for companies.

7 International Financial Reporting Standards.
8 International Sustainability Standards Board.
9 *Déclaration de Performance Extra-Financière.*

In France, the CSR report, hitherto a voluntary exercise by companies, has given way to the DPEF which, after broad incorporation into the reference document, now becomes the mandatory sustainability report. Its aim is to ensure transparency for all stakeholders on the impacts, risks and opportunities of corporate activities across the value chain. It also concerns financial players who have a transparency obligation to investors regarding the social and environmental issues faced by the companies they finance.

The approach adopted by EU regulators differs from IFRS in that it requires cross-reporting of the risks associated with reporting impacts, even those that do not pose short-term risks. The aim is to identify each player's significant contribution to the creation and resolution of the common problems of the environment, non-diversity, and social hardship.

Such requirements have expanded in terms of the scope (the number of companies required to disclose is gradually rising) and the extent of the issues to be taken into account. Issues are selected by corporates on the basis of a double materiality analysis of all activities across their value chain, including impacts, risks and opportunities. A company may choose not to report on issues that do not have a significant negative impact but will do so at its own risk.

Concomitantly, case law is evolving, as illustrated by the Paris judicial tribunal's establishment of a "chamber of social, economic and environmental regulation" to adjudicate CSR-related disputes.

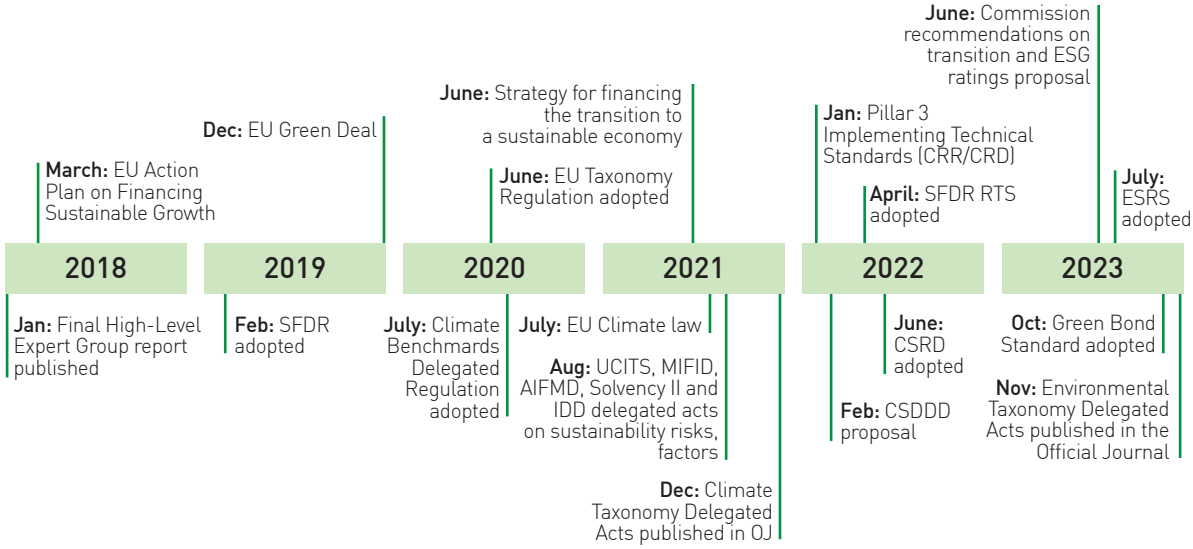


Figure 1 / Review of EU green transition regulations since 2018.
Source: EU platform on Sustainable Finance.

1.1. The EU taxonomy

The taxonomy adopted by the European Commission in 2020, applicable since 2023, has introduced a classification system for sustainable economic activities based on how environment-friendly their impacts are[10]. The aim is to create investment momentum into so-called "sustainable" activities and to adopt a harmonised analysis framework to encourage corporate investments in the green transition.

Séché Environnement group contributed to the drafting of this regulatory framework by participating in the European Commission consultation. In doing so, it helped provide a practical insight into environmental issues related to waste management, depollution, and the preservation of natural resources. At the same time, it anticipated the framework's application internally and made taxonomy a strategic tool to guide the selection of acquisitions and investments.

The taxonomy has prompted the development of tools to understand business activities in terms of sustainability, and ultimately guide corporate strategy beyond mere climate-focused issues.

Séché

Driving strategic transformation through the EU taxonomy

Driven by its core activity of processing and recycling hazardous waste and aware of the circular economy's prime role in the green transition, Séché Environnement has stamped its presence as one of the pioneers of sustainable finance by playing an active role in the development of taxonomy reporting. To do so, it has used a threefold approach:

- **Contributing to the European regulatory framework**
  The European Commission, as part of its strategy to direct financial flows towards environment-friendly projects, sought out the expertise of many companies. Séché Environnement was one of the first players to participate in the EC's consultations on the EU taxonomy for sustainable activities. Its involvement in the consultation and drafting process has helped provide practical insight into environmental issues related to waste management, depollution, and the preservation of natural resources.
- **Anticipating taxonomy reporting on the six environmental objectives**
  Back in 2022 and ahead of regulatory obligations, Séché Environnement anticipated the introduction of taxonomy reporting by publishing analyses on the eligibility of, and alignment with, all six environmental objectives defined by the European Commission. The objectives cover critical issues such as climate change mitigation, climate adaptation, sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and reduction, and ecosystem protection.
- **Serving as a driver for strategic transformation**
  More than simply complying with regulatory obligations, Séché Environnement has turned taxonomy into a driver for transformation. The company now uses this tool not only to guide its acquisition and investment decisions but also to continuously improve the alignment rate of its facilities. By integrating substantive criteria and DNSH[11] guidelines, the company ensures that its activities do not compromise its other environmental objectives. In this way, taxonomy becomes a monitoring tool, allowing the group to strengthen its sustainable finance commitments and pursue its growth. In 2023, 70% of group sales were aligned with EU green taxonomy criteria.

10 There are six categories of activities: climate change mitigation; climate change adaptation; sustainable use and protection of life below water; transition to a circular economy; pollution prevention and control; protection and restoration of biodiversity and ecosystems. In addition to having a positive impact on one of these six objectives, an activity must also not undermine the other five.

11 "Do Not Significantly Harm".

While the EU taxonomy enables companies to classify their portfolio of offerings and organise it along more sustainable lines, it is backed by two European texts: the **SFDR** and the **CSRD**. Both directives seek to provide greater transparency on the practices of companies and financial institutions, while helping them make their business models more sustainable.

1.2. The EU Sustainable Finance Disclosure Regulation

The EU SFDR on sustainability reporting in the financial services sector came into force in 2021. Its main purpose is to guide savers and investors by providing them with information on the impacts of their investments in financial products.

To this end, the SFDR harmonises and strengthens transparency obligations regarding ESG issues for financial institutions and the financial products they market. This should lead to better identification of assets covered by "sustainable" finance. The regulation encompasses three concepts: **green finance** to promote the energy transition and stand against climate change; **solidarity finance** to fight exclusion and improve social cohesion; and **responsible finance** combining financial performance and ESG criteria to govern investments known as Socially Responsible Investments (SRIs).

In France, the SFDR replaces the provisions of the **Energy-Climate law** passed in 2019 to meet the national objective of carbon neutrality by 2050 under the Paris Agreement. Since 2021, those provisions have included **Article 29's implementation decree**, which aims to clarify non-financial reporting by financial players. The decree imposes in particular a requirement on financial players to disclose information on their contribution to the energy transition, integrate climate risk management into their practices, and differentiate financial products that respect social and environmental criteria through the new "Sustainable Finance" label.

As it aims to foster dialogue between corporates and their funders, our publication does not address issues specific to purely financial players.

1.3. The EU Corporate Sustainability Reporting Directive

The CSRD was adopted in 2022 and transcribed into French law for initial application in 2024 (preliminary reports expected in 2025). The directive's eligibility criteria widen from one year to another: 11,700 European companies were covered in 2024, with 50,000 expected in 2026[12]. The CSRD requires companies to demonstrate the consistency of their CSR policies with their corporate business model (taking into account issues related to the sector of activity).

Its purpose is to **strengthen and standardise corporate non-financial reporting** so that companies can be compared according to their level of sustainability, and **to trigger far-reaching changes in business models and practices on environmental, social and governance (ESG) matters**. To this end, twelve standards known as ESRS[13] apply: five relate to the environment, four to social factors, one to governance, and two are general and cross-cutting.

12 Source: France's Financial Markets Authority.
13 European Sustainability Reporting Standards.

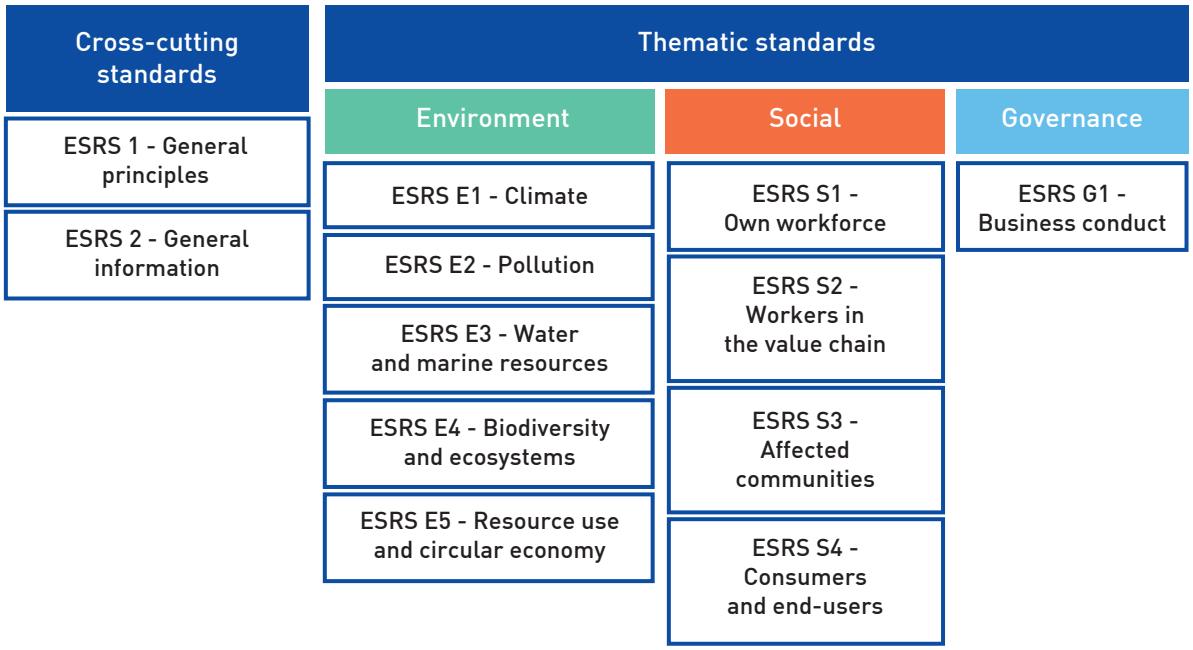


Figure 2 / Overview of the content of the EU CSRD– the 12 ESRS standards.
Source: Official Journal of the EU dated 22 December 2023 via Delegated Act (EU) 2023/2772 of 31 July 2023.

The essential difference from previous standards and international IFRS is the inclusion and assessment of **double materiality**. The European Union follows a twofold approach which requires companies to identify as well as assess:

- the risks or opportunities created by external environmental and social factors having an impact on their financial performance, and vice versa.
- the positive or negative impacts[14] caused by the company's activity on the environment and society.

Double materiality assessment is a fundamental first step in the CSRD because it determines the scope of reporting. It is nevertheless a real challenge for companies, according to EFRAG[15], especially when it comes to deciding what is material or not in terms of risks, impacts and opportunities. Many companies, particularly in France where non-financial reporting has been mandatory since the new economic regulation law of 2001, have decided to retain most of the indicators already used by them. The next few years will undoubtedly see content stabilising by sector or type of company.

The CSRD also requires actors to unveil transition plans to reduce their impacts, leading to investment plans in which corporate finance plays a crucial role.

Preparing the sustainability report within the meaning of the CSRD involves many corporate functions, including the finance department, the sustainable development department, legal affairs, purchasing[16], field personnel, human resources, communication, public affairs, and so on. Corporate finance orchestrates all this since it has to act on all ESRS standards, including:

- **governance** within ESRS G1 "Business Conduct" consisting of six disclosure requirements known as DRs[17], such as DR2 – supplier relationship management with respect to late payments, DR3 – prevention and detection of corruption or bribery, and DR6 – payment practices;
- **social and environmental**, where it plays a key role in establishing the double materiality matrix. In the field of climate, for example, the directive allows companies to link greenhouse gas emissions reporting and financial reporting by reconciling the effect of investments on emissions reduction with economic prospects.

Although the analytical focus is predominantly financial, internal organisational changes and sound versatile skills (financial, operational, and CSR) are often needed to design this exercise and manage it successfully.

Lastly, the CSRD highlights the need to develop the three "Lines of Defence"[18] (operational and control departments, including audit and internal control, compliance and risks), and to secure external assurance providers because the sustainability report has to be

14 Negative impacts can moreover be transformed into financial risks through reputational or transition risk.
15 European Financial Reporting Advisory Group, July 2024 Report: "Implementation of ESRS: Initial observed practices from selected companies".
16 EpE publication "Driving the green transition through procurement", June 2024.
17 Disclosure Requirement.
18 In the context of governance, internal control and risk management, the three "lines of defence" model is mainly designed to reduce the risks associated with company misstatements and fraud (source: Institute of Internal Auditors).

audited either by a statutory auditor with sustainability accreditation, or by an independent third party accredited by the French Accreditation Committee (COFRAC), or by the statutory auditors' firm already used. Audit procedures under the CSRD, though consisting in the gradual introduction of limited assurance reviews until 2028, will be tougher compared to the previous non-financial performance disclosure (DPEF) regulation. All content must now be vetted and subject to the same compliance principles as financial audits: methodological verification; checking of issues, scope, qualitative and quantitative data (which raises the question of how to treat prior collected and uncertified data), and alignment of sustainability statements with accounting statements; and finally, disclosure of rigorous and exhaustive documentation. The task of auditors is to issue an opinion after their examination in the form of a certification report addressed to the firm responsible for auditing the accounts.

While the requirement to disclose reliable, relevant and comparable ESG information and data should help minimise greenwashing in sustainability reports, the question remains of how to achieve this. Current reporting teams in companies cannot double their efforts: non-financial processes and tools are much less mature than financial ones, hampering implementation efforts. Auditors' methodologies need to be further refined, and companies have yet to adjust to those procedures. A reasonable system must emerge from this learning exercise to avoid rejection by companies and a slowdown in their transition.

1.4. Voluntary approaches

The regulatory framework results in richer dialogue between companies and funders over corporate sustainability, and better alignment of corporate strategies with the expectations of financial market participants. On climate and biodiversity, however, it was felt that voluntary approaches would be more appropriate to structure the data to be exchanged. Groups of funders companies and experts have developed standards, following a wide consultation process, that are beginning to shape this dialogue. In particular, they have endorsed the double materiality principle for supporting data.

Two voluntary frameworks, the **TCFD**[19] for climate and the **TNFD**[20] for biodiversity, aim to organise communication between the financial community and issuers, so as to ensure adequate comparability of the information on environmental issues provided by them, the aggregation of such information to characterise the funds, and comparability between financial products offered to investors. They have introduced a more thorough classification than the CSRD, including the reporting of **Dependencies, Impacts, Risks and Opportunities (DIRO)** to address climate and biodiversity issues.

Their purpose is to stimulate and accelerate the redirection of global financial flows towards activities with beneficial outcomes for climate and nature. The frameworks seek to build a robust financial environment and to create and foster conducive conditions for consistent corporate climate and biodiversity strategies.

While this is a priori the case for climate because of the universal indicator recognised as a reference ($teqCO_2$), and because all emissions discharge into the same atmosphere, comparison and aggregation of different biodiversity issues remain limited because of the difficulty in comparing them. As the 2022 IPBES report states[21]: assessment within the context of biodiversity and ecosystems is a process of developing indicators of quantitative measurement (monetary or non-monetary), as well as those which preferably reflect qualitative rankings or ratings and capture the perceptions and narratives of local and indigenous knowledge about the importance of nature to each actor. Each biodiversity indicator is thus the outcome of a negotiation process between actors and with their stakeholders regarding the materiality of this or that parameter. It is therefore unlikely that standardisation can occur, except in homogeneous sectors.

The financial translation of biodiversity-related DIROs thus requires in-depth dialogue between corporates and their partners and funders to understand the choice of indicators and materiality assessments of the different parameters. The same undoubtedly applies to social factors, which are equally difficult to translate into financial terms.

The CSRD should facilitate the enforcement of the TCFD and TNFD frameworks, with issuer data being more rigorously standardised.

19 Taskforce on Climate-Related Financial Disclosures.
20 Taskforce on Nature-Related Financial Disclosures.
21 IPBES, 2022B Assessment Report on Sustainable Use of Wild Species.

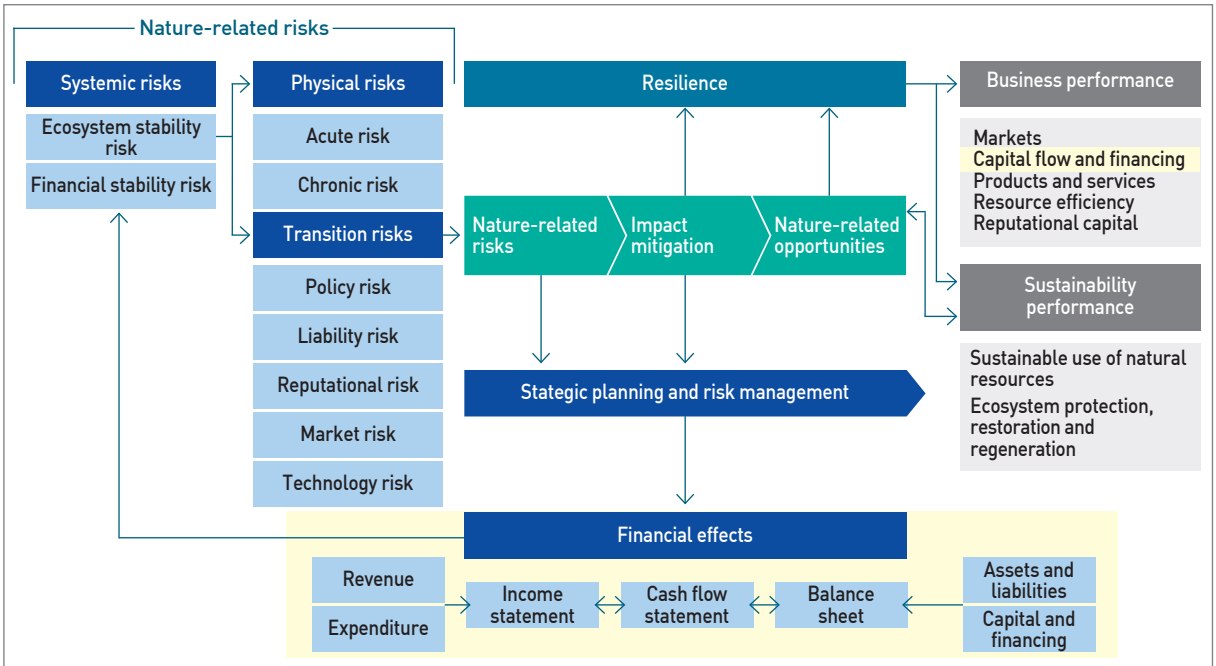


Figure 3 / Links between nature-related risks and opportunities, business performance and financial implications for the organisation.
Source: TNFD, Guidance on the LEAP approach (2023).

The large French groups making up the membership of Entreprises pour l'Environnement are already accustomed to financial and non-financial reporting, and have long been reporting on a voluntary basis. The new frameworks are therefore not felt to be an upheaval either organisationally or strategically. They now form part of their long-term approach but must be better structured and assessed against financial issues proper to foster dialogue with financial partners. This calls for the establishment of an adaptable and scalable organisational structure that covers support as well as operational functions so that the corporate finance department engineering internal dialogue effectively factors in social and green transition issues.

The aim is to place environmental and social performance on an equal footing with financial performance. This could lead to a profound transformation of economic models in favour of the green transition and make them more resilient.

Funders will have to actually use non-financial information relayed by corporates via financial intermediaries for the benefit of savers and primary investors who, too, need to understand the new information and the often complex issues underlying it. As well as understanding the data, primary investors should also be encouraged to leverage virtuous financial products regardless of lower profitability.

In that way, Accenture, which advises companies on compliance issues, observes that an iterative process is emerging and calls for a robust internal organisational structure integrating finance, including a focus on the type, quality and meaning of data to obtain the highest ESG performance and transform business models.

Speeding up corporate sustainability strategies by means of ESG regulations

According to Accenture, against a background of expanding and increasingly clear ESG regulation at the European level (SFDR, CSRD, CS3D[22], CBAM[23], EUDR[24], etc.), customers perceive compliance as a priority, aware that the context offers an unprecedented opportunity to profoundly re-engineer business models that operate within the planetary boundaries.

For several years now, large groups have been implementing major projects to completely revise their ESG approach. An iterative process has been introduced based on data and tools deemed most suitable to address long-term issues arising from a changing and stricter regulatory environment.

Defining the operational model is a key requirement to meet the challenges of governance, data structuring and quality, and risk management. Ultimately, this will ensure performance monitoring of the new model that puts impact at the heart of the company's activity. Accordingly, new monitoring requirements will be added, including water management, respect for ecosystems, biodiversity, and social as well as societal aspects. Accenture emphasises the need to engage with all employees and ensure their commitment and skills development through employee-friendly change management policies implemented at all levels of the organisation.

It is today essential to structure ESG data to the same standards of robustness as financial data. Data is appraised primarily in terms of availability, integrity, reliability and consistency, with strong implications for its compatibility with existing IT architecture. The effort demanded to obtain qualitative data is such that it will entail adjustments to internal control systems and their lines of defence before such data is eventually incorporated into the audit process.

Transformation monitoring has become a central element in ESRS implementation. That is why managing a CSRD project often requires additional dedicated resources (FTEs, skills, budget) during the performance phase. Efforts are under way to define methods of collaboration between departments (finance, sustainable development, risks, IT, business units, etc.) and the new distribution of roles. Meanwhile, new group departments that combine financial and sustainable development profiles are emerging. Exercising real transformation functions, they enable the successful implementation of complex sustainability reporting projects. These departments have also gone some way to enhancing the attractiveness of finance and management control jobs, ignored in recent years by skilled people. The accompanying investments are significant and involve a search for efficiency drivers, in particular through the automation of reporting and communication to markets and rating agencies. This explains the surge in the demand for ERP/EPM-specific solutions, made more efficient by the integration of artificial intelligence technologies such as generative AI that, for example, provide analyses and ensure the consistency of all information for investors through ever more accurate comparisons between companies in the same sector of activity.

One of the features of the regulations is to encourage players to reconsider the links between a company and its ecosystem. Corporate responsibility towards all players in the value chain needs strengthening. This is what double materiality assessment boils down to: measuring the impact of the company on its environment, and not just assessing the impact of the environment on the company. The CS3D, which is due to come into force in July 2027, will strengthen this trend, increasing corporate responsibility for the environmental and social issues in their value chain.

22 Corporate Sustainability Due Diligence Directive.
23 Carbon Border Adjustment Mechanism.
24 European Union Regulation on Deforestation.

Other green transition-friendly EU regulations impacting the private sector have recently been adopted, including:

- in 2023, the EUDR against imported deforestation[25];
- in 2024, the CS3D, a revised version of France's due diligence law of 2017, to prevent environmental, human rights and corruption risks for companies' own activities as well as those of their subsidiaries, subcontractors, and suppliers in France and abroad;
- in 2024, the ESPR[26] on ecodesign;
- the CBAM, i.e. the Carbon Border Adjustment Mechanism, which will use accurate data on the carbon content of some products (scope is under discussion).

Companies must disclose this data in the coming years, thus gradually reinforcing green transition requirements. The regulatory framework phases in a systemic change of perspective, creating a relationship of interdependence between financial, environmental and social performance. This paves the way for more obligations in terms of both sustainability and the financial modelling of environmental and social performance. "Sustainable finance" teams are at the crossroads of all support and operational functions and must gradually integrate the complexity of the new regulations as well as the diversity of subjects to be dealt with. Multiple skills and a high degree of versatility are therefore called for. The ownership by finance of multi-skill social and environmental capabilities tailored to each company department, therefore, is a genuine asset, indeed a necessity.

2 Towards new organisational roles and models

Corporate finance has for a long time been organised into a full-fledged department usually reporting directly to the CEO, so vital for a company's life are its relationships with funders, shareholders, bankers and intermediaries such as asset managers and rating agencies.

In corporate governance, on the other hand, responsibility for sustainable development was initially spread across various departments depending on the organisation: company secretary, communication, risks, compliance, strategy, human resources, etc. Various positions were created according to the expertise needed by each company, including human rights experts, specialists in climate change mitigation and adaptation, biodiversity, water, and so on, gathered into one department or organised in a network across the different corporate branches or functions. We are now witnessing the emergence of a new reporting department: finance.

As we have seen, the development of regulatory and voluntary frameworks for non-financial reporting encourages integration of green transition management with the responsibilities of the finance department and facilitates interactions with the financial community on non-financial performance and developments. The finance department also ensures consistency between the financial report and the sustainability report in terms of ESG risk measurement, dedicated finance and investment decisions to be implemented for transition plans. The finance department can thus bring to bear its extensive experience in reporting processes, ensuring the robustness and traceability of quantified data in line with the new and ambitious auditability requirements.

As a result, managing corporate environmental and social performance at the same time as financial performance requires ownership and integration of sustainability issues by the finance department. To create this link, a wide range of organisational methods is available. The examples which follow illustrate the varying degrees of integration between CSR and finance. It is up to each company to find what works for them: probably a scalable solution that keeps pace with the integration by management processes of the new expectations of the financial community and stakeholders.

2.1. Project-based structures

CSRD implementation is, for some companies, the first opportunity to bring together the finance and sustainable development departments to produce an integrated report. Some companies have opted for a project structure, under the aegis of the finance department, to coordinate the various stakeholders and perform this exercise. For example, RTE set up a project structure specifically for CSRD implementation in 2023, comprising CSRD-trained people drawn from a dozen of the group's departments, to jointly develop performance indicators.

25 Some arrangements are currently being renegotiated.
26 Eco-design for sustainable Product Regulation.

Setting up a dedicated project structure managed by the finance department

RTE (Réseau de transport d'électricité) employs around 9,000 people and resorts to public savings by issuing bonds on the markets. In this capacity, for several years it has been required to disclose its non-financial performance in the management report.

This publication has long been coordinated by RTE's accounting department as part of the finance department. It is jointly drafted with a team of corporate stakeholders who work on the issues dealt with in the report.

For years, the accounting department has been monitoring regulatory developments concerning non-financial reporting, along with changes in accounting standards related to sustainability. Accordingly, it was called upon in 2020 to transpose the green taxonomy's delegated acts and set up a dedicated working group in partnership with RTE environmental experts.

In 2023, when the CSRD ESRS proposals were published, RTE's management decided to create a project entity to implement them. Given its experience in coordinating the management report and the strong association between ESRS requirements and financial standards, the accounting department was entrusted with the management of this project.

The project team includes CSRD "correspondents" from the relevant RTE departments. A total of ten departments are concerned: environment, consultation, strategy, human resources, purchasing, legal affairs, ethics and compliance, audit and risk, and CSR. The management control department is also associated with the project so that the various functions concerned develop the financial indicators required by the green taxonomy and the CSRD.

The CSRD correspondents were trained in the new standards in 2023 before attending gap analysis and double materiality assessment workshops. These were wound up in the second quarter of 2024. During the production phase, the correspondents were responsible for collecting and checking the information provided by their various contributors, and for ensuring compliance with CSRD requirements, including on the quality and quantity of information needed for the audit process.

The accounting department, as project manager, also underwent training and organised all the workshops. Its task was to ensure that standards were monitored, liaise with the recently appointed CSRD auditors, and hold briefings with correspondents on an ongoing basis. It also ensured follow-up of project progress and CSRD strategic decision-making for the purposes of corporate management and governance bodies.

The experience gained in implementing international standards, reporting processes and the practices of statutory auditors places the finance department at the heart of the company's sustainability strategy in an ever-changing and more demanding environment for external corporate communication into which non-financial matters fit in perfectly.

2.2. From new roles to a new "sustainable finance" department

To increase the degree of finance/CSR integration and enjoy from the outset a permanent entity supporting this integration, some companies have created new hybrid roles integrating finance and CSR, and even a dedicated "sustainable finance" department within their finance department.

For largely decentralised organisations like Vinci, the convergence between finance and sustainability was introduced several years ago via cross-functional working groups (finance, environment, social, legal, compliance, etc.) at subsidiary level, as well as via the creation of hybrid finance and CSR roles within the finance departments that include the ESG dimension, or conversely of finance profiles in the environment departments. There are thus signs that inter-departmental mobility is gaining momentum.

Converging finance and sustainability across all group subsidiaries

Vinci has been committed to environmental transition, living together; and social inclusion for more than 10 years. Most of the quantitative indicators required by the CSRD have already been identified and tracked by the group since 2017 under the Non-Financial Performance Disclosure (DPEF) requirement. The entry into force of the CSRD is not, in this sense, a major change.

This does not mean no work is needed - quite the contrary. The main challenge lies in the EU's ambition to place financial and non-financial information on a level footing in terms of corporate performance assessment data. This is what Vinci calls "all-round performance", which is a great news!

For several years now, the group's sustainability reporting has been partly based on financial consolidation tools for quantitative indicators such as number of employees and energy consumption. However, social and environmental policy governance remains distinct, with separate reporting processes and a dedicated representative on the executive board.

The entry into force of the EU taxonomy in 2021 was a first step towards the convergence of financial and environmental functions. The teams have learned to collaborate, combining data based on sound financials with the expertise of sustainability professionals. CSRD implementation has accelerated this momentum, with the creation of cross-functional working groups between various functions at the level of the holding company (finance, environment, social, legal, ethics, etc.).

At Vinci, which is a decentralised organisation by default, each function adapts to its specific challenges. There is, however, increased coordination between the financial, environmental and social functions, notably marked by the emergence of new roles in finance departments. Some management controllers too are starting to take an interest in ESG, and greater mobility between sectors can be observed. Similarly, auditors are ensuring that many finance profiles are now trained to certify ESG information.

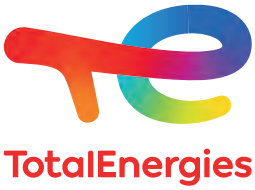
Yet, not all topics covered by these new regulations have the same maturity level in the overall scheme of things. It is easier to incorporate tonnes of CO_2 or cubic meters of water into a financial tool than to consolidate a relevant indicator that measures net biodiversity loss. While future financial and non-financial reporting processes are trending towards greater integration, a considerable amount of thinking and interpretation is still required at sector level by members of the sustainable development department.

For some private sector players, ESG performance challenges are so important that they have decided to set up a new finance-cum-sustainability section within the finance department.

Kering, Roquette and Veolia encourage the factoring in of CSR issues by finance, and have created a sustainable finance department that reports to the finance as well as the sustainable development departments (see section 2).

One of the responsibilities of this department is to define and manage the trio of environmental, social and economic performance.

TotalEnergies, on the other hand, has created a "non-financial" department as part of the finance department to enhance the reliability of reporting from the CSR department and support the company in its green transition.



Establishing a "non-financial" section within the finance department to monitor the performance

To support the company in its energy transition and respond effectively to regulatory developments in non-financial reporting, the finance department adjusted its organisation in 2022 to set up a new "non-finance" section within the budget-management control unit. The mission of this section is to develop and manage TotalEnergies' non-financial performance monitoring process through the collection, control, analysis and consolidation of non-financial information. It also contributes to the authoring of external publications, including the Universal Registration Document, the Sustainability & Climate Progress Report and the ESG data book.

Key indicators in driving CSR performance include greenhouse gas (GHG) emissions, methane emissions, carbon intensity across the life cycle, share of investments in new energy sources, electricity production, renewable electricity generation capacity, waste recovery, reduction of water withdrawals, diversity and inclusion. The team draws on the expertise of functional departments in charge of climate, environmental and social issues as well as safety. It ensures communication and coordination with those actors and secures reporting consistency by monitoring in particular the uniformity of the methods, scope and indicators disclosed.

In addition, it contributes to implementation of the new EU CSRD regulation through ESRS analysis, particularly in relation to reporting scope definition and external sustainability audit coordination. It also acts as a standards monitoring body with respect to other international regulations, such as those issued by the ISSB or the Securities and Exchange Commission.

The integration of financial and non-financial reporting teams has many advantages. It ensures the consistency of the assumptions and scenarios used to prepare both financial and non-financial forecasts. Non-financial reporting teams can also capitalise on the experience acquired in the use of reporting tools and performance analysis.

The creation of the new section is an important step towards strengthening the robustness and quality of TotalEnergies' non-financial reporting and is part of the transition strategy to which the company has been committed since 2020.

2.3. Full integration of corporate finance with CSR

The ultimate degree of convergence between finance and CSR within companies involves the total integration of the two functions. For example, EDF made organisational changes in 2024 and set up a new entity called the performance, impact, investment and finance department (DP2IF), whose director sits on the executive board. This reorganisation at the seniormost level is aimed at managing economic and CSR performance in an integrated manner, while ensuring centralised collection, improved financial and non-financial data analysis, and overall consistency among investments.

A dual trend can be seen in these developments: on the one hand, integration of the green transition into the operations of the company (with non-financial data undergoing the same treatment and use as financial data), and on the other, imposition of much more demanding CSR requirements on companies by the financial community.

Merging finance and CSR for an integrated performance

With a yearly investment programme of €25 billion and nearly 100,000 new jobs created over the next 10 years, EDF positions itself as a builder of the new electricity system. To meet the challenges this poses, the group has made organisational changes involving the setting up of a new entity - the performance, impact, investment and finance department (DP2IF) - which since April 2024 merges the group's CSR and financial functions and expertise. Through this convergence, the group aims to achieve consistent management of all performance from economic and operational to financial and CSR.

For EDF, there is no sustainable performance without the integration of three key elements: long-term strategic vision, financial sustainability, and factoring in of the planetary boundaries and social and territorial issues.

DP2IF is a response to this threefold challenge, the aim being to ensure consistent governance of risks and opportunities related to the energy transition. This convergence is taking place in a context conducive to the standardisation of the concept of integrated performance. It not only puts CSR at the heart of the company's performance on an equal level with financial performance, but makes ESG information a real pillar of economic performance.

"The convergence between the impact department and the group's finance department reflects an innovative but natural approach on the part of EDF, and sends a strong message that is perfectly consistent with our "raison d'être", at the core of which CSR is already fully integrated".

Xavier Girre, Group Executive Director of Performance, Impact, Investments and Finance.

Although this department was not set up primarily because of the new regulations (taxonomy, CSRD, CS3D), the fact of linking in a smooth and automated manner collection and analysis of both financial and non-financial data will help to comply with them effectively.

Lastly, it is essential to ensure that massive, long-term investments do not become the stranded assets of tomorrow. This means integrating with immediate effect financial impact analysis of present and future environmental as well as social risks. In improving its capacity to analyse CSR issues, EDF is securing the future of its assets and access to competitive funding.

EDF bond issuance includes:

- in 2021, €1.25 billion worth of the first hybrid social bonds (2.625%, the lowest available coupon on the markets);
- in 2023, €1 billion worth of the first green bonds dedicated to funding the existing fleet of nuclear power stations;
- in 2024, multi-tranche hybrid green bonds (€1.15 billion and £500 million) dedicated to extending the life of existing nuclear reactors in France.

In total, nearly €16 billion in bonds linked to non-financial criteria have been issued since 2013. Furthermore, EDF has signed more than 11 billion euros of credit lines to date linked to sustainable development criteria.

"We are looking for sustainable performance which secures the future of our assets and grants us access to competitive financing by leveraging our positive impacts and working on minimising our negative impacts".

Carine de Boissezon,
Director Impact Department.

Environmental and social performance and its interdependencies with financial performance are the cornerstones of recent sustainability regulations and so have to be reflected in future corporate strategic planning. This means making organisational choices with more or less pronounced and probably scalable convergence between the finance and sustainable development functions. This also means highlighting the change management requirements of the company and the need for rare finance/operations/sustainability multiskills.

Emerging sustainability in corporate finance thus appears to be a reality, as noted by the Corporate Social Responsibility Observatory (ORSE) (see section 3). It provides an opportunity to increase awareness of CSR issues among various financial stakeholders. It also provides an opportunity to define a common language, closer to the universal language of finance, designed to foster more informed decision-making and facilitate difficult trade-offs. Ultimately, it is an invitation to profoundly transform business models and make them more resilient.

However, the financialisation of environmental and social issues comes with risks, in particular the risk of reducing environmental and social performance to mere quantifiable and measurable elements translatable into financial issues by means of notional, if not real, prices (for example, greenhouse gas emissions that can be incorporated into decisions using an internal carbon price). However, factoring in the issues confronting living beings, both human and non-human, and their valuation goes far beyond the quantification sought by economic players in decision-making. Insurers may have succeeded in standardising the value of human life, but it will be much more difficult to standardise the price of ecosystems or ecosystem services from one region to another. We already see this outcome in the inclusion of greenhouse gas emissions in all strategies (the climate being considered material by everyone) to the detriment of biodiversity issues, which are often bound up with non-quantifiable subjects therefore deemed non-material.

Another risk is that of companies having difficulty in forming an overview of themselves beyond their direct scope of action. This is true of their upstream and downstream value chains, characterised by multiple intermediaries and often a lack of transparency. It is also true of the consequences of their decisions on guiding consumer choices for the community at large.

In order to manage the actions undertaken and communicate with stakeholders, tools and processes are being developed in which data is key - a subject dealt with in the next chapter.

2

Converging finance and sustainability: with what consequences?

Regulatory obligations and the growing interest of the financial community in environmental and social performance in turn influence how companies address CSR issues internally and with their stakeholders. In addition to ongoing organisational changes and the new finance-cum-sustainability hybrid roles being created, tools to upgrade some internal processes and strategic planning procedures are under development. Defining new measurement indicators, in particular to assess this plural performance, requires a massive amount of data and involves structuring that data, ensuring its quality and taking bold steps to avoid reducing environmental and social performance to mere measurable and quantifiable factors.

Communication and dialogue between the company and its stakeholders over this data is accompanied by the new challenge of ensuring the relevance and understanding of transition plans.

1 The challenge of integrated data and tools

Financial modelling of the risks related to the dependencies of companies, and those related to their impacts, are two daunting challenges facing all economic players. This modelling as well as the development and monitoring of transition plans requires a huge amount of data. The first challenge involves gathering data and ensuring its quality, availability and consistency, particularly on complex issues such as biodiversity. The other involves choosing what weighting to give it when comparing it with specific economic issues facing the company.

Today, the most advanced tools for integrating finance and the environment are designed for the climate. For many years now, the fight against global warming has been incorporated into corporate strategic plans with the common goal of carbon neutrality and alignment with the emission reduction pathways of the Paris Agreement. Thanks to the use of a universal metric, the tonne CO_2 equivalent, defining actions to reduce greenhouse gas emissions (GHGs) and monitoring climate objectives are now done in a more systematic and structured manner. Various tools are being introduced to measure, for example, the financial impacts of emissions, to view and manage the stock of carbon quotas, and to integrate the CO_2 price into the profit and loss statement and investment decisions. This can be done with the market price where the company has one (mandatory in Europe via voluntary credits, or the internal carbon price elsewhere).

For example, Roquette, which strengthened its finance team in 2024 with a position dedicated to sustainable finance, is building tools that will gradually allow it to manage its "life+nature" CSR programme[27], starting with the climate.

27 Programme life+nature by Roquette: https://sustainability.roquette.com/fr/accueil/.

Integrating climate issues into funding instruments

In 2023, Roquette renewed its commitment to sustainable development by incorporating its ambitious "life+nature" integrated programme into the group's strategy.

To implement the programme, the group plans to invest nearly 500 million euros by 2030, mainly on the environmental pillar to cover GHG emissions, raw material procurement, regenerative agriculture, water management and biodiversity.

To strengthen the operational governance of the "life+nature" programme, a position in sustainable finance was created in 2024 within the group's finance department. The job of the sustainable finance manager is to design and implement new models for managing and monitoring sustainable development projects which will also be incorporated into the group's financial model to ensure that "life+nature" objectives are aligned with company strategy.

Various solutions are being implemented to support the group's strategy, with climate change being the focus of the first project to design management tools. Roquette first developed the "Decarb Flight Simulator" to measure the financial impacts of the group's decarbonisation. Various profitability indicators (net present value and return on capital invested), as well as the impact on cash flow, are assessed in correlation with the volume and pace of decarbonisation.

Roquette can demonstrate that it is creating value by monitoring the financial impact and reduction of CO_2 emissions across the group's various sites. The tool gives a more complete reading of decarbonisation from the cost generated to the value created.

In addition, a "CO_2 Quota Balance Sheet" has been developed to view and manage the state of the group's current and future carbon quota stocks. By anticipating its future consumption of these stocks, the associated financial impacts can be anticipated accordingly. As well as the immediate monitoring function, Roquette can materialise the concrete costs of quotas to reduce them in the future.

Finally, a "Carbon P&L" has been developed by integrating the CO_2 price with variable costs to anticipate the actual future cost. That price, different from one region of the world to another, is isolated in the P&L by ignoring current compensation mechanisms. This allows for accurate mapping of the potential financial impact of carbon and thus for accurate definition of CO_2 emissions by product and by plant. The cost, currently absorbed by quotas and other mechanisms, is accordingly identified, allowing the group to predict future changes in carbon recovery.

By providing economic insights into climate issues initially and gradually into all sustainable development issues, the tools help ensure proper implementation of the "life+nature" programme financially and optimise investments in line with a dual rationale: profitability and sustainability. Moreover, they will gradually incorporate non-financial and sustainable criteria into the group's financial activities to meet the requirements of the green taxonomy and the CSRD.

It is possible to deploy financial tools which factor in climate issues and model their impacts on corporate financial performance.

As well as helping to drive corporate decarbonisation strategies, such tools can be used to raise awareness right across the organisation and integrate climate criteria in traditional financial tools, such as the profit and loss statement, well known to all cluster and project managers.

Internal awareness can also be raised through CSR remuneration criteria[28] (see ORSE box in section 3), or financial instruments. For example, in 2023 Rexel issued a sustainability-linked bond based on GHG reduction criteria. This has allowed the group to establish the decarbonisation ambition internally, align operational roadmaps at all levels of the organisation, and then track progress and adjust action plans and investments.

28 ORSE 2024 publication - *Critère RSE et rémunération, l'alignement stratégique ?*

Issuing sustainability-linked bonds to implement the company's decarbonisation strategy

For more than fifteen years, Rexel has been spearheading sustainable development in its governance with both external and internal stakeholders. The year 2022 saw the affirmation of its *raison d'être*: "Electrifying solutions that make a sustainable future possible". In the same vein, on 5 September 2023, Rexel issued a sustainability-linked bond (SLB) to the tune of €400 million. The interest rate of the bond is determined by the achievement of both greenhouse gas (GHG) emission reduction targets in 2025 compared to 2016, the baseline year:

- - 38% GHG compared to the baseline year (2016) on scopes 1 & 2 (direct emissions), and;
- - 45% in the GHG intensity ratio from scope 3 indirect emissions, (in other words scope 3 carbon emissions from group sales).

The coupon paid on this bond is 5.25% for the first two years. It increases to 5.5% if the CSR targets set are missed by the computation date, thus providing a strong incentive to achieve them.

While this SLB holds a lot of appeal for external stakeholders, especially investors and banks, it is also one of the drivers of the company's internal transformation. Once senior management is on board, it serves as an operational aid for decarbonisation. The challenge with this issuance consisted primarily in defining sufficiently ambitious climate objectives without them appearing unattainable, subject to the approval of the company's senior management.

Rexel's decarbonisation strategy is based on a "1.5 degree short-term" and "Net Zero by 2050" commitment in line with the Science-Based Targets initiative (SBTi). This pathway has guided its modelling of scopes 1 & 2 and scope 3 reduction milestones to ensure their consistency and confer on them the highest legitimacy. Moody's, acting as an independent third party, rates the company "excellent" in its "emission framework opinion", acknowledging its 'best practice' level of alignment with SLB principles, and noting a "high" level of overall contribution to sustainable development (relevance and magnitude of expected impact).

Because these objectives were validated by management, the global SBTi ambition and its target have been embedded internally, with implementation due from 2025. This message has been circulated among the top 150 of the group and the country management committees, and followed by operationalisation of climate roadmaps at a higher level of granularity. Rexel's governance rituals, as exemplified by the group's executive board and some management committees at country level, now integrate climate issues. For example, on scopes 1 and 2, regular reports are produced based on quarterly reporting to monitor progress and adjust action plans. Moreover, country-level annual budget increases provide for quantification of the carbon impacts of proposed actions. The investment outlays are studied through this framework of analysis. For scope 3, in support of the central components of the group's roadmap specifically aimed at refining measurement, training teams, and increasing CSR collaboration with suppliers, countries draw up plans which match as closely as possible their product and customer mix in order to maximise their impact on the ground.

In view of swifter factoring in of climate ambitions at all levels of the group, Rexel sees SLBs as an instrument to lead the green transition with strong operational applications.

The examples of Roquette and Rexel show that, though ESRS standards cover all fields of CSR through the CSRD regulatory framework, today's financial products and corporate strategic plans give high priority to climate. Decarbonisation, therefore, takes on special importance among non-financial issues to the detriment of other equally important environmental issues such as biodiversity, resources or even climate change adaptation. These issues are much more complex to understand, quantify and model, putting to the test the ability of companies to establish the double materiality matrix required by the CSRD. As a result, it is difficult to establish priorities between emissions reduction and other impacts.

Kering is currently a pioneer in incorporating such diverse issues into an "environmental profit and loss statement". Its long experience with the proprietary tool has enabled it to ponder the respective weightings of environmental issues and their impacts, and thus to implement targeted actions in a consistent and balanced manner.

A sustainable finance department at the heart of financial planning for the green transition

In July 2022, Kering Group set up a sustainable finance department to encourage interdependence between finance and CSR. Benefiting from a dual reporting relationship with the sustainable development department and the finance department, the new department plays an "incubator" role across the group and its Houses.

Since its creation, the department has sought to incorporate ESG criteria into management and decision-making processes and has developed an organisation with three areas of expertise:

- climate and environmental performance;
- ESG standards and formalisation of processes to ensure compliance with regulations (CSRD, taxonomy) and collaboration between sustainable development and finance;
- ESG strategy to support the Houses in defining their transition pathway in line with indicators related to their activities.

Kering has always been a recognised leader in sustainable development, which has been integrated into its core strategy for over 10 years. It has developed an innovative impact management tool, the environmental profit and loss (EP&L) statement, which measures the environmental footprint of the group's activities across the value chain, provides an in-depth analysis of the impact of its activities on natural resources, and assists in changing and making decisions about them.

At the heart of financial planning for the transformation of group activities, the sustainable finance department also ensures compliance with the new sustainability reporting regulatory requirements. Addressing social and environmental issues requires rethinking one's business model and the practices of each function, while factoring in and measuring non-financial data necessitates a change management strategy to support changes in corporate functions and culture.

"Finance and CSR: a necessary convergence for a more responsible future".

Laurence Barrère
Director of Sustainable Finance

The interdependencies between climate, nature, health, society and economy are strong and it is often necessary to make trade-offs or compromises which favour some at the expense of others. Broadening the spectrum of environmental and social performance tools and experimenting with new indicators and standards on the basis of their relative weightings provide valuable insights into priority issues and decisions.

The factoring in of difficult-to-assess non-financial issues is therefore something to watch out for in the future. It is the job of CSR departments to perform this task, despite the growing role of finance, using their own methods.

Businesses are nevertheless committed to a variety of issues and indicators, including in the form of public commitments, through such initiatives as act4nature international, Companies Committed to Nature (Entreprises Engagées pour la Nature) or SBTN[29], for instance to reduce their pressures on biodiversity while striving to develop tools that go beyond climate issues.

However, none of these issues today leads to investments at a level comparable with those made for the climate: from a financial standpoint, they remain marginal. Giving responsibility for managing such issues to a finance department may risk being perceived as a cover-up - even though on a planetary scale they are deemed just as, if not more, serious than the climate - unless awareness of the issues at stake and their link with nature is considerably enhanced in the coming years.

While companies need data and indicators to define and manage their transition plans, the use of this data by stakeholders can be both a transition driver and a brake if it is not understood, especially from a sectoral perspective.

29 Science-Based Targets Network.

2 The use of data by stakeholders

Finance is essentially an activity based on the abundance of data. It has always played a key role in corporate communication, based on rigorous transparency and verification practices to foster trust in financial markets as well as financial and non-financial stakeholders. However, its role is not limited to just disclosures, because it shapes perceptions, influences the decisions of financial partners and acts as a coach for various corporate stakeholders.

Among these, investors have a predominant place and are one of the first to use financial information. Their decisions are based on published data, whether actual or future expected corporate results, or market and sector analyses. Incorporating CSR issues into the information given to them by companies opens up the prospect of attracting their attention and gradually shaping their judgements about non-financial issues, and so directing massive capital flows towards the green transition. In practice, however, despite increasingly demanding CSR regulations, investors seem to include such issues only marginally in their decisions, the focus being on risk and profitability.

One of the reasons for this inertia is undoubtedly the number of other players involved in data processing and interpretation, who must first agree among themselves on how such issues are to be taken into account to ensure that the data is understood and comparable. Although dialogue between companies and analysts who process data and provide advice widely followed by investors is important, it is only moving slowly. There are two reasons for this. First, financial analysts publish opinions on financial performance proper, creditworthiness, and short- and long-term risks. By definition the credit rating focuses on the company's ability to repay its debt, following the general principle that strong creditworthiness does not necessarily correlate with strong ESG credentials and *vice versa*[30]. Although ESG factors can impact it in the form of higher CO_2 emission costs for example, resulting in lower profitability, they are only taken into account when they have a direct and tangible financial impact.

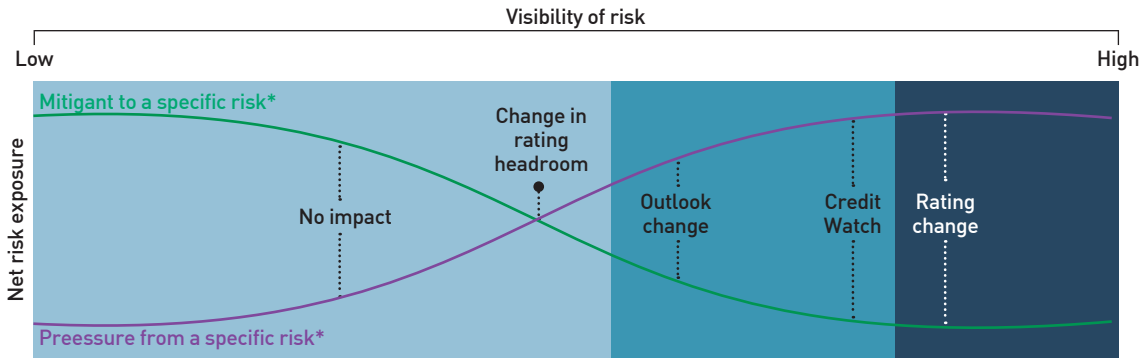


Figure 4 / Overview of factoring of risks into credit ratings.
Source: *S&P Global -Environmental, Social, and Governance Principles in Credit Ratings.*

30 General principle N° 5 of how ESG criteria are factored into credit ratings – S&P Global.

Second, non-financial analysts publish opinions on non-financial performance, without agreeing among themselves on what weighting to give to this or that factor or to issues which are not easily measurable or financially viable. This results in divergent assessments by analysts regarding the same company, without the users of those assessments being able to put them into perspective or indeed trust them. Investors find it difficult, therefore, to incorporate the new data into their decisions. The material environmental risks that investors are currently concerned about are thus limited to the climate for which carbon emissions and pricing can be used.

Efforts are, of course, under way among rating agencies to diversify their offerings and include sustainability in their integrated ratings. For example, S&P Global Ratings, a major credit rating player, is expanding its portfolio of opinions on sustainable finance to include opinions on corporate decarbonisation transition plans. Moody's, another key credit rating player, offers an independent assessment of corporate carbon transition plans versus the global net zero emissions pathway with its "Net Zero Assessment" rating, and has awarded Veolia, EDF and Engie a score of 2 on a scale of 5, with 1 being the best score.

The initial efforts towards sustainable finance have to be stepped up if the climate is to be surpassed as the main issue and the corresponding risk of jeopardising CSR strategies avoided. Indeed, climate cannot remain the sole guide for a successful green transition and many stakeholders now recognise that some climate change mitigation actions are detrimental to biodiversity, indigenous peoples or local communities (IPLC). Some renewable energies (RENs) are a case in point because they can generate new social and environmental risks. Putting into perspective concepts of materiality and the interdependence between different issues, therefore remains a key, though highly complex task.

S&P Global Ratings

Focusing transition activities on creating a sustainable finance path

As the world deals with the challenges of climate change, organisations are increasingly recognising the importance of shifting their business models towards sustainable and environment-friendly practices. S&P Global, a leading provider of financial market data and analyses, is at the forefront of this movement, offering a range of services designed to support companies in their transition to a more sustainable future.

Data distribution: a foundation for sustainable finance. S&P Global's business is based primarily on providing high-quality data and relevant opinions and analyses. The data and opinions are used by investors, analysts and policymakers to help them make informed decisions. As market and financial sector needs evolve, S&P Global is committed to expanding its ESG offering to include opinions on climate risks, biodiversity, and more.

Funding the transition: S&P Global Ratings' key role. When companies commit to the path of transition, they need access to finance that supports their sustainable growth. S&P Global Ratings brings more transparency to this process by providing Second Party Opinions (SPOs) and Climate Transition Assessments (CTAs) that help issuers demonstrate their commitment to sustainable development and meet investor transparency criteria. The SPOs and CTAs issued by S&P Global Ratings use the "Shades of Green" methodology, well known to investors as being climate science-based and easy to understand.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).- Source: S&P Global Ratings.

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"Climate Transition Assessment": a transition plan evaluation tool.
A CTA is a detailed opinion on the state of progress of a company's current transition pathway. It assesses its transition plan and focuses on its governance, strategy and financial preparedness. This independent and timely review goes beyond net-zero targets to demonstrate the strength of a company's transition to a low-carbon, climate-resilient future under the award-winning Shades of Green approach.

How can CTAs address transition planning challenges arising from the CSRD regulation?
The CSRD is an EU regulation aimed at strengthening the rules in place for the disclosure of non-financial information established by the Non-Financial Reporting Directive (NFRD). The directive fundamentally strengthens sustainability reporting requirements for nearly 50,000 European companies. Companies affected by the Directive are required to publish a transition plan that sets out their comprehensive roadmap to achieve net zero emissions by 2050. CTAs can be a useful tool for companies to communicate with stakeholders affected by the CSRD by providing an external opinion on the soundness of their transition plan.

In sum, S&P Global Ratings (SPOs and CTAs) solutions can support credibility and transparency, while playing a key role in funding the environmental transition.

Offering investors a reliable systemic vision of a company's financial, environmental and social performance is one of the levers for transforming business models. Transparency over corporate impacts and dependencies - across the entire chain of actors and intermediaries involved is moreover one of the flagship aspects of recent regulations, but difficult to achieve in practice because primary investors are dispersed and diverse.

The representations thus created and disseminated to financial players are still devised essentially to account for the activities of the so-called linear economy - raw material supply, transformation, sale of products or services - with the ultimate objective of reducing the impacts of these different activities. This approach is difficult to adapt to environmental services such as recycling, water treatment, etc. designed to help reduce the environmental impacts of other players. The indicators defined by the regulations should therefore be interpreted carefully regarding the above models rather than used indiscriminately. For example, Veolia, a major player in the green transition, discloses its Principal Adverse Impacts (PAI) under the SFDR. Sustainable finance actors have a major role to play in such cases by ensuring that all stakeholders properly understand the published data.

Sustainability: much more than a matter of tables of figures

We often hear that with the development of sustainable finance, it will become very easy to compare corporate sustainability data. The new reporting standards assuredly improve the clarity and quality of corporate information on ESG matters and therefore constitute genuine progress. But it is not enough to interpret the information and make sense of it. Some indicators designed to produce virtuous decisions can be misleading when taken in isolation and could, as a result, communicate the wrong message to the market and other stakeholders. To avoid this, Veolia makes sure it gives all economic players the information needed to make informed decisions, showing how important it is to go beyond a mere exercise in reporting figures.

Take, for example, the SFDR regulation based on the concept of Principal Adverse Impacts (PAIs), which focuses on the negative impacts of companies and what they do to reduce them. This approach, which on first sight seems logical, fails to reflect the possible positive impacts of those activities and does not have universal value. For Veolia, it is essential to properly account for the positive effects of its activities.

In the case of a wastewater treatment plant, should one focus on the 10% of pollution discharged at the end, or also take into account the positive impact of the 90% eliminated by the treatment carried out? Furthermore, positive impacts also depend on disposal techniques, an area well worth delving into. Taken in isolation, a PIA-only-based approach could encourage divestment of depollution activities, and therefore be entirely counterproductive! Contextualisation, positive impact calculation and communication are therefore key to efficient green transition as they explain the information released by the group to its financial intermediaries.

This negative impact bias also affects the CSRD regulatory framework. For example, its ESRS E2 standard focuses on pollution emissions, while excluding depollution services. With this in mind, Veolia plans to disclose additional "entity-specific" information[31] on its depollution operations, as well as other essential aspects, including emissions avoided in connection with the decarbonisation of its customers' activities, to complement the information provided under the ESRS E1 climate standard. An entity-based approach, relevant as it is to all players in the environmental services sector, could be sectoral in nature.

For Veolia, therefore, CSRD sustainability reports must go beyond mere metrics as dictated by ESRS standards. More importantly, they should make for a proper understanding of corporate activities and a correct interpretation of data placed in context. To achieve this, Veolia conducted a double materiality study disclosing the negative impacts and risks while highlighting the positive impacts and opportunities, based on a comprehensive and balanced approach to inform stakeholders. The assessment covers the value chain, as provided for by the CSRD, in order to emphasise the role all actors should play to ramp up ecological transformation. As an operator of environmental infrastructure often owned by third parties such as local authorities, Veolia can indeed inform and recommend but may not decide. Each stakeholder, therefore, has a role to play and must assume their responsibilities.

"Veolia advocates sustainable finance in which sustainability reports are not limited to tables of figures but allow for a proper understanding with a view to reaching informed investment decisions capable of effectively contributing to ecological transformation".

Philippe Hermann, Senior VP - Sustainable Finance

31 A reported fact that is sufficiently unique to be considered specific to the reporting entity or a small number of reporting entities.

The purpose of the finance-sustainability convergence, regardless of the organisational methods chosen by companies, is to raise environmental and social performance to the same level of priority as financial performance both within the company and among its funders and other stakeholders. This calls for new tools to bridge the gap between financial and environmental performance internally, manage transition plans, enrich strategic planning, raise awareness and also encourage proper internal implementation of the plans.

At the same time, sustainable finance is becoming an instrument for communication with and education of stakeholders and investors, primarily through financial analysts and fund managers. A significant effort, however, is required to raise non-climate issues, decide priorities and find synergies between economic, environmental (climate/nature) and social issues.

Investors today hold considerable sway in their corporate relationships, and their alignment with transition strategies is key to the latter's success.

The financial community has demonstrated in the past its ability to incorporate unquantified factors into financial decisions. Team quality is, for example, one of the most difficult factors to model when analysing a company or project. Yet the financial community can integrate this because they trust a team and the governance arrangements maintaining its momentum. The quality of corporate non-financial reporting could be treated similarly based on learning and observation periods. Non-financial issues, however, call into question the effects of scale, which are one of the drivers of economic success. Would replicating on a very large scale a locally biodiversity-friendly model, for example, or one which is negotiated locally still produce a favourable outcome, and if so under what conditions? Collective learning is still in its infancy on many of the matters to be covered.

The historical challenge of timescale - the short-term view of profitability in the financial community (less than a year) as opposed to the long-term view (beyond 10-20 years) of the materialisation of environmental risks - is gradually fading. The effects of climate change, for example, are increasingly visible and causing disruptions in the economy through inflation, supply difficulties, additional costs, etc. It is therefore urgent to seize the opportunity to shift finance towards green transition issues as a way of ensuring that such issues are not reduced to climate or measurable units and that interdependencies are factored in to inform investment decisions and compare their environmental impact and economic prospects.

Collective learning also needs to be sharpened in order to integrate non-financial and financial data in which the former is characterised by diffuse impacts with only indirect effects on corporates.

Decisions on corporate funding and projects facilitate discussion among financial players and companies on ways to apply the new decision-making methods. How decision-making gradually incorporates non-financial criteria to fund transition plans is the subject of the next chapter.

3

Funding the implementation of transition plans

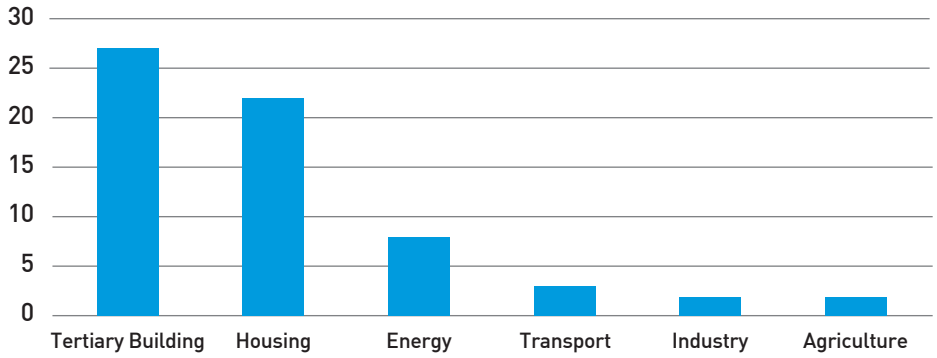
Less costly in the long term than inaction, the green transition of our societies will nevertheless require significant funding. The considerable estimated amounts reflect current and future challenges. The private sector in particular has a clear responsibility to participate in this funding. As well as sustaining corporate activity, incorporating CSR issues into the finance function facilitates trade-offs within organisations, allows more informed decisions on environmental, social and financial impacts to be made, and aligns investments with collectively set sustainability targets.

Issuers use several funding tools specific to climate or linked to other sustainability issues. Financial players have complementary viewpoints. Fund management companies act globally to direct capital flows towards the green transition and use the sustainability data provided by companies to build greener portfolios. Banks directly support their customers in their projects at regional or local level. This proximity allows them to understand everyone's sustainability issues based on risk analyses. Are these traditional approaches enough to meet our considerable funding needs?

1 Funding the green transition: a major challenge

Back in 2006, a report by the economist Nicholas Stern[32] argued that the estimated amount of investment needed to curb climate change was 1% of global GDP. By 2008, the author already warned that this figure was underestimated.

In France, according to the 2023 economic impacts of the climate action report[33], additional investment requirements compared to current levels would amount to an extra €66 billion per year by 2030, or 2.3% of GDP, with sectoral disparities as Figure 5 below shows.



Note: shipping and air transport and the waste sector are not covered here, thereby decreasing the total investment requirement.

Figure 5 / Net additional investments by sector of activity, in billions of euros, required to meet the 2030 target compared to a trend scenario without greening the economy.
Source: *2023 "Incidences économiques de l'action pour le climat"[34] report (Economic impacts of Climate Action report).*

32 Review on the Economics of Climate Change (Stern, 2006).
33 Report by Jean Pisani-Ferry and Selma Mahfouz commissioned by the prime minister (2023).

We nevertheless note the existence of a catch-22 situation or contradiction over several years: on the one hand, the financial community claims to have sufficient financial resources but cannot find enough profitable projects to fund; on the other, project owners say they cannot find funders for their projects despite these being virtuous. This reflects a market failure. In the current economic situation, particularly at current carbon price and fossil fuel price levels, decarbonisation projects (e.g. building refurbishments, charging station infrastructure, or electric vehicle accessibility) are not sufficiently cost-effective to obtain funding. Public action is therefore called for to create the conditions for making such investment commitments, either through incentives and risk reduction policies or through a sustainably higher carbon price or other types of constraint.

Concomitantly, the funding requirement for the preservation and restoration of biodiversity in the face of the sixth mass extinction[34] is also huge. The 2022 Global Biodiversity Framework (GBF)[35] requires gradual mobilisation of financial resources to fill the gap in biodiversity funding estimated at US$700 billion a year (GBF Goal D), notably by developing private sector funding (GBF Target 19). Here again, market conditions and the frequent asymmetry of benefits and impacts make it very difficult to arrange funding under market rules alone.

In this context, the private sector must mobilise and share the burden. The challenge is both to finance already green assets and, more importantly, to "green" the entire production system. This involves channelling and directing capital flows into the green transition by leveraging public funds and defining, with public environmental experts and economic players involved in developing solutions, the **policies and measures** that **could be implemented** by public authorities to trigger **investment decisions** despite apparent low-return projects. Private players and public authorities need to come up with jointly developed solutions and related funding models to ensure that corporate transition plans are sufficiently ambitious and fundable.

This point is highlighted by the Sustainable Finance Institute, which suggests such measures as defining a list of priority activities and projects or accelerating the depreciation of transition-dedicated investments in conjunction with a more rigorous selection between dedicated and non-dedicated investments. The Corporate Social Responsibility Observatory (ORSE) mentions the need for dialogue between the different stakeholders. The incorporation of CSR into finance could be a lever to facilitate this dialogue.

Within this consensus, the policy divide between public incentives and binding measures is clearly always determined by the financial capacity of states. The current budgetary situation in France could jeopardise the government's ability to rely mainly on incentive measures to reduce risk (renewable energies) and improve profitability (building refurbishment, industrial investment, etc.) because such measures weigh more heavily on public finances than more binding actions that provide players longer-term visibility by not being subject to the vagaries of annual public budget reviews.

34 Accelerated modern human–induced species losses: Entering the sixth mass extinction. Science Advances, Ceballos et al., 2015.
35 Kumming-Montreal International Agreements (2022).

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Funding the transition of businesses requires a new "political economy"

The goal of the Paris Agreement is to keep "the increase in global average temperature well below 2°C compared to pre-industrial levels", and to continue efforts "to limit the increase to 1.5°C." To remain within these thresholds, a 43% reduction in greenhouse gas emissions is needed by 2030 compared to 2019. According to UNFCCC[36] estimates, actions already undertaken would lead to a 2% reduction in emissions over this period until 2030 compared to 2019. Economic transformation therefore needs to be stepped up to promote the green transition in a wider sense.

One of the key **conditions for a successful transition is to significantly accelerate the deployment of climate investments**, which in 2030 will have to be about sevenfold higher than today[37].

To succeed in this vast transformation, a new "political economy" is needed, based on a redefinition of the roles of the main economic players such as the state, business and financial institutions. This implies close dialogue between them leading to the joint development of strategies.

- Through **public policy**, the government sets long-term priorities. The state must regain its role as strategist.
- **Companies** are at the forefront of these transformations and the ones that design and implement appropriate technological and industrial solutions.
- **Financial institutions** have a major role to play in allocating capital to corporate transformation projects at a cost consistent with their economic profitability. They can push companies to decarbonise by creating a "climate" market discipline analogous to the financial market discipline created in the early '80s.

To fund corporate transition, the conclusions of France's Sustainable Finance Institute (IFD) in its June 2023 report[38] are clear: measures must be adopted quickly to better define what the transition is and facilitate the economic viability of projects. This consists in:

- **drawing up an accurate list of priority activities and projects to be funded** in the context of the green transition;
- **defining the conditions to be respected by companies** to obtain the necessary funding and investments for implementing the transition;
- **accelerating the depreciation of transition-dedicated investments;**
- **developing public guarantees for green investments**, particularly the most strategic investments, and/or investments backed by SMEs/intermediate-sized enterprises (ISEs);
- **strengthening dialogue between public authorities and regulated savings banks** to continuously adapt banking products and services to the growing need for funding.

These topics are the subject of sector-based studies commissioned by France's Sustainable Finance Institute (IFD). The first deals with the construction sector and came out in May 2024[39], while the second is ongoing and focuses on agriculture.

36 United Nations Framework Convention on Climate Change.
37 Climate Policy Initiative Report – Top-down Climate Finance Needs.
38 IFD report "*Plan d'actions pour le financement de la transition écologique*".
39 IFD report "*Freins et leviers sectoriels au financement de la transition écologique*".

Integrating CSR with corporate finance to channel capital into sustainable transition projects

A company seeking to initiate and perpetuate its CSR strategy must mobilise all its departments (legal, risk, purchasing, communication and marketing, human resources, etc.). Finance is no exception and is even one of the key departments.

Although each regulatory requirement entails cooperation between some corporate functions, the CSRD has the undeniable advantage of being able to put key departments around the table. This requirement for transparency determines communication between the financial and SD/CSR departments, so much so that the two departments have merged in some organisations. The drafting of the sustainability report is not just a mere reporting exercise but covers the sustainable strategy to be developed and reported to stakeholders, regulators and financial players. The finance department gradually integrates sustainability information with its expertise in numerical analysis and also brings its experience to bear on its relationship with insurers, funders and investment organisations concerned with making finance sustainable.

It is precisely on this last point, i.e. the **reallocation of capital to sustainable projects and companies or those in transition**[40], that multiple skills are needed by the finance and SD/CSR departments so that they can engage in meaningful dialogue with financial players. It is particularly important for both departments to understand sustainable finance regulations[41], address the needs of financial players, and enable them to identify and integrate ESG criteria into their insurance, funding and investment solutions. Drawing up a sustainability report, not to mention climate and biodiversity transition plans[42], developing a joint policy for incorporating CSR criteria into remuneration[43], and meeting expectations concerning control of negative impacts on the environment and human rights through vigilance plans are the sort of projects in which the SD/CSR departments must involve the other departments, in particular finance. Not doing so would create exposure to uninsured risks and lead to a decline in funding and investment. Poorly implemented incorporation would pose greenwashing risks and face criticism for projecting a misleading indeed false model.

This prospect of incorporating CSR across all levels (within the departments and business areas of financial and non-financial companies, trade unions, professional associations and academia) has led the Corporate Social Responsibility Observatory (ORSE) to widely disseminate its studies and promote dialogue between players for a more responsible social, societal and economic environment.

2 What funding for transition plans?

Current CSR-focused investment strategies fail to generate the expected returns, the predominant factor for markets being cost. Furthermore, the correlation between CSR performance and economic performance is not directly visible. This is inherent in the time needed for the profound and sustainable transformation of business models, as well as in the collective nature of climate benefits. The collective benefit derived from the interdependence between climate, biodiversity, health, water, and food sovereignty[44] cannot be owned or materialised, but its collective value goes far beyond the return on investment for the investing entity.

Public policy, therefore, has a crucial role to play in reversing the trend and changing the prospect of no or low profitability to one in which investment in climate change adaptation and biodiversity is attractive and stepped up, preferably in synergy with already clearly identified mitigation actions.

Despite the uncertain context, issuers resort to several short-term funding mechanisms. Even if these instruments are not yet appropriate for scaling up and meeting the massive funding requirements of the green transition, they do allow transition plans to be initiated.

40 Definition of sustainable finance by the Abécédaire de la finance durable 2024 (Handbook of Sustainable Finance 2024).
41 ORSE report: Guides to sustainable finance. Banking Insurance.
42 ORSE report: Corporate and investor biodiversity commitments.
43 ORSE report: CSR and remuneration criteria, strategic alignment?
44 IPBES report: "Nexus assessment", scheduled for late 2024.

2.1. Global decarbonisation-dedicated funding instruments

Companies have been developing and using financial instruments for a number of years. The sustainability-linked bonds (SLBs), for example, used by Rexel among others as set out in section 1, are securities with an ESG condition for the issuer. They have seen significant growth in European ESG bond markets since their appearance at the end of 2019. Green bonds, dedicated to the funding of decarbonisation plans, are also popular, with significant green loans taken out by a number of companies, such as Air Liquide.

Investor mobilisation allows green funding to benefit from attractive rates and ensures sustained maintenance of issuer vigilance over the non-financial criteria included in the terms of financing, but this funding is not fundamentally distinct from usual project funding streams.

Mobilising funding instruments to accelerate the low-carbon transition

As the world embarks on a transition to carbon neutrality, many industries will undergo profound transformations, creating new needs around Air Liquide's traditional products: hydrogen, air gases and CO_2-related services. Air Liquide is therefore key to providing operational and technological expertise to support the transition of its existing customers towards low-carbon processes and to meet the other transition needs of markets that generate new demand for industrial gases and services related to their decarbonisation (e.g. mobility, cement, lime, etc.).

Delivering solutions for the decarbonisation of industry and mobility goes hand in hand with the group's own decarbonisation. Air Liquide is committed to achieving carbon neutrality across its value chain by 2050 and cutting by 33% its "scope 1 and 2" emissions by 2035 compared to 2020.

Achieving carbon neutrality and decarbonising customer sectors require significant capital expenditures that must be funded. In May 2024, the group successfully made its second green bond issuance, after its inaugural issuance in 2021, raising €500 million with a maturity of ten years and a competitive overall return of 3.466%.

The success of what was a largely oversubscribed issue illustrates market confidence in Air Liquide's ability to develop technologies and projects that contribute to the decarbonisation of industry and mobility.

The funds raised will be principally dedicated to funding low-carbon air gases, low-carbon hydrogen, and CO_2 capture projects. In each of these areas, the group has developed innovative solutions, such as hydrogen production by water electrolysis, carbon capture for industries that are difficult to decarbonise, and air separation units specifically adapted to renewable energies.

The new green bond issuance also emphasises Air Liquide's commitment to making its finance department a key contributor to its 2025 strategic plan, ADVANCE, which inseparably links financial and non-financial performance. Green bonds account for a significant proportion of this effort, but not all. In 2019 and 2024, the group also aligned its syndicated credit line with three CSR objectives.

Finally, in 2023 Air Liquide signed its first green loan to finance low-carbon hydrogen production units in China.

2.2. Project funding

Companies also invest directly in projects which are still too often geared to the climate transition, including carbon sequestration, emissions reduction or adaptation actions. The funding for such projects resembles traditional project finance, but it is identified as enabling investors to meet their taxonomic requirements, while ensuring that specific environmental management conditions are maintained throughout the life of the funded project.

New trends are however emerging, notably because the CSRD requires transition plans for all sustainability matters. The protection and restoration of ecosystems is now integrated into climate projects, as illustrated by the pioneering example of the Climate Fund for Nature. Kering and Capgemini are financing projects that have a positive impact on both climate and nature through a fund managed by Mirova, a subsidiary of the BPCE Group. It is noteworthy that companies are increasingly taking on the roles of financial investors and funders to develop new business models.

Other types of funding fall under philanthropy. For example, Schneider Electric finances local projects worldwide to enhance both social and environmental conditions.

A coalition of companies to finance the first climate fund for nature

At the 15th Conference of the Parties (COP15) of the Kunming-Montreal Convention on Biological Diversity, an ambitious **Climate for Nature Fund** was announced to mobilise vast resources from large corporates to protect and restore nature on a large scale.

The fund was set up in December 2022 and is managed by Mirova, a subsidiary of Natixis Investment Managers (BPCE Group) wholly dedicated to sustainable investment. It is designed to support quality projects dedicated to the **protection and restoration of nature** and to **assist farmers in their transition to regenerative practices**. The fund will generate high-quality carbon credits efficiently over time and transfer them to investors in return for their investment. It includes EpE member companies like Kering and Capgemini. Projects supported by the fund must also generate co-benefits for communities and contribute to the empowerment of women.

Examples of supported projects:

Conservation and reforestation

Mangrove restoration

Sustainable agriculture

With a **target of €300 million**, the fund is open to companies from various sectors to support large-scale positive impact actions.

To contribute to the implementation of the Kunming-Montreal Global Biodiversity Framework and the Paris Climate Agreement, companies must take steps to mitigate pressures on nature exerted by them and their value chains, in addition to adopting restoration and conservation measures. By pooling their resources within the same coalition and drawing on Mirova's expertise in due diligence, financial management and ESG, member companies of the fund can effectively leverage and combine their contribution to positive impacts on nature, climate and communities.

Impact investing: 15 years of investment for a fair and inclusive green transition

Schneider Electric contributes to a fair and inclusive transition by investing in companies with a strong social impact. Since 2009, it has invested equity and quasi-equity in more than sixty startups and projects through four impact investment funds (SEEA)[45], SEEA Asia, E3 Capital and Gaia) and three carbon funds (Livelihoods). The companies in its portfolio are committed to various issues centred around access to clean energy including the fight against energy poverty, health and food security, digital and financial inclusion, education, climate, and environmental protection. These activities not only generate positive externalities, such as job creation and increased income, but also contribute to the overall development of society.

In all, Schneider Electric has invested more than €90 million and helped raise over €400 million by mobilising its financial partners. Schneider Electric brings to bear its knowledge of the energy ecosystem and its international network on providing operational support over a five-to seven-year period to ensure as far as possible the future of companies it invests in and positive environmental and social impacts.

Between 2009 and 2023, Schneider Electric's investments enabled companies in the portfolio to impact 38 million people, create more than 7,000 direct jobs, refit 81,000 square meters of homes, recycle 220,000 tonnes of waste, and avoid more than 10 million tonnes of CO_2 (excluding E3 Capital).

Examples from around the world include Indonesia, where Xurya, invested into by SEEA Asia, promotes clean energy access by offering a complete solar energy solution ranging from installation to infrastructure management; Senegal, where the Oceanium association funded by Livelihoods employs local communities to restore mangroves and reduce CO_2 emissions in the region; and lastly France, where the SEEA-supported firm Wall'up Préfa promotes the construction of social housing through ecological and energy-efficient materials.

Schneider Electric's impact investing activity supports innovations with a social and environmental impact, thereby promoting a fairer and more equitable transition.

Finally, carbon credits and voluntary biodiversity certificates are another type of financial instrument used by companies to fund certain projects. They help to match difficult-to-finance project funding requirements with non-financial players' willingness to offset their global carbon/biodiversity footprint. There is a lively debate on the credit/certificate mechanism, which is still clouded by uncertainty in terms of audit, measurement and integrity. Current trends towards the development of more rigorous methodologies should gradually lead to significantly higher carbon prices and thus to closer alignment with the usual funding mechanisms for profitable projects.

The limits of philanthropy in terms of financial flows, however, prevent consideration of the role such mechanisms can play in mobilising a significant share of the huge funding needed for the transition. They are nevertheless valuable for testing methods, promoting business models, and even leveraging funds for certain projects through normal channels.

45 Schneider Electric Energy Access.

3 Directing financial flows towards the green transition

Even though environmental practices are beginning to change, particularly under the impulsion of regulations, the question of how to quantify good CSR performance in corporate valuations and to put a value on those issues for investment purposes is still the subject of wide debate. The existing correlation between CSR performance and financial performance is, therefore, under regular discussion and examination. There is yet little consensus on the link between financial returns and CSR investment strategies, particularly in the short term. In the circumstances, the financial sector, including banks and investors, has a major role to play in the construction of a sustainable financial system, especially by supporting eco-responsible projects and companies engaged in their transition, and advising investors on their investment decisions.

3.1. The role of banks

Banks play a twofold role: vis-à-vis the primary investors they advise and make investments for, and vis-à-vis the companies they fund.

In their first role, they exercise an influence on individual investments, in particular by offering them sustainable saving products and directing them towards labelled assets and products. The need to **develop the knowledge** of the institutional world and the general public **on responsible investments** (RIs) is nevertheless significant. Banks are supplementing the traditional "risk-return appetite" yardstick that defines investor profile with questions about sustainability appetite, thereby fostering the creation of SRI funds and concentrating the minds of investors. As a result, nearly 300 ESG funds have been launched in Europe over one year[46] whose management costs are comparable to other funds and whose five-year performance is slightly better.

This collective education is just starting. According to the Ifop annual survey for the French Forum for Responsible Investment (FIR), even if social and environmental topics in terms of responsible investment, as illustrated in Figure 6, are still uppermost for French primary investors, only a quarter say they have heard of labels certifying sustainable savings, and only 9% are able to name an SRI, i.e. 2.4% of primary investors. This figure changes little year on year.

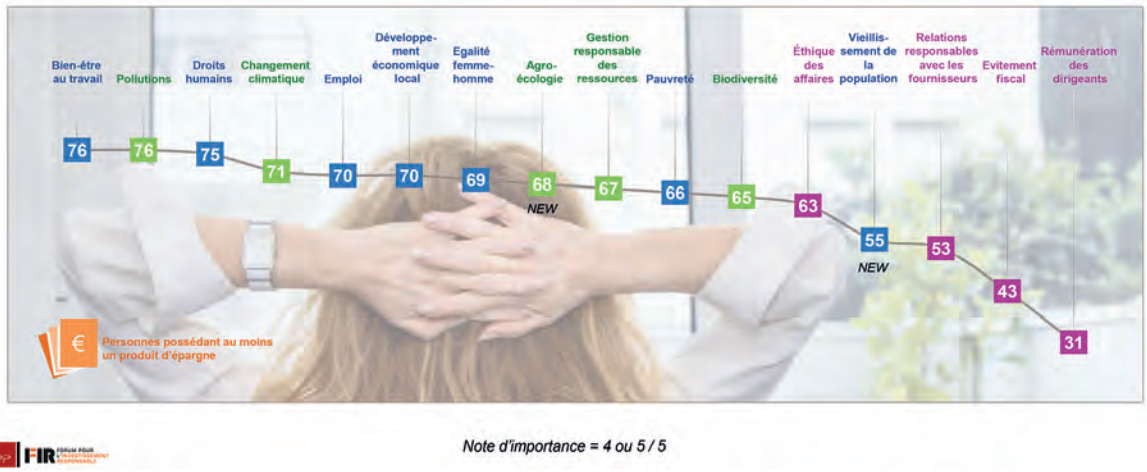

Figure 6 / Ifop survey for FIR on priority topics for consideration **by responsible investors**. In green, environmental topics; in blue, social topics; in purple, governance topics.
Source: *Ifop, september 2024.*

46 Source: *Les Echos*, 18 October 2024.

The role banks play in educating investors is substantial. Their close relationship with investors helps create dialogue over where to channel capital.

The 2024 Ifop survey also underlines the fact that, despite doubts over their transformation potential, responsible investment products allow investors to surpass the profitability-only approach. Three out of five investors feel that financial institutions are legitimately entitled to discuss with and put pressure on companies to improve their social and environmental practices.

The emergence of sustainability in the investment themes of primary investors allows the green transition to feature more prominently in the relationships of banks with the companies they finance. This is the other key role played by banks in funding the transition.

Société Générale, for example, has developed a corporate transition assessment tool to strengthen strategic discussions with its customers. BNP Paribas, meanwhile, has partnered EDF to develop an approach for measuring impacts on natural resources and funding climate change adaptation.

SOCIETE GENERALE

Supporting customers' green transition

To meet the current climate challenge, Société Générale fully incorporates climate-related issues into its strategy, governance as well as risk and impact management.

A founding signatory member of the Net-Zero Banking Alliance (NZBA), Société Générale strives, for the most carbon-intensive sectors, to align its funding portfolios with pathways compatible with the goals of the Paris Agreement. This alignment strategy is twofold:

- to manage the reduction of its carbon footprint from fossil fuels in terms of absolute value and;
- to define a path to reducing the carbon intensity of portfolios in other sectors, which must continue to develop while improving their effectiveness (transport, heavy industry, real estate).

The transition to a sustainable world requires collective and coordinated action and constant dialogue with clients and peers. Société Générale has accordingly joined a number of working groups to develop common standards and pool the collective intelligence of financiers, engineers and scientists from different sectors. The bank is actively involved in sectoral initiatives such as the Hydrogen Council, the European Battery Alliance and the Poseidon Principles for shipping. These allow it to analyse the major decarbonisation challenges of each sector and key related drivers.

To ensure that its customers' transition strategies are consistent with its own sectoral pathways, Société Générale holds discussions with them that enhance its own climate-related risk and impact assessments.

In this connection, Société Générale has developed a corporate transition assessment tool, TOP (Transition Opportunities Potential) that enables bankers to make objective and sector-specific assessments of the ambition and credibility of their customers' climate transition strategies, as well as comparisons with peer assessments. As a result, the bank has a robust framework for strategic discussions with its customers on transition issues that allows it to identify business opportunities and better support them in their transition.

EDF and BNP Paribas join forces to tackle climate and environmental challenges

The two groups, which already support individuals in energy refits for their homes through Domofinance, and Izi by EDF, signed a new partnership in 2024, the objective of which is to work together on issues related to natural resources and climate change adaptation.

Developing a common approach for measuring impacts on natural resources.
Teams from EDF R&D and BNP Paribas' commitment department discuss best practices and key performance indicators to measure their direct and indirect impacts on natural resources such as land take and water management. To streamline funding, the two players look to harmonise measurement methods and establish a common language between industrial and financial organisations

Funding adaptation to the physical risks of climate change.
BNP Paribas presented EDF with its physical climate risk analysis model. Technical discussions with EDF climate experts, who brought to bear their rich expertise in the field (the group has its own climate department), confirmed the relevance and alignment of the approaches and identified areas for improvement. In return, the exercise has helped EDF understand how financial players address climate risks in their investment and/or financing strategy. EDF R&D can then share this knowledge with company project implementers.

EDF has been engaged for several years in assessing the impacts of climate change on its activities and adapting its existing facilities to make them more resilient to extreme situations. EDF and BNP Paribas jointly consider the best funding instruments for those activities. By studying the nature and amount of adaptation investment, EDF and BNP Paribas are seeking to devise innovative adaptation-specific funding.

Carmen Munoz Dormoy, EDF's Director for Downstream R&D, says that "*the partnership with BNP Paribas is an excellent opportunity to develop our knowledge and methods for assessing environmental impacts and understanding how climate change adaptation is approached in the financial sector*".

Signature of partnership in the presence of (from left to right): Claire Iversenc (BNP Paribas), Bernard Salha (EDF), Antoine Sire (BNP Paribas) and Carmen Munoz (EDF).

Claire Iversenc, head of sustainable business transformation at BNP Paribas' corporate commitment department, adds: "*The partnership with EDF allows us to closely examine current matters of interest for our two groups and focus on leveraging our industrial and banking expertise to further streamline the support we offer our customers*".

Banks, because of their nationwide presence at all levels (regional, departmental, municipal, etc.) provide the various players with an opportunity to invest in a consistent manner. Knowledge of vulnerabilities and of the actions to be carried out cooperatively and effectively is available at the regional and local levels. The solutions, which are plentiful, include vulnerability assessments, massive development of renewable energies, soft mobility, agro-green transition, development of the timber industry, development of low-carbon industries, funding for greening of urban areas, development of nature-based solutions, to name but a few.

Banks, therefore, are key partners in the decarbonisation journey and more broadly the green transition of companies, not only because they provide them with traditional green financing or investment solutions, but also because they understand their needs and offer them cross-sectoral advice and expertise across their value chains.

3.2. The role of investors and asset management companies

The incorporation of CSR into the investment process of management companies is the springboard for accelerating the green transition. This process is complex, especially for biodiversity factors to which the principle of recovery can hardly be applied. However, areas are being studied and tested by financial players, reflecting the relative maturity of an issue. For example, current biodiversity funds include a large number of companies committed to measuring their biodiversity footprint as a possible first step to designing reduction plans[47]. For the climate, the criteria for inclusion in ESG funds are of course more closely linked to the actions of companies.

As the impacts of climate change, biodiversity erosion and social changes become a reality, the correlation between implementation of CSR actions and creation of financial value is becoming more firmly established, calling into question the sustainability of some economic models. Incorporating CSR into overall investor strategies helps to change their rationale and methodology. It also allows investors to seize opportunities not yet valued by the market, and benefit from competitive advantages. It therefore appears essential that financial players support the companies and public players in their portfolios by identifying material issues and focusing on what will promote long-term returns. For example, Amundi, Crédit Agricole's management company, sets out below its ESG rating methodology put in place to assess the ability of companies to carry out their green transition. Tikehau Capital, meanwhile, stresses the importance of having a twofold approach: a decarbonisation pathway specific to the portfolio of its assets under management, and a platform dedicated to impact investments as well as their specific decarbonisation and regenerative agriculture strategies.

47 Source: *Les Echos*, 18 October 2024.

Developing an in-depth ESG rating methodology to assess the ability of companies to conduct their green transition

Responsible investment has always been at the heart of Amundi's philosophy, with social and environmental responsibility constituting one of the four founding pillars of the company's strategy since its foundation in 2010.

Amundi defined its own analytical framework and developed its own ESG rating methodology. This methodology assesses corporate behaviour in the three areas of environmental, social and governance and measures the non-financial performance of issuers, i.e notably their ability to anticipate and manage sustainability risks and opportunities inherent in their sector of activity and individual situation. It also evaluates the ability of management to manage the potential negative impact of corporate activities on sustainability factors.

Amundi bases its ESG analysis on a "best-in-class" approach. Each issuer is assessed according to a quantitative score benchmarked versus their sector average, allowing best practices to be distinguished from worst practices at sectoral level. The assessment combines non-financial data from 16 general and specific data providers based on related sustainability issues and qualitative sector analyses carried out by in-house ESG analysts.

The quantitative score is expressed on a scale from A (best practice) to G (worst practice). In line with the application of minimum standards and Amundi's exclusion policy, G-rated companies are ruled out from the investment universe[48].

The analytical framework consists of 38 criteria - 17 of which are general (cross-sectoral) and 21 specific - applicable to some sectors only. These criteria have been defined to assess how sustainability issues may affect issuers and how they adopt those issues. The impact on sustainability factors and the quality of mitigation measures taken are also examined. All these criteria are available in the portfolio management system of managers.

To be effective, ESG analysis must focus on the most material criteria by company activity and sector. For each sector, ESG analysts give weightings to key criteria, as shown in Figure 7 below.

	E	S	G
Household and personal care products	36%	34%	30%
Automotive	40%	34%	26%
Banking	24%	29%	47%
Telecommunications	15%	53%	32%

Figure 7 / Examples of weighting of E, S and G analysis criteria used in issuer ESG ratings across a selection of different sectors (for automotive, environment 'E' criteria include water management, GHG emissions, forest management, and so on and account for 40% of the final ESG rating from A to G).

Amundi goes further, setting itself the objective of awarding a transition rating to all issuers in actively managed open funds under its 2025 ESG ambition plan. This rating will assess the decarbonisation actions of companies and their efforts to develop green activities. In addition to current financial and ESG performance targets, 100% of actively managed open funds will have to show an energy transition score higher than their reference universe by 2025. In giving added focus to energy transition and sustainable activities, Amundi will be able to build more resilient portfolios upstream in terms of the physical and transition risks arising from future changes.

48 More information on the scope of the exclusion policy can be found in Tables 1, 2 and 3 set out in the annex to Amundi's responsible investment policy.

A twofold approach to the green transition

Tikehau Capital sees the climate emergency as a call to action, but also as one of the greatest investment opportunities in recent decades. The global asset management group managed more than €47 billion at 30 September 2024 and defines its green transition approach through four business lines based on two complementary aspects: a decarbonisation pathway and an impact investment platform.

An ambitious decarbonisation pathway
Tikehau Capital joined the Net Zero Asset Manager (NZAM) initiative in 2021 and is committed to bringing its activities into line with the Paris Agreement. This involves setting interim targets by 2030 based on two NZAM-endorsed approaches: the Net Zero Investment Framework (NZIF) and the Science Based Targets initiative (SBTi).

Portfolio coverage targets:

- real estate: 50% of assets under management within the investment scope aligned with net zero by 2030 (CRREM 1.5°C decarbonisation pathways)[49]. Tikehau Capital aims to improve on the energy and carbon intensity of its housing stock;
- capital market strategies: 50% of companies within the investment scope aligned with net zero by 2030 under the NZIF approach;
- private equity: 100% of portfolio-based companies within the investment scope with validated SBTi targets by 2030.

Portfolio decarbonisation target:

- private equity and private debt: 50% reduction in weighted average carbon intensity per million euros of turnover on scopes 1 and 2, with assets under management within the investment scope by 2030 aiming to reflect decarbonisation in the real world.

An impact investment platform
The group has developed a platform dedicated to impact investments with the goal of achieving €5 billion of assets under management specifically for climate and biodiversity by 2025. This segment includes partnerships with key players such as TotalEnergies on decarbonisation-dedicated strategies, as well as Axa and Unilever on regenerative agriculture strategies[50].

Soil conservation agriculture focuses on four key areas:

1) alternatives to conventional inputs and crops: reconstitution of the soil's organic matter and restoration of biodiversity resources;
2) agricultural equipment & operations: technical, digital and agricultural equipment solutions supporting transition to regenerative practices;
3) ingredients: development of regenerative product supply to meet growing demand and conserve natural resources;
4) cross-cutting solutions: cross-sectoral solutions facilitating transition and demonstrating the impact of regenerative agriculture.

For each opportunity, the investment team in association with Axa Climate, an ESG & impact consulting subsidiary of Axa, must be able to demonstrate the contribution to the fund's impact principle and identify the impact roadmap indicators tracked for the target company.

Given the multidimensional impact of agriculture, the strategy aims to invest in companies that support the transition to regenerative agriculture (Figure 8), and to have a positive net impact on at least one of the environmental or social dimensions (presented below) and a non-negative or neutral impact on the other dimensions.

49 Carbon Risk Real Estate Monitor.

50 Definition of regenerative agriculture used by Tikehau Capital: "Regenerative agriculture is about improving the ability of the land to recover so that it is left in better condition for future generations. More specifically, regenerative agriculture is inspired by soil conservation agriculture. Born in the United States, this is based on three principles. Firstly, providing permanent soil cover with plants or residues from previous crops to protect the soil surface and conserve moisture. Secondly, practising crop diversification with long rotations to improve biodiversity and land fertility. Lastly, reducing or even stopping tillage, which is potentially harmful for biodiversity". More details here.

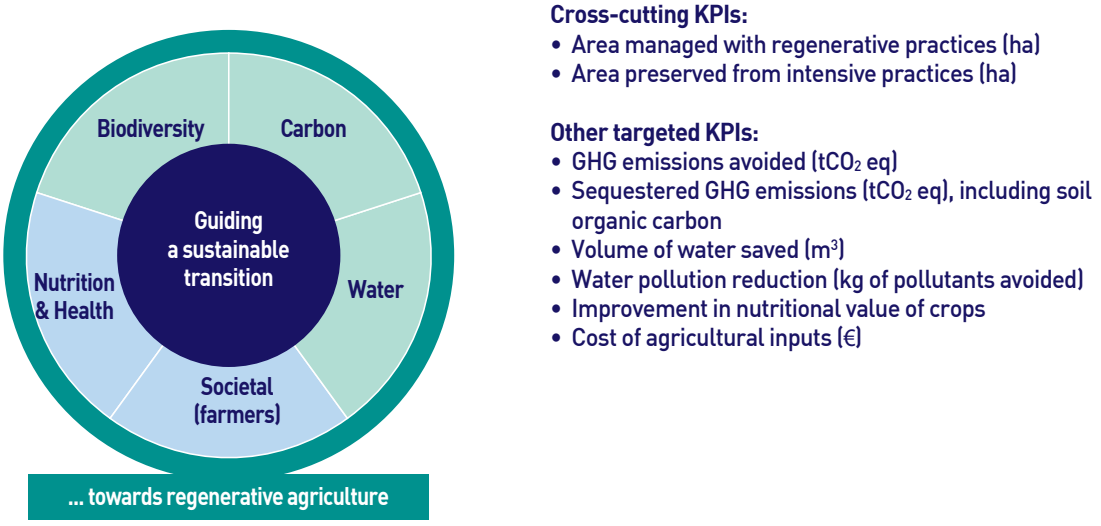

Figure 8 / Regenerative agriculture strategy impact framework.

Management companies are building momentum to include more ESG criteria in their investment decisions. These criteria also allow them to create green transition-dedicated funds. For example, Axa IM has set up a fund to invest only in companies that contribute to ecosystem conservation and restoration, including sustainable agriculture, resilient infrastructure, and responsible production and consumption.

Crédit Mutuel, on the other hand, takes into account social aspects not covered by the primary criterion of financial profitability in the Environmental and Solidarity Revolution Fund.

Fund management relies on different levels of aggregation for comparison and trade-off purposes. This exercise is especially challenging for management companies because it involves assigning values to the effects on humans and non-humans. Axa IM Fund points to a solution by selecting specific sectoral activities on the basis of sector-specific criteria, which then allows aggregation.

A bespoke fund to implement the Global Biodiversity Framework

The Axa WF ACT Biodiversity Fund is designed to address the global challenge of biodiversity loss, while offering investors the opportunity to achieve financial returns. With more than $225 million in assets under management, the fund invests in companies that contribute to ecosystem conservation and restoration, including sustainable agriculture, resilient infrastructure, and responsible production and consumption.

Its investment approach is in line with the recommendations of the Global Impact Investing Network (GIIN) on generating positive impacts through investment in listed equities. The fund is also classified under Article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR), underlining its commitment to environmental sustainability.

In keeping with several UN Sustainable Development Goals (SDGs), including SDG 2.4 (sustainable food production systems), SDG 6 (clean water and sanitation), SDG 12 (responsible consumption and production), SDG 14 (life below water) and SDG 15 (life on land), the fund contributes to implementation of several Global Biodiversity Framework targets. In particular, it facilitates the achievement of Target 19, which aims to increase the financial resources available for biodiversity conservation. By targeting companies that offer innovative solutions to protect and conserve biodiversity and demonstrate the potential to scale up, the fund encourages pollution reduction and more efficient resource utilisation, which allows other companies to reduce their biodiversity footprint.

The Axa WF ACT Biodiversity Fund actively engages and enters into dialogue with companies in its portfolio to encourage them to improve their environmental practices. These commitment initiatives lead companies to gradually reduce their environmental footprint and restore habitats affected by human activity.

For investors seeking to align their financial objectives with their values, the fund offers the opportunity to contribute to global biodiversity conservation efforts while pursuing long-term capital growth. By investing in companies committed to sustainable strategies that take account of biodiversity, the fund helps maintain the resilience of natural ecosystems for future generations.

The Environmental and Solidarity Revolution Fund: when non-financial goals prevail over financial return

In January 2023, Crédit Mutuel Alliance Fédérale announced the creation of a social dividend. The group now devotes 15% of its net income to the fight against the effects of climate change and social inequalities. 439 million euros were already mobilised in 2023 and a total of almost 3 billion euros will be committed by 2027. More than half of these amounts have already been allocated to a large-scale investment scheme unparalleled on the French market: the Environmental and Solidarity Revolution Fund (RES) in support of entrepreneurial projects with a high environmental and social impact.

The RES Fund operates in the key areas of environmental planning (energy, mobility, housing, agriculture, consumption, industry and biodiversity) and aims to step up the transformation of production models, support technological breakthroughs, encourage the scaling-up of companies, or contribute to funding for social adaptation caused by climate change.

Its singular feature is that it has no target financial return and focuses exclusively on environmental and social added value. Its unique approach targets 100% of "sustainable" assets within the meaning of the European taxonomy, at least 80% of which must be aligned with an environmental goal. In order to achieve its objectives, the fund invests directly or indirectly in unlisted companies possessing infrastructure projects, forest assets, venture capital or development capital.

In the long run, the expected impacts of the fund will be measured against various ESG indicators, in particular the quantity of carbon emissions avoided. For example, the "Neolithe" project should avoid the emission of 9,400 tonnes of CO_2 for every million euros invested, i.e. the annual consumption of more than 6,300 small cars. The development of Dambach forest in the Bas-Rhin region is also being studied for the purposes of increasing its carbon sequestration (cessation of industrial wood energy) and improving biodiversity protection (forestry based on the "Prosilva" sustainable model, nature reserve extension measures).

Several funding mechanisms have been developed over the last few years to finance the green transition. Yet climate issues remain paramount in funding priorities. New trends are emerging on how to fund biodiversity conservation and restoration, highlighting its interdependence with climate but also the difficulty of defining indicators that can be compared and aggregated.

Lastly, a considerable effort is required by stakeholders to reduce the gap between funding requirements and the resources available for actions dedicated to the green transition. The assimilation of the green transition in corporate finance is just beginning.

CONCLUSION

For decades, finance has shaped the world economy by assessing the performance of economic players solely based on maximising production and profit. This model, however, largely ignores the environmental and human impacts of economic activities or the limited availability of resources. In the face of growing interrelated environmental and social crises, the viability of purely financial models and the business models they promote are being called into question. To rectify this, **regulatory pressures** on CSR reporting are mounting, particularly within the European Union. Recent regulations such as taxonomy, SFDR, and CSRD now require companies and financial institutions to be **more transparent about the social and environmental impacts** of their activities right across their value chain, **as well as about dependencies, risks and opportunities**. These regulations also focus on the **influence of social and environmental issues on financial performance**.

The **original responsibilities of corporate finance** such as financial planning, budgetary control, accounting, treasury, etc. **have** therefore **been shaken up** and there is a need for new and multiple skills which overlap finance and ESG. On the one hand, the examples in this publication illustrate strong momentum in the experimentation and implementation of actions by EpE companies to promote **convergence between finance and sustainability**, with organisational variations ranging from a common project structure for both functions to dedicated 'sustainable finance' departments, and even a full merger of the two.

On the other hand, all the practices described reflect a search for pragmatism in the face of increasing requirements and complex questions demanding continuous learning solutions. **The challenge of integrated data and tools** is one such example. Defining new measurement indicators, particularly to assess this plural performance and influence strategic planning, requires a massive amount of data. This involves structuring the data, ensuring its quality, robustness and traceability - well within the capacities of the finance department because of its extensive experience in numerical data reporting processes - and meeting new and very ambitious auditability requirements. However, companies must maintain their capacity for judgement regarding the materiality of the facts they describe, along with their capacity for dialogue and decision-making. Non-financial data forms the basis for **communication and dialogue between the company and its financial or other stakeholders** to ensure the relevance and understanding by all of the transition plans they implement.

As well as ensuring the company's sustainability, incorporating ESG topics into corporate finance **facilitates trade-offs** within organisations, fosters **more informed decision-making** on environmental, social and financial impacts, and **brings investments in line with collectively set sustainability goals**.

From an issuer's perspective, several funding instruments are under development from green bonds to transition project finance. Financial players have complementary views, with management companies acting globally to direct capital flows towards the green transition and using the sustainability data provided by companies to build greener portfolios. Banks, on the other hand, directly support their customers' projects at local level. This proximity allows them to understand everyone's sustainability concerns using risk analyses. Partnerships between companies and financial institutions are formed to develop common impact measurement approaches or structure adaptation funding, for example.

Embedding environmental and social issues into finance is also an opportunity to speed up the transformation of business models. Ownership by financial players of these issues through the definition of a common language for plural performance helps promote, internally as well as among stakeholders, awareness of planetary boundaries, of the links between economic, social and environmental systems, and of the interdependence between current crises. Thanks to this awareness and changes in the fiscal and regulatory environment, the strategic planning and decision-making of economic players should gradually come into line with the reality of a planet with limits.

However, the convergence between finance and sustainability creates **multiple uncertainties and a number of risks**. Indeed, so great is the complexity of integrating huge amounts of diverse data and information, thus far often computed only in physical units, that there is a notable risk of **reducing environmental and social performance to solely measurable and quantifiable elements**, i.e. those to which a monetary value can be given. This is currently the case with climate issues which, because they are measurable through the standard metric of a tonne of carbon equivalent and have a value on carbon markets, are considered material and therefore strategic by companies, while whole sectors of the transition such as reversing the curve of biodiversity loss are overlooked. Although biodiversity is vital to humans and its decline is closely related to climate change, it is often perceived as non-material by businesses, at least for the time being, since impacts and dependencies are often diffuse and indirect. Some climate-friendly projects can be disastrous for biodiversity; hence the importance of integrating these two issues with the design and development of solutions.

Another risk is that companies may struggle to **form an overall view of themselves beyond their direct scope of action**. This is the case with their **upstream and downstream value chains** whose multiple intermediaries make it difficult to ensure traceability. This is also the case with the consequences of their decisions for other **highly interdependent parts of the chain** (water, biodiversity, food, health and climate change). The IPBES report scheduled for the end of 2024 is expected to underline the importance of addressing these issues jointly and promoting both private and public investments that simultaneously improve performance across different fields. Will financial systems be able to embrace such projects?

Beyond these points of method, new more operational and strategic questions are being asked. For example, can one remain competitive and carry out the green transition? Can economic performance be maintained at adequate levels while improving environmental and social performance? Will finance manage to change viewpoints and allow players to put the right emphasis on social, environmental and financial factors?

It is clear that a milestone has been reached through regulation and the imposition of strict requirements, as well as through the reorganisation of finance departments and the development of tools to support the green transformation of society. Is finance the point of departure or arrival for transformative change? On the eve of the publication of the initial reports, calls for streamlining EU requirements show the magnitude of the change being demanded. More gradual implementation than initially planned should facilitate corporate reporting and its ownership by users, without increasing the aforementioned risks nor compromising the momentum in integrated action.

Through this publication, EpE companies have shown they are approaching these matters in a determined and balanced manner. Every individual involved has to ask themselves the right questions and hold discussions with partners to drive this societal and professional dynamic forward.

Table of illustrations

Glossary

CAC	Statutory auditors
CBAM	Carbon Border Adjustment Mechanism
UNFCCC	United Nations Framework Convention on Climate Change
GBF	Global Biodiversity Framework
COFRAC	France's accreditation committee
COP	Conference of the Parties
CRREM	Carbon Risk Real Estate Monitor
CS3D	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
CTA	Climate Transition Assessment
SD	Sustainable Development
DIRO	Dependencies, Impacts, Risks and Opportunities
DNSH	Do not significantly harm
DP2IF	Performance, impact, investments and finance department
DPEF	Déclaration de performance extra-financière (Non-financial performance disclosure)
DR	Disclosure Requirement
EFRAG	European Financial Reporting Advisory Group
RE	Renewable Energies
EPM	Enterprise Performance Management
ERP	Enterprise Resource Planning
ESG	Environmental Social and Governance
ESPR	Eco-Design for Sustainable Product Regulation
ESRS	European Sustainability Reporting Standards
ETI	*Entreprises de taille intermédiaire* (Intermediate-sized enterprises)
FTE	Full-Time Equivalent
EUDR	European Union Deforestation Regulation
FIR	*Forum pour l'investissement responsable* (Forum for responsible investment)
GHGs	Greenhouse Gases
GIIN	Global Impact Investing Network
IA	Artificial Intelligence
IFD	*Institut de la Finance Durable* (Sustainable Finance Institute)
IFRS	International Financial Reporting Standards

IPBES	Intergovernmental Platform for Biodiversity and Ecosystem Services
IPLC	Indigenous Peoples and Local Communities
SRI	Socially Responsible Investments
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicator
NFRD	Non-Financial Reporting Directive
NER	New Economic Regulations
NZAM	Net Zero Asset Manager
NZBA	Net Zero Banking Alliance
NZIF	Net Zero Investment Framework
SDG	Sustainable Development Goals
ORSE	*Observatoire de la responsabilité sociétale des entreprises* (Corporate social responsibility observatory)
OTI	*Organisme tiers indépendant* (Independent third-party organisation)
PAI	Principal Adverse Impacts
GDP	Gross Domestic Product
P&L	Profit & Loss statement
SME	Small and Medium-Sized Enterprises
R&D	Research and Development
CSR	Corporate Social Responsibility
SFDR	Sustainable Finance Disclosure Regulation
SBTi	Science Based Targets initiative
SBTN	Science Based Targets Network
SEEA	Schneider Electric Energy Access
SLB	Sustainability-Linked Bond
SPO	Second-Party Opinions
TCFD	Task Force on Climate-Related Financial Disclosures
teqCO_2	Tonne of carbon equivalent
TNFD	Task force on Nature-Related Financial Disclosures
TOP	Transition Opportunities Potential
UNCBD	United Nations Convention on Biological Diversity
UNFCCC	United Nations Framework Convention on Climate Change
UNCCD	United Nations Convention to Combat Desertification

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About EpE

Association française des Entreprises pour l'Environnement (EpE), set up in 1992, brings together around sixty major French and international companies who share their best practices and work together to better integrate the environment into their strategies and operations. Its *raison d'être* - **one planet and a prosperous world** - sums up the resolve of its members to lead their own green transition as well as that of society, and to ensure that economic development compatible with planetary boundaries is socially accepted, indeed desired. EpE is the French partner of the World Business Council for Sustainable Development (WBCSD).

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Finance, a driver of the green transition?

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