A changing climate … for investor engagement on transition plans in France

Exploring the shifting dynamics for investor engagement on climate matters in France

Finance ClimAct

With the contribution of the European Union LIFE program

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Published April 2024

This work is available at this link.

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Introduction

Many investors are seeking to support the goal of net zero greenhouse gas emissions by 2050 in line with the global objective of the Paris Agreement to limit the average global temperature change to 1.5°C.[1] Investor engagement on climate topics is predicated on the typical model of shareholder rights in corporate governance. Generally this means that certain corporate decisions require shareholder approval in the form of a vote on a resolution. Most resolutions are proposed by the board of directors but in many jurisdictions there is a mechanism by which resolutions can be proposed by shareholders themselves (referred to as a **shareholder resolution**).

Shareholder resolutions on climate have been an effective tool in recent years when other means of investor climate stewardship have failed. Shareholder resolutions on climate vary in terms of focus and the specific mechanism designed to change company behaviour. Most recently shareholder resolutions on climate have concentrated on requesting companies develop and disclose a climate transition plan which sets out the company strategy to align its business activities with the objectives of the Paris Agreement. Climate transition plans have emerged as an effective way of translating the international decarbonisation challenge into a company's operational roadmap and therefore a natural focus for investor engagement on climate topics.

But the rules and regulations which relate to filing shareholder resolutions, and the legal status of these shareholder resolutions once approved, vary by jurisdiction. This variability works against their widespread adoption as they are more effective in some jurisdictions than others.

This paper analyses the use of shareholder resolutions on climate in France and articulates why they are potentially of less utility in this jurisdiction compared to others. French corporate law establishes a mandatory division of powers between the board and the shareholders which means that shareholder resolutions must be expressed to be non-binding. This limits their effectiveness in influencing company behaviour and accountability in relation to climate matters.

The paper then explores the shifting dynamic for investor engagement on climate matters in France more broadly. In the context of the emerging focus on company climate transition plans there is significant scope for reconceptualising a shareholder vote on a company transition plan as a risk mitigation measure by the board of directors. At the same time a number of stakeholders have put forward recommendations for regulatory changes which seek to increase the power of shareholder resolutions on climate matters. And finally the paper discusses the new regulatory requirements at EU level to disclose corporate transition plans. We argue that these regulatory requirements should undoubtedly be considered as a step in the right direction as they mean that more companies will be required to consider how to transition their activities in line with the Paris Agreement (which reflects the comprehensive economic transformation required). However there are concerns in relation to accountability for performance against a credible transition plan because transition plans will not be subject to separate shareholder approval (but rather will be subject to shareholder approval as part of the wealth of other information included in the annual report). In this context it is vital that market practice in terms of credibility and level of ambition associated with transition plans is ensured to compensate for any potential lack of accountability.

[1] This is illustrated by the proliferation of investor alliances and initiatives such as the Net Zero Asset Managers Initiative, the UN-convened Net Zero Asset Owner Alliance, Climate Action 100+ as well as other finance sector initiatives such as Net Zero Banking Alliance, Glasgow Financial Alliance for Net Zero etc.

Section 1

Shareholder voting and corporate governance

This section explains the role of shareholder voting in corporate governance and the principal ways through which shareholders can vote – either on resolutions proposed by the board of directors or on resolutions proposed by shareholders themselves (what is termed a shareholder resolution). It then articulates the legal requirements which must be met for shareholders to file a shareholder resolution in France and the legal status of a shareholder resolution once it has been approved by shareholder vote.

1.1 Different types of company resolution

Shareholder voting is seen by many as the bedrock of corporate governance. Many of the most important corporate decisions (e.g. authorising new issues of equity, changing the articles of association etc.) require shareholder approval in the form of a vote. This gives shareholders ultimate power over these key decisions. Meanwhile decisions relating more to daily management of a company only require board approval.

In all public companies, shareholders vote at the annual general meeting on the corporate governance matters which require shareholder approval. This voting at the annual general meeting is a key channel of communication between shareholders and the board. The resolutions which shareholders are asked to vote on are identified on the agenda/ballot for the annual general meeting. Most of these resolutions are proposed by the board of directors. But with the increase in shareholder activism observed in recent decades, there has been a concurrent increase in resolutions proposed by shareholders themselves.

Resolutions proposed by the board

The resolutions proposed by the board are typically determined by legal requirements (e.g. approval of the annual report, selection of auditors etc.) or at the initiative of the board of directors to seek approval for the company's strategic direction. In France, no provision in the Commercial Code prohibits the board of directors from seeking the opinion of shareholders at the annual general meeting on a matter such as the company strategy around corporate governance (as long as this opinion is non-binding). This allows the board to gather shareholder feedback and make informed decisions which are aligned with the company's goals.

Resolutions proposed by shareholders

Shareholders also have the right to request the inclusion of specific items or resolutions on the agenda/ballot for the annual general meeting. Resolutions proposed by shareholders (so called **shareholder resolutions**) are a key mechanism granting shareholders more of a say in company decision making. It affords shareholders the opportunity to raise a topic of their choice (rather than being limited to topics which are either legal requirements or those which are otherwise proposed by the board of directors). As a result, shareholder resolutions are a key tool for activist shareholders seeking to influence company behaviour in relation to environmental or social matters.

1.2 Threshold requirements to file a shareholder resolution in France

Regulatory frameworks around the globe seek to achieve a balance between empowering shareholders to raise a topic of their choice in corporate decision making and preventing unnecessary disruption through vexatious requests. This balance is achieved by setting certain thresholds which must be met to file a shareholder resolution.

In France, this request should be submitted at least twenty-five days before the date of the assembly convened on the first call. According to Article L. 225-105, Paragraph 2 of the Commercial Code, one or more shareholders representing at least 5% of the share capital can make such requests. However, as specified in Article R. 225-71, Paragraph 2 of the Commercial Code if the company's capital exceeds €750,000, the amount of share capital to be represented is reduced according to the total amount of share capital. Therefore the threshold is 4% for the first €750,000, then 2.5% for the portion of share capital between €750,000 and €7,500,000 and finally 1% for the portion of share capital between €7,500,000 and €15,000,000. Shareholder associations meeting the conditions outlined in Article L. 22-10-44 of the Commercial Code can also exercise this right. This article stipulates that shareholders who have held shares with voting rights for at least two years and represent together at least 5% of the share capital (with this percentage decreasing as the share capital increases) may form associations to represent their interests in the company. To exercise their rights together, the group needs to be registered with AMF.

This approach ensures that each proposal for a shareholder resolution is supported by a significant portion of the shareholder base. This approach helps to uphold the principles of shareholder democracy while also safeguarding against undue burdens on company resources and management's ability to focus on strategic priorities.

Information Box: Threshold requirements for filing a shareholder resolution in key jurisdictions

As referred to above, regulatory frameworks around the globe seek to achieve a balance between empowering shareholders to raise a topic of their choice and preventing unnecessary disruption through vexatious requests. This balance is achieved by setting certain thresholds which must be met to file a shareholder resolution – however it is worth noting that these thresholds vary by jurisdiction. In the European Union, the threshold for submitting a shareholder resolution varies across Member States but cannot exceed 5%.[2]

Country	Threshold to file a shareholder resolution[3]
Germany	5% of the nominal share capital or the pro-rata amount of €500,000 *§ 122(2), sentence 1 of the German AktG*
Ireland	At least 3% of the issued share capital, representing at least 3% of the total voting rights of all members who have a right to vote at the relevant meeting *Section 1104(1) of the Irish Companies Act 2014*
Italy	2.5% of the share capital *Article 126-bis (1) of TUF*
Netherlands	There is no basic right to file a shareholder resolution. If the Board does not agree to put the resolution on the agenda itself, shareholders cannot compel them to do so.
Spain	3% of the nominal share capital *Section 519 of the Spanish Companies Act*
Sweden	One (1) share *Swedish Companies Act 2005, Chapter 7 §16*
Switzerland	0.5% of share capital from 2023, with the entry into force of new Swiss companies law. Articles of Association may set a lower threshold.
United Kingdom	At least 5% of the total voting rights of eligible members or at least 100 members representing an average of at least £100 each. *Section 338 of the Companies Act 2006*

[2] Art 6(2), Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies

[3] Information in this table is paraphrased from: ClientEarth, 2021, Know your rights: A guide for institutional investors to the law of climate-related shareholder resolutions

1.3 Legal status of shareholder resolutions in France once approved

In France, there is some uncertainty as to the legal status of a shareholder resolution once approved. Under Article L225-96 of the Commercial Code, there is a mandatory division of powers which means that shareholders may not interfere with the board of directors' powers to set and manage the company strategy.

Therefore if a shareholder resolution is expressed to be binding then this could be considered to be trespassing on the board's power and the board of directors would not need to accept it on the ballot/agenda and the resolution could also be challenged according to French law.[4] In order to be legally compliant, the shareholder resolution must therefore be expressed to be advisory or non-binding which raises questions as to their enforceability. This means that it is more difficult (impossible) for shareholders to take action to compel the board of directors to take action on environmental matters facing the company.

Information Box: Legal status of shareholder resolutions in key jurisdictions

While the shareholder rights directive does provide a degree of harmonisation across the EU, member states retain some flexibility around the legal status of a shareholder resolution once approved by shareholders.[5] Most counties are like France and consider the resolution to be non-binding.

Country	Legal status of shareholder resolution[6]
Germany	Unknown
Italy	Non-binding
Portugal	Non-binding
Spain	Shareholders can propose advisory and binding resolution unless the company has created a restriction on this subject.
United Kingdom	Special resolutions are binding on the company if passed with at least 75% of the total voting rights of eligible shareholders and have the effect of amending the company's broader constitution.

[4] Haut Comité Juridique de la Place financière de Paris, 2022, Rapport sur les résolutions climatiques 'Say on Climate', p.18
[5] https://www.banque-france.fr/sites/default/files/rapport_54_f.pdf p.48-52
[6] Information in this table is paraphrased from: ClientEarth, 2021, Know your rights: A guide for institutional investors to the law of climate-related shareholder resolutions

Section 2

Increasing climate focus for company resolutions

This section summarises how shareholder resolutions have increasingly been used to address climate topics in support of the growing number of investor climate pledges and coalitions. The climate topics covered by these shareholder resolutions have encompassed governance, transparency/disclosure and target setting. More recently the focus has been on so called Say on Climate resolutions which relate to shareholder approval of a company's transition plan and wider efforts to align strategy and business practices with the objectives of the Paris Agreement.

2.1 Shareholder resolutions increasingly used to address climate topics

As shareholder activism has increasingly focussed on climate change, it is no surprise to see shareholder resolutions increasingly being used to address climate topics (what we refer to as **climate shareholder resolutions**). Over the past decade, climate shareholder resolutions have emerged as a key part of the engagement activities from the growing number of investor climate pledges and coalitions which seek to and hold investee companies accountable on climate related issues.

Climate shareholder resolutions have covered a wide spectrum of different climate matters affecting companies and seek to leverage different mechanisms to compel boards to consider and address climate concerns. 2DII has previously sought to provide a high-level classification of climate shareholder resolutions[7] according to the following macro categories.

Governance: Resolutions in this category either seek to influence executive structure and policies or set climate related policies. For the first primary category (executive structures and policies) resolutions were further subdivided across three sub-categories: sustainability linked remuneration, dividend policy and board representation. A common resolution in this category is to seek appointment of a climate expert to the board of directors – as by adding people with specialized knowledge in climate science, policy or sustainability companies can better navigate the challenges and opportunities presented by climate change. Equally shareholders have the power to propose resolutions that tie executive compensation to the achievement of climate-related targets, such as reducing greenhouse gas emissions, increasing renewable energy use or enhancing environmental sustainability across operations. For the other primary category (climate-related policies and principles) resolutions could be focused either on social equity and community accountability, or political lobbying and spending.
Transparency/Disclosure: Resolutions in this category could be considered across two primary categories: general sustainability disclosure or disclosures regarding climate related risks. Earlier climate shareholder resolutions in this category focussed on disclosure of greenhouse gas (GHG) emissions and emission reduction efforts and evolved with the advent of new reporting frameworks (such as the Task Force on Climate-related Financial Disclosures) to seek either general climate risk disclosures (e.g. TCFD reporting) or specific financial and regulatory risks for the company.

[7] 2DII, 2019, Passing the Baton, Climate-related shareholder resolutions and their contribution to investor climate pledges

Target setting: Resolutions in this category relate to general climate targets without a specific reference to ambition; and targets that can be considered to meet Paris-level ambition. Within this category, targets could be general, or directly relate to a specific emissions or technology target.

The diverse areas of focus of climate shareholder resolutions illustrates the ever-growing importance climate change considerations among investors and the evolution in terms of the shareholder ask of investee companies. One clearly observable trend is that the shareholder ask of investee companies has evolved from transparency around GHG emissions to requiring better management of climate related risks and opportunities facing the company.

2.2 The emergence of Say on Climate resolutions

More recently, as shareholders demand greater accountability and action on climate-related matters, the shareholder ask of investee companies has evolved to requesting companies publish climate transition plans and ensure annual accountability of performance against the climate transition plan at the annual general meeting. These climate shareholder resolutions have come to be known colloquially as *Say on Climate* resolutions and have emerged as a powerful tool for driving corporate climate action and fostering sustainable business practices.

Information Box: What is a climate transition plan?

At its core a climate transition plan articulates how a company will 'take credible, immediate terms steps as an effective way of translating the international decarbonisation challenge into a company's operational roadmap to transition its strategy and operations to align with the 1.5°C trajectory recommended in the Paris Agreement.'[8]

Beyond this conceptual description of what a climate transition plan is, there are competing conceptions of the specific details of what should be included in a climate transition plan. The Say on Climate initiative articulates the following key elements of a climate transition plan:

- Short-term targets required: 5 year and science-based
- Average absolute Scope 1-3 emissions reduction of 7-8% pa to 2030
- Phase out fossil fuel use and production, no financing of new supply
- Executive compensation, strategy and lobbying aligned with plan
- Necessary capex commitments, R&D for decarbonization technology
- End deforestation, credible use of offsetting only if strictly necessary
- Independent auditing of emissions
- Annual performance reporting to shareholders

However in the absence of any regulatory definition of a climate transition plan (or the constituent parts of it) this means that differing views on what should be included in a climate transition plan are permissible. Note however that recent EU regulatory changes now require disclosure of a transition plan for climate mitigation and articulate what must be included in a climate transition plan (see

Section 5*: A new paradigm for transition plans*).

The credibility of a climate transition plan (in terms of level or ambition etc.) is also a key aspect to consider. A transition plan will need to be sector specific, and its credibility should be informed by system components such as alignment with sectoral decarbonisation pathways (indeed alignment with international decarbonisation pathways does not necessarily mean aligned with local sectoral pathways), taxonomies, technological and financial feasibility considerations etc. See *Information Box: ATP CoI* for further discussion.

[8] https://www.sayonclimate.org/climate-transition-plans/

Therefore, a Say on Climate resolution[9] involves shareholders voting on a company's strategy to align its business activities with the objectives of the Paris Agreement. These strategies can cover a variety of different initiatives (increase energy efficiency, transition to renewable energy sources, implement sustainable practices throughout the supply chain, or invest in climate resilience measures), will typically include short and mid-term targets for GHG emissions reduction and establish a process for annual performance reporting to shareholders.

The Say on Climate initiative was launched in 2020 with the aim to get companies to disclose credible climate transition plans and be held accountable for delivering them. Say on Climate's early focus centred around creating a culture of shareholder feedback in the form of an annual advisory vote at company AGMs. The Say on Climate mechanism helped to demonstrate that while some companies were offering abstract long-term goals, virtually none were providing investors with clarity on their strategies to implement these changes in the short-term and thereby ensure they were on track to meet such targets. For many listed companies, such changes require making unprecedented emissions cuts and would therefore entail substantial realignment of capital expenditure, as well as changes to internal governance and incentive structures. While it is the role of company management to devise these changes, shareholders, as the owners of these companies, must be given the opportunity to respond to such a significant change in business direction and understand its impact and consequence for long-term shareholder value. Since its inception the Say on Climate initiative has developed into a global movement with shareholder advocates in the US, Canada, EU, UK and Australia. Major companies have engaged with the initiative to put their climate plans to an advisory vote, including Moody's, Aena, and Shell.[10]

Information Box: Summary of Say on Climate resolutions in France

It should be noted that the Say on Climate concept may be subject to slightly differing interpretations in France. According to the French Sustainable Investment Forum (**SIF**) and ADEME, a Say on Climate resolution is a resolution submitted by the company to shareholders at its annual general meeting which 'seeks the views of shareholders on the company's climate strategy and/or its implementation. This initiative allows shareholders to participate actively in decisions concerning the company's climate policy.'[11]

According to this definition a Say on Climate resolution may theoretically have a wider focus than solely on a company's transition plan and SIF and ADEME articulate several recommendations for what should be included in a good Say on Climate resolution.

SIF and ADEME identify 26 resolutions around the world in 2023 which were in line with their definition – of which eight were in France.[12] And of the Say on Climate resolutions in France, 50% aligned with their recommendations. The average approval rate for these resolutions was 93%, indicating a high level of shareholder support.

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[9] Note however that the first step is to enter dialogue with company management – it is only if the response from company management is not sufficient that a Say on Climate resolution is generally filed.
[10] Paraphrasing and replicating content from Blog, 17 May 2023, Say on Climate: Who we are and what we do. Available at: https://www.sayonclimate.org/say-on-climate-who-we-are-and-what-we-do/
[11] FIR and ADEME, 2023 Bilan Say on Climate, 2023
[12] The companies were: Covivio, Icade, Klépierre, Altarea, Schneider electric, Vallourec, TotalEnergies and EDF.

Section 3

Reframing climate resolutions as a risk mitigation measure

This section discusses how shareholder approval of a company's transition plan can be a risk mitigation measure for the board of directors. At the same time shareholder approval of the transition plan is a means to demonstrate the company's commitment to addressing climate change thereby building trust with stakeholders and enhancing company reputation in the marketplace. It can also help reduce legal risks and financial risks, providing greater stability and security for the company over the long term.

Shareholder resolutions have traditionally been regarded as a somewhat adversarial mechanism between the management of a company and the shareholders in that company. The very core of the idea is that they provide a means to force the company to include a resolution on the agenda/ballot for an annual general meeting even where the board of directors does not want to voluntarily address the topic. References to shareholder resolutions being a 'tool of last resort' within the investor engagement toolkit are frequent in academic and grey literature.

But it is also true that where a decision is approved by shareholder vote, there is less risk for the board of directors when implementing that decision. The risk of director liability to shareholders (i.e. director liability to the company which is enforceable by a derivate action process by the shareholders[13]) is reduced if shareholders have approved the measure. In this context there is significant scope for reconceptualising climate resolutions as a risk mitigation measure – particularly in the context of the topics and areas of focus covered by Say on Climate resolutions.[14] After all these relate to transition plans which may well be outside of the comfort area for any given company and may not be the most profitable (at least in the short term).

3.1 Mitigating reputational risk

Provides evidence of sound management and aligned interests

Obtaining shareholder approval can greatly enhance the credibility of the company's strategic decisions and promote trust among consumers and investors. Shareholder approval of the transition plan indicates that the company's chosen path has been thoroughly examined and supported by key stakeholders who have a vested interest in the company's success. Investors are keenly observant of the decisions made by a company, and shareholder approval adds a layer of assurance through signalling that the company leadership is aligned with the interests of those who have invested their capital. This is fundamental in building and maintaining investor trust, as it communicates a shared commitment to achieving long-term objectives and delivering returns.

Shareholder approval of the transition plan also demonstrates transparency and accountability by the company and assures consumers that its strategic decisions are not arbitrary but are backed by a comprehensive evaluation process. Shareholder approval of the transition plan can contribute to enhancing company reputation which can influence consumer loyalty and create a favourable environment for business operations. When shareholders, who are integral stakeholders, express confidence in the company strategy, it strengthens the overall reputation, providing a buffer against potential reputational risks that may arise.

Shareholder approval of the transition plan therefore serves as a stamp of credibility, signalling to consumers and investors that the company's strategic decisions are well-founded and enjoy support from those with a significant stake in its success. This credibility not only fosters trust but can also play a pivotal role in upholding and enhancing the company's reputation in the eyes of the market and its stakeholders.

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[13] Urbain-Parleani, I., 2023, Les relations assemblées et organes de direction : les résolutions climatiques
[14] UNPRI, 2022, Climate transition plan votes investor briefing

Limits greenwashing risk
Shareholder approval of the transition plan can play a crucial role in limiting greenwashing risk within companies. The ESA's high-level understanding is that greenwashing is 'a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or financial service. This practice may be misleading to consumers, investors, or other market participants.'[15] Enabling a shareholder vote on the transition plan necessitates greater transparency and accountability by the company. Shareholders can scrutinize the company's climate actions and commitments and demand evidence of tangible efforts rather than mere rhetoric. This increased scrutiny acts as a deterrent for companies engaging in greenwashing practices, as they are more likely to face scrutiny and potential repercussions from shareholders if their actions do not align with their stated climate objectives. This can therefore serve as a safeguard, promoting genuine climate action and reducing the risk of companies using empty environmental claims to deceive stakeholders.

3.2 Mitigating litigation risk

Reduces risk of regulatory non-compliance
The transparency associated with enabling shareholder approval of the transition plan can help evidence the company's commitment to regulatory compliance and build trust with regulators and stakeholders through proactively identifying and addressing issues and therefore minimizing the risk of legal consequences. This acts as a shield which reduces risk of litigation for the company by reducing the grounds for legal disputes, contributing to more robust corporate governance and can add an extra layer of scrutiny and assurance for regulatory compliance.

Avoids risk of litigation
Where it is unclear if the transition plan is the most financially advantageous strategy for the company (at least in the short term), then shareholder approval of the transition plan can reduce the risk of litigation between the company and the shareholders at a later stage. Shareholders are less likely to initiate legal proceedings against companies for the company's failure to adequately address climate-risks (or other matters included in the transition plan) where shareholders have themselves approved the transition plan. In addition the transparency associated with enabling shareholder approval of the transition plan can help ensure that it is the most rigorous and stands the best prospects of success.

Shareholder approval of the transition plan can make it more challenging for external parties to contest the transition plan later. Shareholder approval demonstrates a consensus and institutional support for the transition plan, thereby enhancing its legitimacy and validity within the company. Additionally, the shareholder approval process signifies that the company has followed transparent procedures in developing its transition strategy, reducing the likelihood of subsequent legal challenges. In this way shareholder approval of a transition plan can serve as a preventative measure against legal disputes by bolstering the plan's credibility and legitimacy.

[15] ESMA, 2023, Progress Report on Greenwashing Response to the European Commission's request for input on "greenwashing risks and the supervision of sustainable finance policies" p.5.

3.3 Mitigating financial risk

Shareholder insights can reduce financial risk
When shareholders are well-informed about the company's transition plan, they gain a comprehensive understanding of the strategies, objectives and potential impacts on financial performance. By actively involving shareholders in the examination and understanding of the transition plan, the company not only addresses potential concerns but also gains valuable insights and perspectives. This approach can help identify and mitigate potential financial risks more effectively, as shareholders bring diverse expertise and viewpoints to the table. Furthermore, when shareholders are aligned with the transition plan, they are more likely to remain committed and supportive over the long term. This shared commitment enhances the company's ability to navigate challenges, adapt to changing market conditions and ultimately reduce the overall financial risk.

Information Box: TotalEnergies asset misevaluation regarding climate risk

By involving shareholders in the climate strategy, a company can reduce the risk of misevaluating assets through underestimating climate risk and shareholders may be less likely to litigate around the issue. The following illustrates a counterexample of what can happen when shareholders are not involved.

On 6 July 2023, numerous TotalEnergies shareholders filed a lawsuit against the company, alleging unlawful dividends[16] and inaccurate accounting practices.[17] If dividends are deemed unlawful, shareholders must return them. Directors and auditors may also face liability if negligence in the performance of their duties contributed to the unlawful dividend distribution.

The shareholders allege that TotalEnergies failed to properly account for asset depreciation from future carbon costs as per relevant account standards[18] and underestimated Scope 3 emissions. These miscalculations significantly affect asset valuation, leading to overvalued profits and unlawful dividend distribution.[19] They are seeking that the resolution is voided and dividends are repaid.

Avoiding long term risk
Ensuring company continuity and stability through a shareholder-supported transition plan is key to mitigating long-term financial risks. This approach fosters a shared vision, provides consistency, adapts to market changes, facilitates strategic decision-making and enhances the company's reputation. The collective commitment of shareholders increases the likelihood of successful implementation of the transition plan and creates a resilient foundation that reduces the impact of unforeseen financial challenges over time.

[16] Which occur when profits are insufficient for distribution.
[17] Inaccurate accounting can impact dividend distribution by providing erroneous information on distributable profit and asset valuation, influencing shareholders' decisions on profit redistribution.
[18] The AMF recommends considering climate change risks in cash flow evaluation and asset discount rates according to IAS 36.
[19] Sabin Center for Climate Change Law, 2024, Métamorphose vs TotalEnergies

Section 4

Current developments in the French legal framework

This section summarises the current uncertainties and developments in the French legal framework regarding Say on Climate resolutions. It is unlikely that a binding Say on Climate resolution will be possible within the French legal framework. But an alternative route for shareholders seeking to mitigate the company's climate impact is through resolutions to modify the company's bylaws to prioritize climate considerations in decision-making processes.

4.1 Legal uncertainty regarding Say on Climate resolutions

As explained in *Section 1.3 Legal status of shareholder resolutions in France once approved,* there is a mandatory division of powers which means that shareholders may not interfere with the board of directors' powers to set and manage company strategy. This means that the Say on Climate market practice which has developed in other jurisdictions does not translate as well in the French context.

In jurisprudence from 1946 named "Arrêt La Motte" the judge explains that the board of directors can refuse to include on the agenda for an annual general meeting any resolution that exceeds the powers of the general assembly and encroaches on the competence of the board of directors. This has meant that some companies such as TotalEnergies and Vinci have refused to include Say on Climate resolutions on the agenda for the annual general meeting on the basis that climate strategy is a competence of the board of directors and therefore shareholders cannot have a binding vote. However, the *High Legal Committee of the Paris Financial Centre* reinforces the principle that a Say on Climate resolution is possible provided that it is expressed to be non-binding: '[t]he principle of the hierarchy of corporate bodies does not therefore appear to prevent the board of directors from seeking the opinion of the company's shareholders at an ordinary general meeting, provided that the vote is only consultative, even if there is no legal basis for the vote.'[20]

Information Box: TotalEnergies litigation around Say on Climate

In 2022, TotalEnergies refused to include a shareholder resolution to add information to the management report and to frame the strategy 'to align its activities with the objectives of the Paris Agreement' and 'to (i) set absolute reduction targets (...) for direct or indirect greenhouse gas emissions (...) and (ii) the means implemented by the company to achieve these targets.'[21]

This decision was contested by the shareholders concerned, who asked the AMF to order the board of directors to include the shareholder resolution on the agenda of the next annual general meeting.[22] The AMF explained that although the AMF can initiate injunction proceedings, particularly if practices are likely to harm investors' rights, the AMF considered that this did not fall within its competence.[23] The AMF does not have authority to assess the acceptability of draft resolutions whose inclusion on the agenda of a general meeting is requested by shareholders. Nor does it have authority to assess the validity of any refusal by the board of directors to include such draft resolutions on the agenda of a general meeting. Such disputes are a matter for the commercial court. The AMF does not intend to obtain jurisdiction pertaining to these types of issues.[24] The litigation is now in front of the commercial court.[25]

[20] Haut Comité Juridique de la Place Financière de Paris,2022, Rapport sur les résolutions climatiques
[21] Total Energies, 2022, Le conseil d'administration favorise le dialogue avec ses actionnaires en invitant les porteurs de projet de résolution à s'exprimer lors de l'assemblée générale du 25 mai 2022
[22] La Tribune, 2022, Climat: 11 petits actionnaires de Total Energies lui demandent de respecter l'Accord de Paris
[23] La Tribune, 2022, Climat : l'AMF plaide en faveur d'un nouveau cadre législatif pour les résolutions en AG
[24] AMF, 2023, Shareholder dialogue on environmental and climate issues
[25] La Tribune, 2022, Climat : l'AMF plaide en faveur d'un nouveau cadre législatif pour les résolutions en AG

This legal uncertainty has led the Climate and Sustainable Finance Commission (**CCFD**)[26] to propose the creation of a mandatory and binding climate resolution and has proposed automatically including climate shareholder resolutions on the agenda for the annual general meeting, even if they trespass the power of the board of directors.[27]

However, the AMF does not appear to be receptive to this position. It has communicated a position[28] to encourage companies to enhance shareholder dialogue on the climate strategy in the context of the annual general meeting and on a regular basis outside of it which relies on the forthcoming EU regulatory requirement to include a transition plan in the management report of a company (see *Section 5.1 EU regulatory changes requiring disclosure of transition plans*).

Information Box: A missed opportunity for a new Say on Climate law?

In addition to the above developments, it is also worth noting that several stakeholders (including French SIF) have called for a new law. As a result, a Say on Climate law was proposed in Summer 2023 with the objective to create a mandatory consultative shareholder vote every three years on the climate and sustainability strategy of the company.[29] However this proposal did not receive the necessary support and therefore did not pass into legislation.

4.2 Changing the company byelaws as an indirect Say on Climate?

As in most jurisdictions, shareholders have the right to amend the company's articles of association/byelaws. Therefore where a shareholder resolution is framed as an amendment to the company's articles of association/byelaws this can indirectly ensure the company more comprehensively recognises climate risks which are more expansive than those which would otherwise have been recognised. As per ClientEarth analysis '[t]his does not mean that any and all climate-related asks are permissible; the mandatory division of powers remains in place. But it does provide shareholders with an avenue to make asks of the company which broadly comply with the French framework.'[30]

[26] The CCFD is comprised off participants in the Paris marketplace, experts and members of civil society and the academic sphere and has a role to help the AMF carry out its tasks of regulation and supervision on issues related to sustainable finance. However, the observations, proposals and recommendations of the CCFD are not binding upon the AMF.
[27] The recommendations also detail the suggested content for Say on Climate resolutions including: Scope 1 to 3, climate ambition, expenditure for climate goal, reference scenarios used to determine the objectives etc. AMF, 2023, Publication de la Commission Climat et finance durable: résolutions climatiques
[28] AMF, 2023, Shareholder dialogue on environmental and climate issues
[29] Amendement n°CS715 de la Loi sur l'Industrie Verte
[30] ClientEarth, 2021, Know your rights: A guide for institutional investors to the law of climate-related shareholder resolutions

Information Box: Mission driven companies

In the context of initiatives seeking to ensure businesses acknowledge their role in addressing climate change, the concept of mission-driven companies (a legal status created in France in 2019) are relevant. The concept of a mission driven company represents a transformative approach to business that goes beyond profit maximization as they integrate binding social and environmental objectives in their status. The primary objective of a mission-driven company is to create value for multiple stakeholders (including shareholders, employees, communities and the environment). By prioritizing social and environmental goals alongside financial success, these companies aim to make a positive impact on society and contribute to sustainable development. To be a mission driven company, a shareholder vote is required to integrate in the bylaws these new objectives which the realisation is controlled by an external auditor.[31]

The Say on Climate movement and mission driven companies address the climate change problem from a different angle. The Say on Climate movement allows shareholders to have a say in the company's climate-related strategies and policies and involves specific action against climate change. The concept of a mission-driven company entails a structural change in how companies operate and make decisions.

As discussed previously, the Say on Climate approach in France is subject to legal uncertainty in terms of its binding effect. While shareholder votes on climate-related matters hold significant influence, the extent to which these votes are legally binding is still not clear and therefore the legal enforceability of the outcome is subject to interpretation and limitations. However, a mission-driven company carries a binding obligation regarding climate change. By explicitly incorporating environmental considerations into a mission-driven company's status, it commits to taking concrete actions to address climate-related challenges.

While both strategies are relevant in the context of shareholder engagement on climate change, mission driven companies are of little relevance as a response to the limitations of the French legislative framework for climate shareholder resolutions. Currently mission driven companies are very much in the minority and more traditional corporates are unlikely to change their status to a mission driven company. Therefore it is likely to be even more difficult to push for a company to become a mission driven company than to focus on Say on Climate.

[31] Loi n° 2019-486 du 22 mai 2019 relative à la croissance et la transformation des entreprises

Section 5

A new paradigm for transition plans

While the growth in Say on Climate resolutions stemmed from investors asking companies to disclose a transition plan (in the absence of any regulatory requirement to do so) recent EU regulatory developments are likely to impact on this dynamic. Several recent EU regulations will require relevant companies to design, implement and disclose a credible transition plan aligned with the 1.5°C temperature target. This section summarises the new regulatory requirements and analyses what these requirements might mean for investor stewardship and risk mitigation by boards of directors in relation to transition plans.

5.1 EU regulatory changes requiring disclosure of transition plans

The 2022 Corporate Sustainability Reporting Directive[32] (**CSRD**) requires relevant companies[33] to include in the management report 'the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement […] and the objective of achieving climate neutrality by 2050 […] and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities.'[34] Furthermore relevant companies are required to include 'a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets.'[35]

Further assistance for how to comply with this reporting requirement is included in the European Sustainability Reporting Standards[36] (**ESRS**). ESRS E1 relates to climate change disclosures and Disclosure Requirement E1-1 sets out what must be included in the transition plan for climate change mitigation and Disclosure Requirement E1-4 does the same for targets related to climate change mitigation and adaptation.[37] [38]

[32] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (which entered into force on 5 January 2023)
[33] Large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2
[34] Art 1(4) CSRD amending Art 19(a) Directive 2013/34/EU
[35] Art 1(4) CSRD amending Art 19(a) Directive 2013/34/EU
[36] Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards
[37] See Annex 1 where we replicate the full requirements of Disclosure Requirement E1-1 in relation to Transition Plans and Disclosure Requirement E1-4 in relation to Targets related to climate change mitigation and adaptation.
[38] Note that the proposed Corporate Sustainability Due Diligence Directive is also relevant to company transition plans – although will not affect the content requirements as articulated in the CSRD and ESRS. However during drafting of this paper, the outcome for this directive was uncertain with the European Parliament plenary vote expected to take place in April 2024. Therefore we have not included any discussion of this directive in this paper.

5.2 What does this new EU regulation mean for Say on Climate resolutions

These requirements to disclose a transition plan reflect the strong focus on transition plans as the key tool to translate the international decarbonisation challenge into a company's operational roadmap and make its activities compatible with the requirements of a low carbon world.

The requirements to disclose a transition plan effectively widens the net in terms of companies which must disclose a transition plan. This means that more companies will be compelled to think about how they are going to transition business activities to be compatible with the objectives of the Paris Agreement and should mean that market practice in relation to developing transition plans improves.

All relevant companies will be required to disclose a transition plan regardless of whether they are the subject of investor engagement on the subject. Whereas investor engagement in relation to transition plans focussed on companies in the high emitting sectors[39] the scope of sectors and companies covered by the new requirements is much more economy wide and is therefore more consistent with a comprehensive economic transformation. This should also improve the content and credibility of transition plans – with many more companies needing to disclose transition plans and with the increased scrutiny of transition plans through being covered by a formal regulatory requirement,[40] this should mean that institutional capacity and expertise improves and at the same time the credibility of transition plans in terms of content. While currently there are several guidance/guidelines[41] and disclosure frameworks in relation to company transition plans, this is an emerging topic and market practice is still lacking. Much more can be done to increase capacity and expertise in this area – which will be greatly facilitated by a regulatory requirement to disclose transition plans as opposed to it being a consequence of ad hoc investor engagement.

But alongside the above-mentioned advantages in terms of likely improvements to market practice for transition plans, there are certain theoretical problems related to accountability. According to the CSRD, the transition plan should be included in the management report. On this basis one would assume that shareholder approval of the transition plan is by virtue of the standard shareholder vote on approval of the annual report as a whole (i.e. there is no provision for a separate shareholder vote to approve the transition plan). In our opinion this could potentially constrain the ability of shareholders to take issue with a transition plan if they deem it to be lacking credibility or not sufficiently ambitious. Despite the growth in investor climate coalitions, pragmatically speaking at present most of the shareholder base may be unlikely to disapprove of the annual report as a whole on the basis of an inadequate transition plan. Furthermore, if a transition plan has been disclosed in compliance with the regulatory requirements and approved by shareholders by virtue of the shareholder vote to approve the annual report, then this may limit the ability to file any specific shareholder resolution on the topic.

Therefore these new regulatory requirements should undoubtedly be considered as a step in the right direction as they mean that more companies will be required to consider how to transition their activities in line with the objectives of the Paris Agreement in support of the comprehensive economic transformation which is required. However there are certain concerns in relation to accountability because transition plans will not be subject to separate shareholder approval (rather they will be subject to shareholder approval as part of a wealth of other information included in the annual report). In this context it is vital that market practice in terms of credibility and level of ambition associated with transition plans is improved to compensate for any potential lack of accountability.

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[39] For example: 'Climate Action 100+ engagement focuses on 170 companies that are critical to the net-zero emissions transition … Investor engagement through Climate Action 100+ focuses on companies who have a major role to play in the transition to a net-zero emissions economy. The initiative updates the focus list as required, removing or adding companies to take account of factors such as changes in ownership, and always guided by investor input.' (https://www.climateaction100.org/approach/focus-list-history/)
[40] For example, as transition plans will need to be included in the management report of a company according to the CSRD requirement, this means that they will be subject to the audit requirement.
[41] For example: CDP, 2023, CDP Technical Note: Reporting on Climate Transition Plans, Climate Bonds Initiative, 2023, Guidance to assess transition plans and others.

Information Box: ATP Col

The ATP-Col (Assessing Companies Transition Plans Collective) is a group of experts working proactively to address the growing concern regarding the credibility of companies' transition plans. They recognize the importance of transparency and reliability in ensuring successful transition towards sustainable business practices. Since COP21, several disclosure frameworks and initiatives have emerged, and it has become necessary to evaluate the credibility of transition plans. ATP-Col aims to create a consensus framework to assess the credibility of transition plans, which will lay the foundation for future standards and regulations. ATP-Col hopes to provide stakeholders with trustworthy and transparent assessments of companies' transition plans, enabling them to make informed decisions towards a sustainable future.[42]

[42] https://www.worldbenchmarkingalliance.org/news/assessing-companies-transition-plans-collective-atp-col/#:~:text=The%20ATP%2DCol%20%E2%80%93%20Assessing%20companies,companies'%20transition%20plans'%20credibility

Conclusion

Around the world climate shareholder resolutions have increased in number in recent years as more investors are seeking to support the goal of net zero greenhouse gas emissions by 2050 in line with the global objective in the Paris Agreement to limit the average global temperature change to 1.5°C. Most recently climate shareholder resolutions have tended to focus on Say on Climate resolutions which request companies to publish climate transition plans and ensure annual accountability of performance against the climate transition plan at the annual general meeting.

But the fact that French corporate law establishes a mandatory division of powers between the board and the shareholders (which means that shareholder resolutions must be expressed to be non-binding) has impacted on the perceived effectiveness of Say on Climate resolutions in France. Indeed the legal uncertainty has meant that some companies have refused to include a Say on Climate resolution on the agenda for an annual general meeting. And the fact that any shareholder resolution must be non-binding means that their effectiveness in influencing company behaviour and accountability in relation to climate matters is less than in other jurisdictions. This means that the ability of asset owners and managers to push for compliance with the Paris Agreement and act as an effective counterweight to the board of directors is much less.

But there are several winds of change which may shift the dynamics for investor engagement on climate matters in France.

There is significant scope for reconceptualising climate resolutions as a risk mitigation measure for the board of directors. Whereas shareholder resolutions have traditionally been regarded as a somewhat adversarial mechanism between the management of a company and the shareholders in that company. In the context of implementing transition plans which may well be outside of the comfort area for any given company and may not be the most profitable (at least in the short term) the risk of director liability to shareholders is reduced if shareholders have approved the transition plan.

There is mounting pressure to address the perceived weaknesses in the French legal framework to give shareholders more say in climate matters generally. A number of stakeholders have suggested regulatory changes to include more stringent requirements on climate shareholder resolutions and shareholder voting on climate matters (although no regulatory changes have been forthcoming yet). In addition, there is the possibility of an indirect Say on Climate through amending the company's articles of association. For investors seeking to address the weaknesses in the French legal framework, then supporting the proposals from the Climate and Sustainable Finance Commission (**CCFD**) to create a mandatory and binding climate resolution and automatically include climate shareholder resolutions on the agenda for the annual general meeting (even if they trespass the power of the board of directors) appear to be the most effective solution.

However the biggest change to the dynamics of investor engagement on climate matters in France is likely to come from the new EU requirements to disclose transition plans in the management report. The fact that there is now a regulatory requirement to disclose a transition plan should mean that market practice in relation to developing transition plans improves (all relevant companies will be required to disclose a transition plan regardless of whether they are the subject of investor engagement on the subject). But while these regulatory requirements should be considered as a step in the right direction, there are certain concerns in relation to accountability. Transition plans will not be subject to separate shareholder approval (rather they will be subject to shareholder approval as part of a wealth of other information included in the annual report). In this context it is not clear what avenues will be available to shareholders when a transition plan is deemed inadequate. Therefore it is vital that market practice in terms of credibility and level of ambition associated with transition plans is improved to compensate for any potential lack of accountability.

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Annex 1: EU regulatory requirements for transition plans

Disclosure Requirement E1-1 – Transition plan for climate change mitigation

14. The undertaking shall disclose its transition plan for climate change mitigation.

15. The objective of this Disclosure Requirement is to enable an understanding of the undertaking's past, current, and future mitigation efforts to ensure that its strategy and business model are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities.

16. The information required by paragraph 14 shall include:
(a) by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4), an explanation of how the undertaking's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement;
(b) by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4) and the climate change mitigation actions (as required by Disclosure Requirement E1-3), an explanation of the decarbonisation levers identified, and key actions planned, including changes in the undertaking's product and service portfolio and the adoption of new technologies in its own operations, or the upstream and/or downstream value chain;
(c) by reference to the climate change mitigation actions (as required by Disclosure Requirement E1-3), an explanation and quantification of the undertaking's investments and funding supporting the implementation of its transition plan, with a reference to the key performance indicators of taxonomy-aligned CapEx, and where relevant the CapEx plans, that the undertaking discloses in accordance with Commission Delegated Regulation (EU) 2021/2178;
(d) a qualitative assessment of the potential locked-in GHG emissions from the undertaking's key assets and products. This shall include an explanation of if and how these emissions may jeopardise the achievement of the undertaking's GHG emission reduction targets and drive transition risk , and if applicable, an explanation of the undertaking's plans to manage its GHG-intensive and energy-intensive assets and products;
(e) for undertakings with economic activities that are covered by delegated regulations on climate adaptation or mitigation under the Taxonomy Regulation, an explanation of any objective or plans (CapEx, CapEx plans, OpEx) that the undertaking has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria established in Commission Delegated Regulation 2021/2139;
(f) if applicable, a disclosure of significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities;
(g) a disclosure on whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks;
(h) an explanation of how the transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning;
(i) whether the transition plan is approved by the administrative, management and supervisory bodies; and
(j) an explanation of the undertaking's progress in implementing the transition plan.

17. In case the undertaking does not have a transition plan in place, it shall indicate whether and, if so, when it will adopt a transition plan.

Disclosure Requirement E1-4 – Targets related to climate change mitigation and adaptation

30. The undertaking shall disclose the climate-related targets it has set.

31. The objective of this Disclosure Requirement is to enable an understanding of the targets the undertaking has set to support its climate change mitigation and adaptation policies and address its material climate-related impacts, risks and opportunities.

32. The disclosure of the targets required in paragraph 30 shall contain the information required in ESRS 2 MDR-T Tracking effectiveness of policies and actions through targets.

33. For the disclosure required by paragraph 30, the undertaking shall disclose whether and how it has set GHG emissions reduction targets and/or any other targets to manage material climate-related impacts, risks and opportunities , for example, renewable energy deployment, energy efficiency, climate change adaptation , and physical or transition risk mitigation.

34. If the undertaking has set GHG emission reduction targets, ESRS 2 MDR-T and the following requirements shall apply:
(a) GHG emission reduction targets shall be disclosed in absolute value (either in tonnes of CO_2eq or as a percentage of the emissions of a base year) and, where relevant, in intensity value;
(b) GHG emission reduction targets shall be disclosed for Scope 1, 2 , and 3 GHG emissions, either separately or combined. The undertaking shall specify, in case of combined GHG emission reduction targets , which GHG emission Scopes (1, 2 and/or 3) are covered by the target, the share related to each respective GHG emission Scope and which GHGs are covered. The undertaking shall explain how the consistency of these targets with its GHG inventory boundaries is ensured (as required by Disclosure Requirement E1-6). The GHG emission reduction targets shall be gross targets, meaning that the undertaking shall not include GHG removals, carbon credits or avoided emissions as a means of achieving the GHG emission reduction targets;
(c) the undertaking shall disclose its current base year and baseline value, and from 2030 onwards, update the base year for its GHG emission reduction targets after every five-year period thereafter. The undertaking may disclose the past progress made in meeting its targets before its current base year provided that this information is consistent with the requirements of this Standard;
(d) GHG emission reduction targets shall at least include target values for the year 2030 and, if available, for the year 2050. From 2030, target values shall be set after every 5-year period thereafter;
(e) the undertaking shall state whether the GHG emission reduction targets are science- based and compatible with limiting global warming to 1.5°C. The undertaking shall state which framework and methodology has been used to determine these targets including whether they are derived using a sectoral decarbonisation pathway and what the underlying climate and policy scenarios are and whether the targets have been externally assured. As part of the critical assumptions for setting GHG emission reduction targets, the undertaking shall briefly explain how it has considered future developments (e.g., changes in sales volumes, shifts in customer preferences and demand, regulatory factors, and new technologies) and how these will potentially impact both its GHG emissions and emissions reductions; and
(f) the undertaking shall describe the expected decarbonisation levers and their overall quantitative contributions to achieve the GHG emission reduction targets (e.g., energy or material efficiency and consumption reduction, fuel switching, use of renewable energy , phase out or substitution of product and process).

Finance ClimAct contributes to the implementation of French and Euro pean policies for sustainable finance, in line with the European Green Deal and France's National Low Carbon Strategy.

It will develop the tools, methods, and new knowledge to achieve this goal in the coming years by: (1) supporting investments in energy efficient, and low-carbon industries, (2) considering the double materiality of climate change in financial management and supervision and (3) integrating environ mental objectives into retail investors' decisions.

The project is coordinated by the French Agency for Ecological Transition, The Ministry for Ecological Transition, The Autorité des marchés financiers, the Autorité de contrôle prudentiel et de résolution, 2° Investing Initiative, The Institute for Climate Economics, the Institut de la Finance Durable and RMI.

Finance ClimAct is an unprecedented programme which comprises a total budget of 18 million euros, 10 million of which are provided by the European Commission.

Duration: 2019-2024

With the contribution of the European Union LIFE program