스위스·프랑스 공식방문

공무출장 결과보고서

2020. 1.

국회예산정책처
National Assembly Budget Office

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1 출장 목적

❑ UNEP FI(유엔환경계획 금융이니셔티브)와 교류·협력 강화 모색

❑ 2020년 개최 예정인 "국회예산정책처 17주년 기념 국제회의" 관련 OECD 예산·공공지출국에 협조 요청

❑ 프랑스 독립재정기관 HCFP(High Council of Public Finances) 방문하여 독립재정기관으로서 비전 공유 및 협력방안 모색

❑ OECD 한국 경제 및 노동 대표부와 면담을 통해 한국의 경쟁력 강화 방안에 대한 견해 파악

2 출장 지역

❑ 스위스 제네바

❑ 프랑스 파리

3 출장단

❑ 단장 : 정순임(기획관리관)

❑ 단원 : 김정규(기획예산담당관), 이종민(기획예산담당)

4 출장 일정

날 짜	주 요 내 용
12.15(일)	인천 → 제네바(15시간50분) ※ 파리 경유(경유 대기 2시간 15분)
12.16(월)	○ UNEP FI(United Nations Environment Programme Finance Initiative, 유엔환경계획 금융이니셔티브) 방문 면담
12.17(화)	제네바 → 파리(1시간 10분)
12.18(수)	○ OECD 한국 경제 대표부 방문 면담 ○ OECD 한국 노동 대표부 방문 면담
12.19(목)	○ OECD 예산공공지출국 방문 면담 및 오찬
12.20(금)	○ 프랑스 독립재정기관 HCFP(High Council of Public Finances) 방문 면담
12.21(토)	○ OECD 한국 대표부 직원 격려 오찬 ○ 파리 → 인천(10시간 55분)(+1)

II. 출장 성과

① OECD 예산·공공지출국과 2020년 국제회의 공동개최 합의

- ○ 대표단은 OECD 예산·공공지출국을 방문하여 2020년 NABO가 개최할 예정인 국제회의에 관하여 의견을 교환
- ○ 양측은 회의개최국가, 회의주제, 개최일 등에 대해 다양한 의견을 개진하였고, 여러 사항에서 접점을 찾음

② NABO – UNEP FI 간 정기 교류 및 협업을 위한 기반 마련

- ○ 2016년 양 기관 MOU 체결 후, 만 3년이 도과하여 MOU 기간이 만료
- ○ 앞으로도 양 기관 간 공동보고서 작성, 공동세미나 개최 등 다방면에서 협업하기로 합의

③ OECD 한국대표부 면담

- ○ 대표단은 OECD 한국대표부를 방문하여 경제 및 노동 관련 현안, 현재 OECD 내에서 한국대표부의 역할 등에 대한 설명을 듣고 상호 의견을 교환

④ 프랑스 독립재정기관 HCFP 면담

- ○ 프랑스 독립재정기관 HCFP(High Council of Public Finances) 방문하여 독립재정기관으로서 비전 공유 및 협력방안 모색

III. 주요 일정

1 UNEP FI(유엔환경계획 금융이니셔티브) 면담

가 개 요

❑ 일시 : 2019년 12월 16일(월) 13:30~15:30

❑ 장소 : UNEP FI 본부

❑ 면담자

성 명	Mr. Eric Usher(UNEP Finance Initiative 대표)	
경 력	25년간 캐나다에서 '저탄소산업 기술'의 상용화 연구 모로코의 농촌지역 태양광 도입, 개도국에서 금융관련 활동	
전문분야	재생에너지원과 금융의 연관관계	

성 명	Ms. Margarita Pirovska (프로그램 매니저, Fiduciary Duty in the 21st Century, PRI/UNEP FI)	
경 력	코너스톤 캐피탈 그룹(뉴욕) Engie / GDF SUEZ (프랑스) 국제에너지기관 정책분석관	
전문분야	지속가능한 경영, 에너지 시장	

나 주요 내용

❑ 정순임 기획관리관

○ 바쁜 와중에도 귀한 시간을 내주셔서 감사드림.

○ NABO에 대해 간략히 말씀드리자면, 예결산심사를 지원하고, 의안비용추계를 하며 재정전망과 경제전망을 하고 있는 기관임.

○ 지난 2016년 9월에 NABO와 UNEP FI와 MOU를 체결한 이후, 현재는 MOU 효력발생기간인 3년이 도과한 시점.

○ 2016년 11월에 양 기관이 공동으로 국제세미나를 한국에서 개최한 이후, 뚜렷한 교류협력 성과가 없었다는 점에 대해 유감을 표함.

○ 현재 NABO는 지속가능한 성장, 인구구조 전략에 대해 TF를 운영하고 있는 등 여전히 관심을 가지고 있음.

○ NABO는 2020년 국회 개원을 대비하여 국제세미나를 개최할 계획이며, 현재 세미나 주제는 잠정적으로 "지속가능한 재정"을 염두에 두고 있음.

○ 2020년에 UNEP FI가 한국 수원에서 국제컨퍼런스를 개최한다고 들은 바 있음.

❑ **Usher UNEP FI 대표**

○ NABO의 업무에 은행과 투자 부분도 포함되어 있는지 궁금함.

❑ 이종민 기획예산담당

○ 답변드리기에 앞서, 2016년도에 NABO-UNEP FI 공동국제회의 때 제가 실무책임자였고, 대표님을 맞이했던 기억이 있음. 스위스에서 뵙게 되어 반갑다는 말씀을 우선 전함.

○ 대표님께서 기억을 하고 계신지 모르겠지만, 2016년 국제회의 개최 전에 NABO에서는 파리협정에 대한 보고서와 ESG에 관한 보고서를

각각 발간한 바 있음.

○ 동 보고서를 발간한 것에서 유추하실 수 있듯이, NABO는 직접적으로 은행과 투자 부문을 다루고 있지는 않지만, 국가사업 및 기금을 평가하는 기관으로서 간접적으로는 연관이 되어있다고 말씀드리고 싶음.

❑ **Usher UNEP FI 대표**

○ 먼저 저희가 어떤 업무를 하는지 말씀드리겠음.

○ UN 조직 내에서는 저희가 4가지 측면, 투자자, 은행, 보험, 증권거래를 관장하고 있음.

○ 첫 번째, 투자부분은 가장 오래된 부문으로 2006~2007년도에 설립되었으며, 현재는 독립하여 런던지부에 소속되어 있음. 하지만 현재 UNEP FI와 긴밀하게 업무관계를 유지하고 있음. 대표인 제가 이사회의 위원을 맡고 있기도 함.

○ 배석한 Margarita 매니저는 PRI쪽의 업무를 담당하고 있는데, 최근에는 UNEP FI쪽의 업무도 함께 담당하고 있음.

○ 보험부문에서는 DB생명 등 많은 한국의 보험회사들이 가입되어 있음. 아까 말씀하신 내년 9월에 있을 국제회의는 보험부문에서 준비하는 국제회의임.

○ 가장 최근에 설립되어 있는 은행 부분은 올해 9월에 30개 은행이 모여서 조직을 하게 되었는데, 이 중 가장 큰 역할을 하고 있는 은행이 신한은행과 하나은행임. 이 두 은행의 대표가 뉴욕에 와서 협약에 서명도 함.

○ 투자에 대한 협약내용을 보면 위험관리에 대한 내용이 있음. 이에는 어떻게 투자기관과 보험에서 역할을 해야 하는지에 대한 내용이 있는데, 이것이 ESG와 관련이 있음.

○ 특히 NABO에서 발간한 보고서에도 나와 있듯이 투자자의 책임에

대해 기술된 부분이 있었고, 최근에 와서 기후변화와 사회적 이슈에 대한 위험분석도 많이 행해지고 있음.

○ 이 중에서도 투자자들의 법적인 의무와 책임에 대해서 많은 이슈가 되고 있음.

○ ESG는 아직 가야할 길이 멀지만, 특히 투자자 측면에서 모두가 생각해야 하는 가장 기본적인 중요한 관념이라고 생각함.

○ 최근 논의되고 있는 것 중에 흥미로운 ESG에 대한 논의가 많았지만, 현재는 투자가 사회에 어떠한 영향을 줄 것인가에 대한 분석도 많이 이루어지고 있음.

○ 아까 국장님께서 말씀하셨던 지속가능한 발전에 대해 따로 부서를 마련했던 것들이 투자가 사회에 어떤 영향을 미치는 것과 연관이 있다고 생각함.

○ 지금 논의되고 있는 이런 부분들은 UN 사무총장이 크게 관심을 가지고 있는 분야이며, 투자를 하는 데 있어서도 이산화탄소 배출 감소 등의 요소들이 사회에 어떤 영향을 미치는지 투명하게 공개할 것을 지향하고 있음.

○ 특히 최근에 만들어진 은행부분의 프레임워크는 기존 프레임워크들과 굉장히 다른 양상을 보이고 있음. 어떻게 은행부분이 기후변화와 지속가능한 개발에 영향을 주는지에 대한 분석들도 많이 행해지고 있음.

○ 하나은행과 신한은행 같은 경우에도 목표 설정 시 기후변화나 지속가능한 개발을 고려하고 있는데, 이런 부분을 NABO도 눈여겨보시면 흥미로우실 것임.

○ 기후변화와 관련하여 모든 나라들은 NPC(National Policy Committment)를 설정하여 목표치를 잡는데 뱅킹부문도 비슷하게 이루어짐.

○ 투자자들이 투자를 할 때 ESG를 고려하여 법적인 부문에 문제가

없게 이루어지는지 확인하는 것이 중요하게 여겨지고 있음. 중국과 일본 등 아시아태평양지역을 담당하고 있는 국제로펌에서는 투자자들이 기후변화와 사회적 ESG 책임을 언급하고 비즈니스 타켓에 반영할 수 있는지 예의주시하고 있음.

○ 한국에도 근시일내에 이러한 모니터링이 행해져야 할 것으로 생각하고 있음.

□ 이종민 기획예산담당

○ 우선 NABO가 하는 일에 대한 설명을 드리는 것이 좋을 것 같음.

○ NABO는 국가재정을 관리·감독하는 기관이라고 할 수 있고, 업무 중 하나로 장기 재정전망을 수행하고 있는데 이와 관련하여 가장 중요한 것이 8대 사회연금임. 그 중에 가장 큰 규모가 국민연금인데 국민연금이 운영하는 자산규모가 우리 돈으로 650조원이고, 달러로는 562billion 달러 정도임.

○ ESG에 대한 보고서를 공공 사이드에서 처음으로 언급한 것이 2016년 NABO가 발행한 보고서임. 그리고 2016년 국제회의에서도 ESG에 대하여 논의를 한 바 있음.

□ Usher UNEP FI 대표

○ 중국와 일본을 포함하여, 아시아권 국가 중 말레이시아 등의 국가에서는 ESG를 공개하는 추세인데, 투자자들이 볼 때 사회적인 측면으로 이렇게 ESG에 노력을 하고 있다는 것이 포인트가 될 수 있기 때문에 이는 점차 의무화되고 있음.

○ 주식시장이나 정책입안자 측면에서 볼 때 기업에서 이에 대해 환영을 한 적이 한번도 없었음. 10년 전에는 어림도 없었음. 보면 몇몇 한국기업들도 공개를 하고 있는 것이 있고, 점차 확대되기 위해서는 공공부문에서 적극적으로 나서주시면 좋겠음.

- ○ EU레벨에서 PRI와 관련하여 보면 첫 번째로 녹색성장과 관련된 부분에서 이미 법제화가 되고 이를 수용하기 시작했다는 것임. EU에서 그린펀드와 관계되어 있는 모든 자산관리자들은 ESG와 관련되고 있는 것들을 모두 공개하고 있음. 두 번째로 비재정적인 리포트와 관련되어 있는 것도(ESG와 연관) 점차 확대되고 있음.
- ○ 브뤼셀에서 International platform for sustainable finance을 조직하여 아까 언급했던 국가들은 이미 참여를 하고 있고, 한국 정부도 관심이 있으시면 연결해드리도록 하겠음.
- o 각국 정부가 벤치마킹도 할 수 있고 좋은 관계가 될 것이라고 생각함.
- o 여기서 흥미롭게 보이는 국가의 경우가 호주임. 정치색은 트럼프 행정부와 매우 비슷하지만, 이 주제에 대해 금융투자자들은 탄소배출에 대한 주제를 심각하게 받아들이고 있고, 개선에 있어 적극적으로 참여하고 있음. 이것이 한국투자자들에게 좋은 선례가 되지 않을까 생각함.

❑ 정순임 기획관리관

- ○ 앞으로 양 기관이 공동컨퍼런스를 하게 되면 대표님께서 말씀해주신 주제에 관해 한국에 주의를 환기할 수 있는 좋은 기회가 될 것 같음.
- ○ 그런 부분에서 협력을 함께 할 수 있기를 기대하고 있음. NABO는 현재 8월말 중으로 국제컨퍼런스를 계획하고 있는데, UNEP FI도 의향이 있다면 추진하는걸 제안드리고 싶음.

❑ Usher UNEP FI 대표

- ○ 적극 동의함. 저희가 한국 UNEP FI 대표와 잘 이야기해보도록 하겠음. 혹시 정확하게 정해진 날짜가 있는지?

❑ 정순임 기획관리관

○ 아직은 유동적인 상황임.

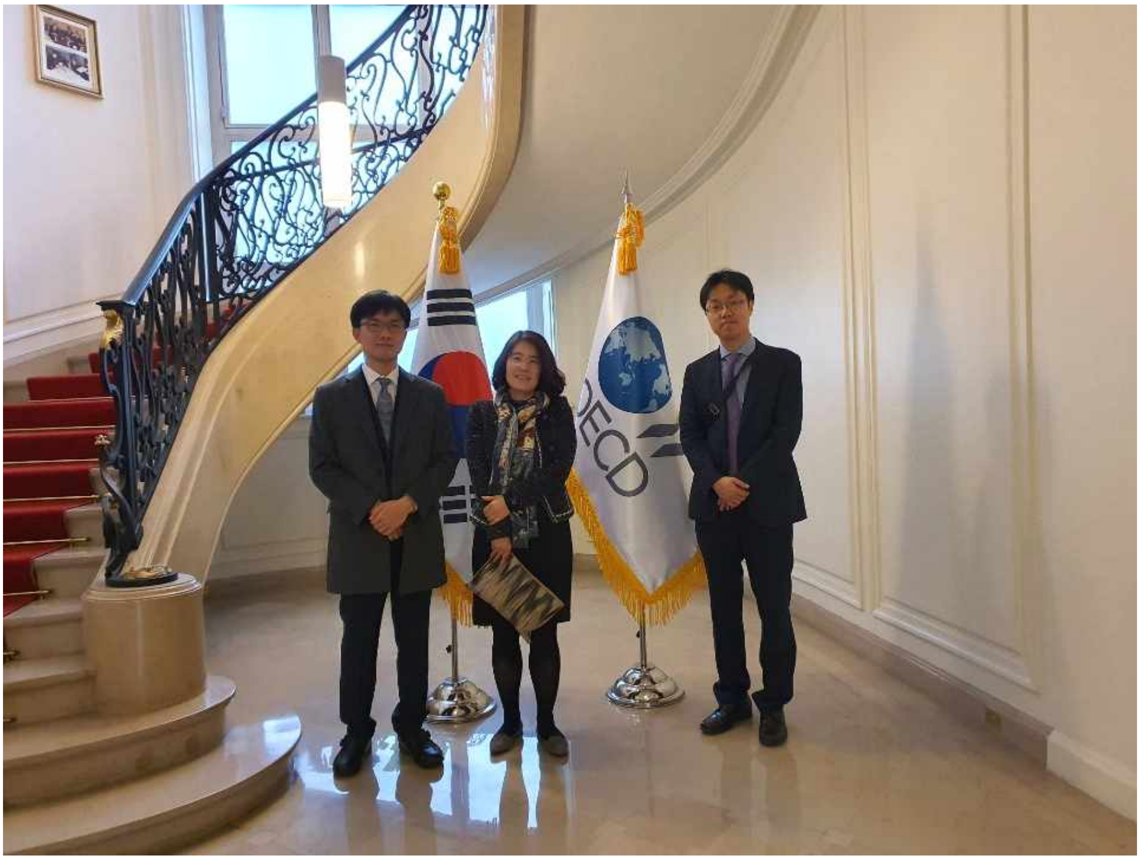
❑ **Usher UNEP FI 대표**

○ 내부적으로 듣기로는 ESG 주제로 가장 크게 열리는 국제회의가 2020년에 도쿄에서 열릴 예정임.

○ 이는 10월 5-6일에 예정되어 있으며, 이 시기에 많은 국제적 인사들이 도쿄를 방문할 예정임. 이 즈음에 국제회의를 개최하신다면 중간에 한국을 경유하게 행사를 하고 도쿄로 가는 것도 많은 참석을 유도할 수 있는 방법이 될 것임.

○ 저희 측에서 보험부문 담당자에게 좀 더 정보를 확인하여 공유하도록 하겠음.

2 OECD 한국 경제 대표부, 노동대표부 방문 면담



가 개 요

❑ 일시 : 2019년 12월 18일(수) 10:00~12:00

❑ 장소 : OECD 한국 대표부

❑ 면담자

성 명	김진명 경제담당 공사참사관	
경 력	행정고시(38회) 경제정책국 총괄서기관 G20 정상회의 준비위원회 거시경제과장 기획재정부 국고국 국채과장	

성 명	앙현수 참사관	
경 력	고용노동부 창조행정담당관실 규제개혁법무담당관실 직업능력정책과장	

나 주요 내용

❑ 김진명 공사

○ NABO 직원분들의 방문을 환영함.

○ 최근 OECD에서 논의하고 있는 것 중 가장 주요한 경제이슈는 연금 이슈임. 유럽의 국가들은 정년연장과 관련하여 연금개혁이 가장 핵심 안건임. 오셔서 보신대로, 프랑스 또한 연금개혁으로 인해 총파업 중임.

❑ 정순임 기획관리관

○ NABO는 올해 8대 사회보험을 묶어서 전망분석보고서를 낸 바 있음. 건강보험과 요양보험 외에, 이번에 8대 사회보험을 합하여 보고서를 발간.

○ 나름 고용보험은 흑자를 유지하고 있으나, 군인연금과 공무원연금, 사학연금은 적자가 누적되고 있음.

❑ 김진명 공사

○ 사학연금은 공무원연금을 따라서 개혁을 했고, 군인연금은 그때 손을 못댄 것으로 기억함.

❑ 정순임 기획관리관

○ 우리가 보고서를 발간하니 가장 많이 집중되는 것은 공무원 연금임. 문제가 더 많은 것은 국민연금과 군인연금인데도, 언론의 관심은 공무원연금에 집중되는 경향이 있음.

❑ 양현수 참사관

○ 공무원 연금을 이번에 개혁하면 국민연금보다 더 수익비가 나빠지는

것으로 알고 있음.

□ 정순임 기획관리관

○ 거의 국민연금에 준하는 연금밖에 받지 못함.

□ 김진명 공사

○ 요새 경제도 마이너스 성장이 심각한데, 프랑스가 그나마 잘 선방해온 것으로 보임. 2차 세계대전 이후에는 미국에 이어 G2까지 발전했고 프랑스 산업을 보면 1960~90년대까지 탄탄하게 발전해 왔음.

○ 프랑스는 산이 없이 모두 다 평지임. 따라서 이 땅을 차지하기 위해 영국도 독일도 들어오고 전쟁도 많이 일어났음. 노르망디 해변도 그렇고 해변도 매우 많은 나라임.

○ 2차 산업도 아시겠지만 알스톤, 에어버스 등 제조업도 엄청나게 발전되었고, 3차 산업도 크리스탈 디올이니, 루이뷔똥이니 엄청 번창한 국가였는데, 현재는 프랑스도 문제가 많음.

□ 정순임 기획관리관

○ 유럽 사람들 인식에 프랑스 사람들은 일은 안한다는 것들이 있는 것 같음.

□ 김진명 공사

○ 2006년에 독일과 국민소득이 거의 비슷했음. 그런데 10년 지나서 지금은 per capita가 약 6,000천 유로 이상 차이가 남. 그동안 독일은 엄청 발전했는데 프랑스는 정체되어. 마크롱이 개혁을 하고자 함. 부유세는 폐지하였음.

○ 유럽은 부자들이 다른 나라로 이민을 가니, 투자가 이루어지지 않고 해서 부유세는 없애고 유류세를 올렸음. 그런데 지방에 있는 농민들은

차를 이용해서 농사를 지어야하는데, 이 분들은 힘든 상황이 되었음. 거기에 연금개혁까지 맞물림.

○ 그래도 그 개혁 덕분에 상대적으로 경제는 괜찮아짐. 그런데 그 과정에서 국민저항이 컸음.

○ 최근 OECD의 핵심논의는 디지털 경제임. 이전에는 포용적 성장임.

○ 현재 모든 나라가 양극화가 심해지면서, 이럴 때 디지털화가 되면 차이가 더 심해질 가능성이 높음. 디지털을 이용한 모든 분야... 거시, 환경, 금융 조세 등이 이슈임. 요즘 디지털 과세, 구글세가 핫이슈인 것도 같은 맥락임.

○ 이와 같이 디지털 관련한 이슈가 OECD 논의의 중심이며, 과학기술에는 AI 등이 이슈임.

○ 새로운 일자리들이 생기는데 많은 부분이 디지털 관련된 일자리이며, 새로운 일자리의 질을 어떻게 할 것인가가 화두임.

❑ 정순임 기획관리관

○ 한국도 이번에 타다 관련해서 이슈가 있음. 그리고 배달의 민족과 요기요 합병 문제도 있음. 이렇게 새로운 부분에서 일하는 직원들이 점점 늘어나고 있으나, 현재 관련 법령은 현실을 반영하지 못하고 있음.

❑ 김진명 공사

○ 그런데 OECD 내에서 한국에 대한 이미지는 굉장히 좋은 편임. 대사님도 말씀하시는게 한국이 수출규모로 6위임. 우리가 영국보다 수출규모가 크니깐 한국 경제규모에 대해 굉장히 높게 평가함. OECD국가 중 아시아 국가는 우리나라와 일본만 포함되어 있고, 그 외에는 거의 백인주류의 그룹임.

○ 일본은 조용하고 미국 쪽에 속해있는 나라로 판단하고, 우리는

개발도상국과 선진국의 중간정도의 위치에서 굉장히 적극적으로 성장하는 나라로 평가받고 있음.

○ 5G 등도 선도해가면서 디지털 사회에서 두각을 나타내고 있다고 생각함.

○ 제도가 우리 관점에서는 많이 안바뀌는 것 같지만, 제도적인 측면에서 OECD내에서 좋게 평가받고 있음. 음식물 쓰레기 처리 관련해서도 우리나라가 선진국 중에 단연 잘 운영하고 있음.

○ 한국에 대한 평가는 밖에서는 더 좋게 평가받고 있음.

❑ 정순임 기획관리관

○ 한국은 청년고용이 가장 문제이고, 그다음이 주택문제인 것 같음.

○ 출산율 관련된 보고서를 보니깐 조금이라도 일찍 좋은 기업에 취직한 사람들이 자녀수가 많은 경향이 보임.

❑ 양현수 참사관

○ OECD 보고서를 보면 이에 대한 큰 흐름은 보임

○ 청년들의 초기 고용 시 임금은 OECD국가들 중 높은 편임. 이는 늦게까지 준비해서 좋은 직장만 가려고 하는 성향도 한 이유임.

○ 유럽은 청년고용이 워낙 심각해서 국제비교를 보면 우리나라가 비교해서 나쁜 편은 아님.

○ 일자리 질이 정규직이 유럽이 많고 정규직 전환도 높은 편인데도 문제가 많은 편임.

○ 주택문제도 OECD국가에서 논의하고 있는데 보고서 GNI를 보면 우리나라가 메트로폴리탄 국가들 중에 주택가격이 굉장히 저렴한 축에 속함.

○ 최근 2018-19년 서울 주택가격이 많이 올랐지만 2008년 금융 위기 때 많이 떨어짐. 우리나라는 그 때 이후로 가격이 많이 오른편이 아니고,

유럽이나 캐나다들이 오히려 완화적 통화정책으로 지금 훨씬 많이 올라서 큰 문제로 보고 있음.

○ 우리나라는 주관적인 survey 결과는 안 좋으나, 객관적인 survey의 결과는 좋음.

○ 우리나라의 청년들은 직업에서 원하는 skill보다 더 고학력인 경우가 많아서 오히려 mismatching이 있음. 대학진학률이 70%가 넘어감.

❑ 정순임 기획관리관

○ mismatching도 있지만 임금격차가 심한 편이라 이를 완화하면 다양한 직업군으로 갈 것 같기도 함.

❑ 김진명 공사

○ 한국경제에 대해 궁금해 하는 외국기업인들이 많음.

○ 개인적으로는 교육이나 human capital이 뒷받침이 돼서 그런 것 같기도 함.

○ OECD에서 온실가스 등 환경영향예산들도 평가하고 있음.

❑ 정순임 기획관리관

○ 스위스 UNEP FI를 만나고 왔음.

○ 우리는 4차 산업혁명, 디지털 과세 등 조세파트 쪽으로 관심을 가지고 있고, 환경 쪽으로도 면담을 해보니 우리사회가 가지고 있는 생각과 국제기구가 많은 차이가 있는 것으로 느껴짐.

3 OECD 예산·공공지출국 방문 면담

가 개 요

- 일시 : 2019년 12월 19일(목) 10:00~12:00
- 장소 : OECD 본부
- 면담자

성　　명	존 블론달(Jon Blondal)	
경　　력	아이슬란드 재정부 과장 아이슬랜드 총리실 소속 정부민영화위원회 위원장 브루킹스연구소 초청연구원	
직　　무	OECD 사무국 예산 및 공공지출국 전임총괄국장	

성　명	리사 본트랩(Lisa Von Trapp)	
직　무	OECD 사무국 예산 및 공공지출국 팀장	

성 명	직 위
토마스 글로이 (Thomas Gloy)	OECD 사무국 공공거버넌스 국장
셰리 니콜(Scherie Nicole)	OECD 사무국 예산 및 공공지출국 팀원

나 주요 내용

❑ 정순임 기획관리관

○ 2018년도 IFI 회의를 대한민국 국회에서 개최를 했을 때 서로 협력한 인연이 있으며, OECD측에서 NABO의 역할에 대해서는 너무 잘 알고 계셔서, NABO의 역할에 대해 소개해 드리는 것은 생략하도록 하겠음. 좋은 말씀으로 환영해 주신 것에 대해서 깊이 감사드림.

○ 2016년에 리사 팀장이 이안 리너트, 요하임 베너와 함께 작성한 "OECD 독립재정기관에 대한 보고서"를 굉장히 감명 깊게 읽은 바 있으며, 저자인 리사 본 트랩 팀장을 만나게 되어 굉장히 영광으로 생각함.

○ 세계적으로 많은 국가에서 경제성장이 정체되는 가운데, 고령화로 인해 재정지출은 증가하고 있음. 이와 같이 재정적자와 국가부채 증가라는 현실 속에 어떻게 재정건전성을 확보해 나갈 것인지가 OECD 회원국들의 공통적인 관심사가 될 것으로 생각함.

○ 이러한 문제는 한국도 예외가 아님. 올해도 재정지출 확장정책의

형태로 예산안이 편성되었고 최근에 어렵게 예산안이 통과되었음. 이러한 확장재정정책의 필요성도 인정되지만, 재정건전성의 유지 또한 중요하다고 생각하며, 둘 사이의 밸런스를 유지하는 것에 대해 고민 중임.

○ OECD의 IFI 설립권고의 이유 또한 행정부의 낙관적인 재정전망이나 경제전망에 대해서, IFI가 좀 더 엄밀하게 주시하고 분석하라는 것으로 알고 있음. 한국에서도 NABO에게 주어진 책무가 점점 커지는 것을 개인적으로 느끼고 있음.

○ 이런 책임의식과 고민의 연장선상에서 2020년도에 OECD 의회예산기구 회원국의 저명한 학자분들을 모시고 재정경제관련 문제를 논의하여 국제동향을 파악하는 것은 시의적절한 것으로 보임.

○ 지난 9월에 NABO의 정문종 추계세제실장이 OECD IFI를 방문한 적이 있음. 그 당시는 NABO측이 국제컨퍼런스를 기획하고 있던 차라 OECD에 같이 할 의향을 타진하였고, OECD측이 원론적인 개최 자체에 관하여는 동의한 것으로 알고 있음.

○ 개최 장소에 대해서는 이견이 있는 것으로 보이는데, NABO 측은 대한민국 서울에서 국제회의 개최를 원하고 있음.

❑ 존 블론달 국장

○ 지난 9월 정문종 실장이 방문했을 때는 프랑스 파리를 말씀드린 적이 있으나, NABO 측에서 한국 개최를 원한다면 수용하겠음.

❑ 정순임 기획관리관

○ 블론달 국장님의 배려 감사드림.

○ 다음으로 회의 주제에 대해 논의드리고자 함. 지난 9월에는 개략적으로 “재정건전성”을 주제로 하는게 어떻겠냐는 논의가 있었던 것으로 알고 있음.

❑ 존 블론달 국장

○ 지난 9월 제안한 재정건전성을 큰 틀로, ① 지출 정책과 경제성장 간의 관계 검토, ② 좋은 예산거버넌스의 원칙, ③ 건전한 재정제도(예시. 재정준칙, 재정위원회), ④ 일부국가의 최근 재정제도 개혁 등을 세션으로 구성하는 방안을 제안드리고자 함.

❑ 정순임 기획관리관

○ 제시하신 아젠다에 모두 좋은 논의를 할 수 있는 주제임.

○ NABO쪽에서는 지속가능한 재정 또는 재정건전성이라는 큰 주제 하에서 재정준칙의 중요성, 그런 재정준칙을 가지고 있는 나라와 IFI 중에서도 재정준칙 감독 역할을 하고 있는 나라의 실제사례를 직접 들었으면 함.

❑ 리사 팀장

○ 지금 OECD 측에서 제안드린 아젠다는 초기 준비단계에 있는 아젠다로서, 더 논의해서 발전시킬 여지가 있음.

❑ 정순임 기획관리관

○ NABO 내부적으로 2번의 회의를 거친 논의에서 어떻게 하면 내년도 컨퍼런스를 성공적으로 마칠 것인가에 대해 고민이 컸음.

○ 이 논의과정에서 국제컨퍼런스 성공의 열쇠는 첫 번째로 가장 많은 사람들이 듣고 싶어하는 인사를 기조발제자로 모셔오는 것, 두 번째로 국제적인 명망이 있는 기관과 함께하는 것이라는데 공감대가 형성된 바 있음.

○ OECD측에서 큰 관심과 공감대를 가져주셔서 한 축은 해결이 된거 같고, 나머지 한 축은 발제자를 모셔오는 것인데 그 부분에 대해서

OECD와 긴밀한 협력이 있었으면 좋겠음.

- 마지막으로 지난 2018년도에 국제회의를 하면서 협력한 경험이 있기 때문에 기존의 협력경험을 통해 잘 발전해나갈 수 있을 것이라 생각함.
- 추가적으로 OECD에서 말씀 또는 제안 등을 주시면 감사드리겠음.

❑ 리사 팀장

- 회의 개최 시점에 대해서 사전에 NABO 담당자와 논의했을 때 7~8월로 들은 바 있음.
- 특히 7월은 중반이 넘어서면 회원국의 대부분이 휴가시즌임. 그렇게 되면 회의에 잘 맞는 참가국의 발제자를 모셔오는데 있어 어려움이 예상됨. 특별히 생각하고 있는 회의개최 시점이 있는지, 한국 내부의 사정이 있는지 궁금함.

❑ 정순임 기획관리관

- 현재 잠정적이긴 하지만 빨라야 8월 말~9월 정도로 생각을 하고 있음.
- 내년에 한국이 총선이 있어 6월 이전은 어려움. 하지만 7월은 피할 수 있지 않을까 생각함.
- 또한 진행하면서 참석자와 NABO 상황도 고려하여 보다 실질적으로 조율할 수 있을 것임.
- 혹시 참석자들이 가장 이상적으로 생각하는 시기가 있는지 확인을 하고 싶음.

❑ 존 블론달 국장

- 2가지 고려사항이 있을 것으로 보임.
- 대부분의 사람들이 7월말에서 8월중에 휴가를 떠나기 때문에 실질적으로 그 시기에 사람을 모셔오는 건 쉽지 않음.

○ 다음은 또 예산안 상정시즌으로 의회 예산업무 시기가 돌아오기 때문에 이상적인 시기란 없다고 생각함.

○ 하지만 7월말에서 8월보다는 다른 시기가 업무를 진행하기는 훨씬 더 좋을 것이라고 생각됨.

○ 언제쯤 국제회의 날짜가 결정되는지?

❑ 정순임 기획관리관

○ 회의에 많은 사람들의 일정이 연계되어 있기 때문에 1월 중에는 회의날짜를 결정하려고 함. 이를 위해 회의 TF도 빨리 발족을 시킴.

❑ 존 블론달 국장& 리사 팀장

○ 날짜를 주시면, 비공식적으로 발제를 위한 참가국과 긴밀하게 논의하여 진행을 해보도록 하겠음.

❑ 리사 팀장

○ 국제회의에 기조발제자로 염두해두신 분이 계신지? 이 부분이 회의를 준비하는데 있어 가장 어려운 부분일 것으로 생각함. 과거의 경험을 생각해보면 걱정이 되는게 사실임.

❑ 정순임 기획관리관

○ 오늘 회의때 의제나 날짜 등 좀 더 넓은 범위의 공감이 있었기 때문에 이번에 기조발제자를 추천을 받고자 계획도 하였음. OECD측의 기조발제자에 대해 의견을 듣고 싶음.

❑ 존 블론달 국장

○ 기조발제자가 청중을 끌어모으는데 큰 영향력을 주긴 함.

○ 재정의 지속가능성도 중요하고 한국 같이 작은 규모로 대외의존도가 높은 국가는 재정이 적극적 역할을 해야한다는 의견이 상충하는데,

기조발제자가 어느 쪽의 메시지를 전달했으면 좋겠는지 생각하시는 부분이 있는지?.

□ 정순임 기획관리관

○ NABO측은 확장적 재정정책보다는 재정의 지속가능성과 재정준칙에 대한 내용이 적절한 것으로 보임.

□ 정순임 기획관리관

○ 회의는 집중적으로 하기 위하여 하루일정으로 운영할 예정이며, 이에 대해 의견을 부탁 드림.

○ 장소는 2018년도 회의 때는 국회 회의장을 이용을 했는데, 이번에는 전체를 호텔에서 개최하는 방안을 검토 중임.

□ 존 블론달 국장

○ 해외발제자의 입장에서는 한국을 오는데 시간이 많이 걸리기 때문에 하루 행사로 끝난다면, 내부적으로 NABO직원들과 워크샵 형태의 행사를 별도로 하는 것이 좋을 것 같음.

□ 정순임 기획관리관

○ 굉장히 좋은 의견이고 감사드림.

○ 우리가 목적하고 계획했던 것들에 대해 들을 수 있었던 의미 깊은 자리였다고 사료됨.

4 프랑스 독립재정기관 최고공공재정위원회(HCFP) 면담

가 개 요

❑ 일시 : 2019년 12월 20일(금) 14:00~15:30

❑ 장소 : HCFP 사무국

❑ 면담자

성 명	직 위
에릭 두보이스(Eric Dubois)	HCFP 사무국 선임조사관
블라디미어 보기 (Vladimir Borgy)	HCFP 사무국 조사관

나 주요 내용

❑ 정순임 기획관리관

○ 전체적으로 High Council의 역할이 의견제시에 있는 것 같고, 의견 제안을 제출하는 주체가 의회가 아닌 행정부 어느 쪽인지 궁금함.

❑ **HCFP 선임조사관**

○ 우리 의견서를 공개되기 전에 제출하는 곳은 국 참사원(The Council of State)임. 국무총리나 경제부 장관에게도 같이 보내긴 하지만, 우리 의견서가 대상으로 하고 있는 가장 중요한 기관은 바로 국참사원이라고 볼 수 있음.

❑ 정순임 기획관리관

○ 국 참사원이란 개념을 제가 아직 인지하고 있지 못해서 그러는데.. 의회 쪽 기관은 아닌걸로 이해하면 되는지?

○ 국참사원에 High Council의 의견을 제출할 때, 동시에 외부 언론에 공개되거나 홈페이지 등을 통해 일반인에게 공개되는 건지 궁금함.

□ 통역사

○ 그건 공개되기 전의 시점이라고 나와 있음.

□ 정순임 기획관리관

○ 그럼 이 보고서의 형태가 의회 측에는 전혀 제출되는 것이 없는 건지 궁금함.

□ HCFP 선임조사관

○ 그러한 의무조항은 없음.

○ 아까 잠깐 말씀드린 바와 같이 관련 장관 또는 국무총리가 예산안을 의회에 소개하기 전에 이미 기관장이 공청회를 통해 상하원 상임위원회에서 보고서의 내용을 전달할 수 있음.

□ 정순임 기획관리관

○ 배포해주신 자료 18페이지를 보면, systematically가 어떤 것을 의미하는건지 궁금함.

□ HCFP 선임조사관

○ 국참사원에 대해 말씀드리자면, 국참사원은 예산안의 법률차원에서 하자가 없는지에 대한 판단만 함.

○ 그렇기 때문에 예산의 분석이라는 차원에서 국참사원에서 개입하는 분야는 아님. 또한 아까도 말씀드린바와 같이, 의회의 재정상임위원회가 우리 기관장을 데리고 공청회를 하기 때문에(공청회가 있을 수도 있고, 없을 수도 있지만) 공청회를 하기 한 시간전에 의견안이 의회로 보내지게 됨.

○ 그리고 경제부장관이나 예산 관련 장관에게는 우리 의견서를 미리 보냄. 왜냐하면 장관회의가 오전 10시에 있다고 한다면 상원이나 하원차

원의 기관장 공청회가 10시에 있는 경우가 굉장히 많기 때문임. 그렇게 되면 12시가 돼서야 장관들은 상임위원회에 참석을 하게 되는데, 그 때 나오는 질문들에 답변을 해야 하기 때문에 사전에 미리 자료를 보내서 검토할 수 있도록 함.

❑ 정순임 기획관리관

○ High Council에서 국참사원에 보내는 자료가 High Council 내에서 의결절차를 거치는 건지?

❑ HCFP 선임조사관

○ 예를 들어 이런 의결서가 있으면, 다 공개를 하고 위원들이 별도의 표결절차는 없으나 합의를 도출해야 함.

○ 보통 핵심내용에 대해서는 의견일치가 안 일어나는 경우는 없음. 불일치가 이루어질 경우에도 합의를 이끌어낼 수 있도록 조율을 잘 하고 있음.

○ 법률상으로는 표결이 있다고 나와 있지만 지금까지 표결했던 적은 없음.

❑ 정순임 기획관리관

○ 의결서에 대해서는 11명의 의견을 거친 후에 최종적으로 결정되는 것이 맞는건지?

○ 그럼 High Council의 위원들이 모두 모여서 하는 회의는 연간 몇 회 정도 열리는지 궁금함.

❑ HCFP 선임조사관

○ 연 20회 정도임.

❑ 정순임 기획관리관

○ 아까 설명한대로 법안들이 제출되는 시점들이 있는데, 연중 회의가 열리는 특정 시점이 있는 건지? 20회나 열리는 것이 amending budget(예산수정안)이나 사회보장예산에 대한 수정안 때문인건지?

❑ **HCFP 선임조사관**

○ 2019년에는 15회의 회의가 열렸음.

○ 의견서를 HCFP위원 여러 사람이 공동으로 작성하므로, 자주 회의에 모여서 의견을 교환하는 것이 매우 중요함.

❑ **정순임 기획관리관**

○ 아까 budget bill이나 social security는 1~2회 정도 수정안이 나온다고 이해하면 되는지?

❑ **HCFP 선임조사관**

○ 수정예산안과 같은 경우는 해마다 다름.

❑ **정순임 기획관리관**

○ 지금 저희와 의견을 나누고 계신 조사관님은 council의 멤버인지 궁금함.

❑ **HCFP 선임조사관**

○ 저는 보고관으로 위원회 멤버는 아니고 사무국에 속해 있음.

❑ **정순임 기획관리관**

○ NABO와 같은 경우에는 1인 리더십 형태를 가지고 있지만, 한국에서 간혹 저희를 위원회 형태의 운영을 검토해보는 것이 어떤지 하는 의견들도 간혹 제기하는 분들이 있어서, 그 부분에 대한 고민을 해결하기 위해 여쭤보게 되었음.

❑ **HCFP 선임조사관**

○ 합의도출제인 위원회 형태의 운영은 장점과 단점이 있음. 이미 결정된 문제에 대해 의견 차이는 없으나, 수정 결정이 필요할 경우 시간이 많이 소요되는 단점이 있음.

❑ **정순임 기획관리관**

○ 보고서의 초안 작성은 보고관이 하고 의견교환을 HC의 위원회의 멤버가 하는 것인지?

❑ **HCFP 선임조사관**

○ 사무처 조사관(보고관)과 위원 모두 작성을 함. 참고로 저는 선임조사관으로 오기 전 약 4년 동안 HC의 위원으로 활동하였음.

❑ **정순임 기획관리관**

○ HC의 위원은 임명직으로 알고 있는데, 전공 등 별도의 자격기준이 정해져 있는건지 궁금함.

❑ **HCFP 선임조사관**

○ 구체적으로 명시되어 있지는 않음. 회계 감사원 소속 중 경제, 재정분야의 권위자를 모셔 와서 위원으로 구성하기도 하며, 외부인사는 이보다 경력 등 배경이 다양함.

○ 하지만 특별한 기준이 있지는 않음. 통계청장도 위원으로 포함되는데 거시경제 전문가 대표로 영입이 되며, 공공 재정평가 시 국가통계정보가 필요한데 이에 중요한 역할을 해줄 수 있기 때문임.

○ 덧붙여 저희 의견서 작성과정을 말씀드리면, 회의장에 모두 모여 1줄씩 문장으로 내용을 작성하여 전체를 취합함. 그럼 위원장이 회의장에서 읽어서 모두 공유를 한 후, 바로 수정의견을 반영하여 최종 의견서

를 마련함.

❑ 김정규 기획예산담당관

○ 독립재정기관의 중요성은 독립성, 중립성, 전문성이라고 할 수 있는데 의회파트의 지명자들은 지명만 되면 끝인지, 별도 추인 등 기타 절차가 있는건지 궁금함.

❑ HCFP 선임조사관

○ 일반적으로 재정상임위원회 위원장이 임명한 사람은 자동적으로 위원이 됨. 재정상임위원회와 사회상임위원회에서 추천한 인사에 대해 공청회를 열기도 하나, 일반적으로 지명을 하면 바로 위원으로 임명이 된다고 보시면 됨.

❑ 김정규 기획예산담당관

○ 물론 정치구조 차이를 고려해야 하겠지만, 통계청장의 경우에는 내각에 속한 사람인데, 전문성을 떠나서 내각에 몸담았던 사람이 위원이 되는 것이 중립성에 대한 논란 여지는 없는건지?

❑ HCFP 선임조사관

○ 물론 통계청장은 내각에 속했던 인사이긴 하나, 통계청장은 유럽통계법에 의해 독립성이 보장되어 있음.

○ 그리고 최근에 새로 도입된 것이 보통 통계청장은 대통령이 임명을 하지만, 그 임명에 있어서 고등통계기관의 의견도 함께 반영해야 함. 이러한 절차를 통해 투명성을 확보하고자 노력하고 있음.

❑ 정순임 기획관리관

○ 혹시 High Council에서 낸 의견을 정부가 얼마나 반영을 하고 있는지

궁금함.

❑ **HCFP 선임조사관**

○ 법적인 기속력은 전혀 없음. 다른 곳에서 분석한 내용을 보면 우리기관이 설립된 이후로 정부 예산정책과 관련하여 거시적인 경제전망에 대한 결과가 훨씬 더 긍정적으로 변화했다고 평가할 수 있겠음.

○ 그래서 만약에 현실은 쉽지 않지만, 정부대신에 이 기관에서 거시적인 경제전망 등을 결정할 수 있었으면 더 효과적이지 않았겠나 생각함.

○ 저도 질문하나 드리고 싶음. NABO의 역할에 대해 알고 싶음.

❑ **정순임 기획관리관**

○ 제가 설명을 듣다보니깐, 문서로만 봤을 때의 High Council과 큰 차이가 있다는 생각이 들었음.

○ NABO와 High Council의 가장 큰 차이는 저희가 지원하는 기관이 다르다는 것임. NABO의 경우는 대한민국 국회, 의회소속이며 의원과 위원회 등을 지원하는 역할이 큼.

○ 구체적으로는 정부가 제출한 예산안에 대해 Item별 분석을 지원하고, 법안 발의 전 예산을 수반하는 경우 비용추계를 제공하는 업무를 수행하고 있음. 여기에 더해서, High Council은 별도의 경제전망을 수행하지 않고, 정부가 준비한 경제전망에 대한 평가업무를 하지만, 저희는 평가를 넘어선 별도의 경제전망을 하고 있음. 덧붙여 장기적인 재정전망도 함께 하고 있음.

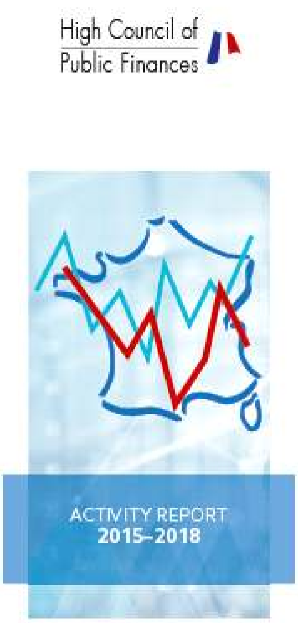
○ 제가 말씀을 나누면서 깨달은 점은 법률의 재정준칙에 대한 점검이 High Council의 중요한 업무 같은데 준칙부분에 대한 자세한 이해는 향후에도 필요할 것으로 보고, 저희 NABO, 한국 같은 경우는 법률적으로 어떤 재정준칙이라는 부분이 미흡한 점이 있고, 그에 따라 NABO가 재정준칙을 점검하는 역할을 현재까지는 공식적인 업무로는

삼고 있지 않음.

○ 기회되시면 한국에 한번 오셔서 이야기를 나눌 기회가 있었으면 좋겠음.

별첨 1　HCFP 발간보고서

Ⅰ. Activity-Report-2015-2018



CONTENTS

EDITORIAL

Didier Migaud

First President of the Court of Auditors
Chairman of the High Council of Public Finances

The High Council of Public Finances, an independent body formed in 2013 and attached to the Court of Auditors, is now a well established part of France's institutional landscape in connection with the governance of public finances, in which it plays a crucial role.

France adopted a novel organisational approach to setting up an independent fiscal council pursuant to the 2012 Treaty on Stability, Coordination and Governance (TSCG). The High Council's responsibilities were defined in addition to those already exercised by the Court of Auditors in respect of the supervision of public finances.

Under the Constitutional bylaw of 17 December 2012, the High Council has twin duties: to assess the extent to which economic forecasts associated with financial legislation are realistic, and to review the extent to which the trajectory of the public finances (central government, social security and local government) is consistent with France's multi-year planning and European commitments.

In just over five years, the High Council has issued 27 opinions in which it has sought to provide Government, Parliament and citizens with clarity on often complex issues in a changing environment. The High Council has, I hope, helped strengthen sound fiscal governance in our country. It cannot be denied that its creation, and the independence of its opinions, have helped curb the optimistic biases that have often tainted forecasts linked with finance acts in the past.

Its eleven-member Board is made up of members from a wide variety of backgrounds – a genuine strength for the High Council. It brings together magistrates from the Court of Auditors with outside individuals highly experienced in economic forecasting and public finances. The Board's has already been partially renewed twice in September 2015 and March 2018, as stipulated in the Constitutional bylaw. Board members have a very demanding job, notably due to the very short deadlines allowed for issuing opinions, and I sincerely thank them for their determination and motivation.

The High Council does not itself produce any macroeconomic or budget forecasts, for which the Government retains sole responsibility. It issues advisory opinions based on all available information – whether public or provided by the Ministry of Finance – and on expert hearings.

Like most of its European counterparts (independent fiscal institutions now exist in 26 European Union countries), the High Council is faced with a number of challenges. Its mandate, currently focused on the size of the structural balance, which is frequently subject to significant revision, could be expanded to other less volatile and more directly measurable indicators, such as structural effort or expenditure net of discretionary revenues measures, as suggested by discussions in various forums. The European rules themselves are difficult to apply due to their excessive number, their complexity and the latitude the European Commission allows itself in implementing them.

Due to its close ties with the Court of Auditors, dialogue with authorities and forecasting institutions in the course of performing its duties, and its close relationship with independent fiscal institutions in other European countries and the European Commission, the High Council of Public Finances is at the heart of various debates that touch on economic forecasting and analysis of the public finances.

Together with the Board's other ten members and the small secretariat that supports us, it is my wish that the High Council might continue to make an active contribution to these debates. This report, which reviews the High Council's activity over the past three years, has been produced to that end.

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ÉDITORIAL

Didier Migaud

Premier président de la Cour des comptes
Président du Haut Conseil des finances publiques

Le Haut Conseil des finances publiques, organisme indépendant créé en 2013 auprès de la Cour des comptes, est désormais bien installé dans le paysage institutionnel français de la gouvernance des finances publiques, où il joue un rôle essentiel.

L'organisation mise en place par la France pour la création d'un conseil budgétaire indépendant, en application du Traité de 2012 sur la stabilité, la coordination et la gouvernance (TSCG), est originale. Les missions du Haut Conseil ont été définies en complément de celles déjà exercées par la Cour des comptes en matière de surveillance des finances publiques.

La loi organique du 17 décembre 2012 lui a confié une double mission : apprécier le réalisme des prévisions macroéconomiques associées aux textes budgétaires et examiner la cohérence de la trajectoire de finances publiques (État, sécurité sociale et collectivités locales) avec la programmation pluriannuelle et les engagements européens de la France.

En un peu plus de cinq ans, le Haut Conseil a rendu 27 avis, dans lesquels il s'est efforcé d'éclairer, sur des sujets souvent compliqués et dans un contexte changeant, le Gouvernement, le Parlement et les citoyens. Le Haut Conseil a, je l'espère, contribué à renforcer la bonne gouvernance budgétaire de notre pays. Force est de constater que sa création, et l'indépendance de ses avis, ont permis de réduire les biais optimistes qui ont souvent marqué les prévisions associées aux lois financières dans le passé.

Son collège de onze membres réunit des profils très divers qui constituent un atout pour le Haut Conseil. Il associe des magistrats de la Cour des comptes et des personnalités extérieures de grande expérience dans les domaines de la prévision économique et des finances publiques. Le collège a déjà fait l'objet de deux renouvellements partiels, en septembre 2015 et en mars 2018, comme le prévoit la loi organique. Le travail des membres au sein du Haut Conseil est exigeant, du fait notamment du temps très court dont ils disposent pour rendre les avis et je les remercie profondément pour leur détermination et leur motivation.

Le Haut Conseil ne réalise pas lui-même de prévisions macroéconomiques ou budgétaires, dont la production demeure de la seule compétence du Gouvernement. Il rend des avis consultatifs qui s'appuient sur l'ensemble des informations disponibles – publiques ou communiquées par le ministère des finances – et sur l'audition de personnalités qualifiées.

Comme la plupart de ses homologues européens – des institutions budgétaires indépendantes existent désormais dans 26 pays de l'Union européenne – le Haut Conseil est confronté à plusieurs défis. Son mandat, actuellement centré sur le niveau du solde structurel qui est soumis à de fréquentes et fortes révisions, pourrait être élargi à d'autres indicateurs moins volatils et plus directement mesurables, comme l'effort structurel ou l'évolution des dépenses nette des variations des prélèvements obligatoires, ainsi que le suggèrent les réflexions menées dans diverses enceintes. Les règles européennes elles-mêmes sont d'application difficile, en raison de leur trop grand nombre, de leur complexité et de la marge d'interprétation que se donne la Commission européenne dans leur mise en œuvre.

Du fait de sa proximité avec la Cour des comptes, de ses échanges avec les administrations et les instituts de prévision dans l'exercice de ses missions, des relations étroites qu'il entretient avec les institutions budgétaires indépendantes des autres pays européens et avec la Commission européenne, le Haut Conseil des finances publiques est au centre de nombreux débats touchant les prévisions économiques et l'analyse des finances publiques.

Je souhaite, avec les dix membres qui m'entourent et le secrétariat léger qui nous accompagne, que le Haut Conseil continue d'apporter une contribution active à ces débats. Le présent rapport, qui revient sur les trois dernières années d'activité du Haut Conseil, en constitue un élément.

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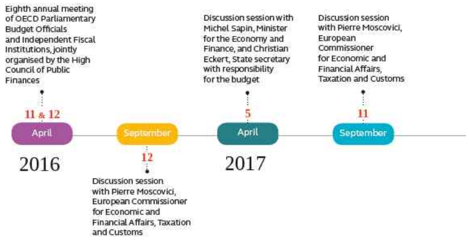
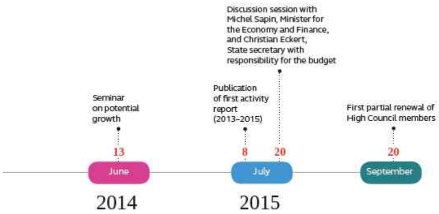
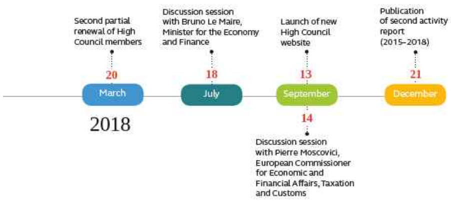
KEY FIGURES SINCE CREATION

To 30 September 2018

KEY DATES (EXCLUDING OPINIONS)







COMPOSITION OF THE HCFP

April 2018 – Members of the High Council of Public Finances (HCFP)

In October 2018, the High Council, chaired by the First President of the Court of Auditors (Cour des Comptes) (Didier Migaud), consisted of four Court of Auditors magistrates (Françoise Bouygard, Raoul Briet, Eric Dubois and Martine Latare) and five qualified individuals nominated by the parliamentary assemblies and the chair of the Economic, Social and Environmental Committee (Maya Bacache-Beauvallet, Eric Heyer, Isabelle Job-Bazille, Christian Noyer and Valérie Plagnol). The Director-General of the National Institute of Statistics and Economic Studies (Jean-Luc Tavernier) is also an ex officio member of the High Council.

The Board was refreshed for the first time in September 2015, with Christian Noyer and Valérie Plagnol replacing Marguerite Bérard-Andrieu and Michel Aglietta.

It was refreshed for the second time in March 2018, when Maya Bacache-Beauvallet, Eric Heyer and Isabelle Job-Bazille were appointed to replace François Bourguignon, Mathilde Lemoine and Philippe Dessertine respectively.

The permanent secretariat consists of a General Rapporteur, two Deputy General Rapporteurs, one Rapporteur and one assistant. The General Rapporteur is nominated by the Chairman of the High Council after consulting the members.

Appointment of HCFP members

The fact that the High Council is attached to the Court of Auditors, and the procedures by which its members are appointed, ensure a high level of independence.

The four Court of Auditors magistrates are nominated by its First President and include an equal number of men and women.

Meanwhile, its five qualified individuals are nominated by the president of the National Assembly, the president of the Senate, the chair of the National Assembly's Finance, Economy and Budget Control Committee, the chair of the Senate Finance Committee and the chair of the Economic, Social and Environmental Committee respectively. Qualified individuals nominated by parliamentary authorities must include an equal number of men and women. When these members are replaced, each female member must be succeeded by a man and vice versa.

The diversity of members' backgrounds is an asset to the High Council: the fact that the Council is attached to the Court of Auditors ensures that it has a high level of expertise in public finances; outside members bring a wealth of experience in macroeconomic forecasting and public finances.

Members of the HCFP serve for five years. Court of Auditors magistrates may be reappointed once; qualified individuals may not be reappointed. The Board is partially refreshed every 30 months.

MANDATE OF THE HCFP

The mandate of the High Council of Public Finances is laid down in the Constitutional bylaw of 17 December 2012 on planning and governance of the public finances. The High Council seeks to ensure that the trajectory of public finances towards a balanced budget is consistent with the country's European commitments. To this end, it assesses the extent to which the Government's macroeconomic forecasts and potential growth estimates are realistic and gives its opinion on whether financial legislation (draft finance acts, draft social security finance acts, etc.) is consistent with multi-year public finance targets.
The High Council's view is expressed through opinions (of which it has issued 27 to date) published on its website and submitted to the competent authorities (the Council of State, Government and Parliament).

High Council opinions over a year

Note: High Council opinions issued every year are shown in black. Opinions relating to legislation that is less frequent (public finance programming bill) or occasional (supplementary budget bill other than the traditional November one) are shown in green.

Scope of High Council opinions

	Macroeconomic forecasts	Potential growth estimates	Public finances
PFPB (September of even-numbered years between 2008 and 2014, then September 2017)	✔	✔	✔
BB/SSFB (September)	✔	-	✔
SBB (according to referral)	✔	-	✔
BSB (May)	-	-	✔
SPU (April)	✔	-	-

PFPB: public finance programming bill; BB: budget bill; SSFB: social security financing bill; SBB: supplementary budget bill; SPU: stability programme update; BSB: budget settlement bill.

MACROECONOMIC FORECASTS

The High Council's mandate as regards economic forecasts is to review the extent to which Government forecasts associated with financial legislation, multi-year programming and the stability programme are realistic. This mandate therefore covers not only all macroeconomic forecasts (including growth in GDP and its components), but potential growth and output gap estimates used in public finance programming bills. Opinions also aim to identify the risk factors surrounding these forecasts.

The High Council's task is first and foremost to **ensure that Government adopts plausible macroeconomic forecasts on which is based its scenario for the public finances.** Revenue forecasts, in particular, are heavily dependent on assumptions regarding activity (e.g. consumer spending for VAT), employment and the wage bill (for social security contributions).

The High Council does not directly produce any macroeconomic forecasts of its own. In preparing its analysis, it draws on forecasts produced by international organisations and various bodies tasked with analysing economic conditions. In preparing its opinions, it conducts hearings with various economists. Some opinions (draft finance act and social security finance act, programming bill and stability programme) require numerous hearings, while others (draft supplementary finance act and draft finance review act) relating mainly to public finance issues appear to require few hearings beyond those involving the relevant authorities[1].

PUBLIC FINANCES

The High Council has a threefold role in relation to public finances:

- When a **public finance programming bill** is put forward, it checks that the proposed programme is consistent with France's European commitments.
- When **budget bills and social security financing bills** are put forward, it carries out an *ex ante* assessment as to whether structural balance forecasts used by Government in drawing up this draft legislation are consistent with commitments entered into through the programming bill. Consistency is interpreted in terms of both the potential gap between forecasts and programming and the internal consistency of forecasts themselves (credibility of assumptions used, measures announced and quantification of their impact in light of the structural balance target).
- When a **budget settlement bill** is put forward, it carries out an *ex post* assessment to identify deviations between the outturn and the programme. A "*significant deviation*" triggers the correction mechanism (see page 11).

■Consistency of the structural balance trajectory

The Treaty on Stability, Coordination and Growth in the Economic and Monetary and Union (TSCG) tasked independent national institutions with the role of verifying compliance with the balanced budget rule. In France, this role is undertaken by the High Council of Public Finances.

The HCFP seeks to ensure that the trajectory of France's public finances (central government, local government and social security) towards a balanced budget laid down in the public finance programming bill is consistent with the country's European commitments, and that all draft financial legislation is consistent with this trajectory.

In accordance with the TSCG, this trajectory concerns the structural balance after eliminating the effects of fluctuating economic conditions on public deficits and after deducting one-off and temporary measures.

The HCFP reviews all draft legislation pertaining to the public finances. Its opinions are issued before such draft legislation is brought before Parliament. They relate to both the future (the next budget year or the next programming bill) and the past (the previous budget year).

Programming bills

When the Government puts forward a multi-year public finance programming bill, generally every two years in September[2], the HCFP issues an opinion on "*the consistency of the proposed programme with the adopted medium-term objective (MTO) and France's European commitments*" (Article 13 of the Constitutional bylaw of 17 December 2012).

Finance acts and social security finance acts

The HCFP gives its opinion on the consistency of draft finance acts and social security finance acts "*in light of the multi-year structural balance trajectory laid down in the public finance programming bill*" (Article 14 of the Constitutional bylaw).

This involves reviewing whether

[1] A total of 59 hearings have been conducted with outside individuals since the High Council was created.

[2] This frequency prevailed until 2014, with programming bills put forward at end 2008 (passed in January 2009), end 2010, end 2012 and end 2014. In 2016, in light of the presidential election calendar, the Government decided to leave it to the future government to draw up the next public finance programming bill, in September 2017. As a result, the 2014–2019 public finance programming bill, passed at end 2014, was in force for three years, instead of two years for previous bills.

The balanced budget rule

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) stipulates that "*the budgetary position of the general government [...] shall be balanced or in surplus*" – i.e. the structural balance must be close to a medium-term objective (MTO) that may not be less than -0.5% of GDP. The MTO is a structural balance target set by each Member State according to its specific circumstances in terms of debt and the cost of the ageing population, with the aim of ensuring long-term budgetary sustainability.

This rule was transposed into French law by the Constitutional bylaw of 17 December 2012, which stipulates that the MTO must be laid down in the multi-year public finance programming bill. In the December 2012 public finance programming bill, the MTO was to achieve balance in 2016; in the December 2014 and January 2018 bills, the MTO was set at -0.4% of GDP, to be achieved in 2019 and after 2022 respectively.

The TSCG also stipulates that "*in the event of significant observed deviations from the medium-term objective or the adjustment path towards it, a correction mechanism shall be triggered automatically*". The characteristics of this mechanism are detailed in "*common principles*" adopted by the Member States. In particular, these principles specify that attainment of the MTO must not be postponed following a deviation from the adjustment path, and that corrective measures must automatically apply to subsequent budgets. Responsibility for triggering and monitoring the correction mechanism is entrusted to an independent national institution, whose opinions Government must take into account unless it publicly explains why it is not doing so.

In France, the Constitutional bylaw of 17 December 2012 made the High Council responsible for identifying "significant deviations" from the adjustment path triggering the correction mechanism. When the mechanism is triggered, Government must take corrective actions in the following year's budget at the latest.

Government revenue and expenditure forecasts are consistent with the medium-term trajectory of returning the public finances to a position of structural balance. In practice, given how the structural balance is calculated, the High Council also expresses an opinion on the actual public deficit.

■ Correction mechanism

Before the budget settlement bill approving the general government accounts for the previous year is filed each May, the HCFP also gives an *ex post* opinion on any deviations between the outturn and the trajectory laid down in the programming bill (Article 23 of the Constitutional bylaw).

In particular, it identifies whether there are any "*significant deviations*" from the trajectory, which means deviations equating to more than 0.5 percentage point of gross domestic product (GDP) over one year or averaging 0.25 percentage point of GDP over two consecutive years.

If so, the Government must put forward correcting measures to bring the public finances back into line with the trajectory of returning the public accounts to a position of structural balance.

These measures must be adopted in the first finance act or social security finance act after the correction mechanism is triggered. When expressing its opinion on these acts, the HCFP gives an assessment of the correction measures and, if applicable, deviations from the structural balance trajectory.

As regards the public finances, the High Council's mandate, focused on monitoring the structural balance trajectory, is more restricted than that of most fiscal councils in other European countries (see box below). This is notably due to the fact that, when the High Council was created, the Court of Auditors was already fulfilling a number of the duties of an independent fiscal council. The High Council's mandate was designed to complement the one of the Court of Auditors.

The mandate of independent fiscal institutions in European Union countries

In all European countries, independent fiscal institutions (IFIs) are, like the High Council, tasked with approving or producing macroeconomic forecasts and monitoring adherence to the correction mechanism. Most of these have been set up over the past few years pursuant to Directive 2011/85 of the Council and the 2012 Treaty on Stability, Coordination and Governance (TSCG). There were around 35 such institutions in mid-2018[3].

In relation to economic forecasting, the main distinction is between those IFIs that produce the economic forecasts that underlie public finance forecasts, and those that approve or reject government forecasts. Of the 16 IFIs, which are involved in macroeconomic forecasts in the answer, six[4] fall into the former category. The rest provide an assessment of forecasts prepared by government.

Within this latter category, a distinction can be drawn between the following:

- those institutions that explicitly approve or reject the government's scenario through an opinion, report or letter to the minister (Spain, Ireland, Italy, Latvia, Lithuania and Portugal)
- those, like the HCFP, that publish commentary but without formally approving assumptions (Cyprus, Estonia, Greece and Malta)

IFIs' mandates with respect to the public finances are broader than that of the HCFP in almost all countries.

All IFIs in countries that have signed the TSCG must check that European budget rules are followed and monitor compliance with commitments entered into and, in particular, the adjustment path towards the medium-term objective (MTO). However, this role is usually less strictly delimited than that of the HCFP, which is focused on reviewing the structural balance and its consistency with the trajectory set out in public finance programming bills. Other IFIs' mandates also include analysing the actual balance relative to the 3% rule, compliance with the MTO, and structural adjustment (or effort). The debt position also frequently comes under scrutiny.

All IFIs play a role in triggering or monitoring a correction mechanism and assessing any exceptional circumstances, as laid down in the "*common principles*" drawn up by the European Commission and approved by the *Economic and Financial Affairs Council* on 21 June 2012.

Some IFIs have responsibilities that go well beyond these functions, including, for example:

- producing public finance projections (United Kingdom) and evaluating the long-term sustainability of the public finances (Austria, Belgium, Italy, the Netherlands, Portugal, Spain, Slovakia and Sweden);
- quantifying the cost or budgetary performance of measures and assessing their macroeconomic impact (Austria, Italy, the Netherlands, Romania, Slovakia, Slovenia and the United Kingdom);
- formulating recommendations on balance or expenditure trajectories or fiscal measures (Austria and Portugal).

[3] Eight members States have two IFIs.

[4] Austria (Wifo), Belgium (ICN), Luxembourg (CNFP), the Netherlands (CPB), the United Kingdom (OBR) and Slovenia (IMAD).

SCOPE OF HIGH COUNCIL OPINIONS

Although opinions issued by the High Council of Public Finances are not binding on Government, their public nature and the fact that they are publicised by the media make them particularly far-reaching. They also help clarify parliamentary debate on issues pertaining to the public finances.
As the European Commission and the International Monetary Fund have noted, the HCFP has helped moderate macroeconomic forecasts.

The HCFP plays an advisory role. Responsibility for determining the country's fiscal policy lies solely with Government and Parliament.

The Constitutional Council (Conseil constitutionnel) bases itself on the High Council's opinion in reviewing the accuracy of finance acts and social security finance acts[5], particularly as regards macroeconomic forecasts. When members of Parliament refer to it on this matter, it systematically draws on the High Council's opinions. For example, the Constitutional Council referred to the HCFP in its ruling 2016-744 DC of 29 December 2016 on the finance act for 2017: "*Given the risks to expenditure and forecast revenue, the High Council of Public Finances found it 'uncertain that the nominal deficit will fall back below the threshold of 3 percentage points of GDP in 2017'*". It also mentioned the High Council's opinion in its ruling 2017-758 of 28 December 2017 on the finance act for 2018.

European Commission report on transposition of the Treaty on Stability, Coordination and Governance (2017)

In February 2017, the European Commission published its report assessing the compliance of national provisions adopted pursuant to the Treaty on Stability, Coordination and Governance (TSCG) by the 22 European Commission Member States parties to the Treaty. This report was provided for by Article 8 of the Treaty.

According to this review, all countries have complied with the Treaty requirements. In some cases, however, this positive assessment is subject to the future adoption of further provisions. The Commission's analysis focuses, for each country, on the legal status of provisions, how the balanced budget rule is formulated, the correction mechanism and the existence of an independent fiscal institution.

The Commission found that the provisions adopted by France were compliant with the Treaty requirements: "*The national provisions adopted by France are compliant with the requirements set in Article 3(2) of the TSCG and in the common principles in light of the formal commitment provided by national authorities to interpret the organic law consistently with Article 3(2) of the TSCG together with the compliant set-up of the monitoring institution, the clarifications provided by national authorities on the substance of the correction mechanism, and the formal commitment provided by national authorities to apply the comply-or-explain principle in line with the common principles*".

...

[5] As indicated in ruling 2012-653 DC of 9 August 2012 on the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union: "[...] the Constitutional Council is tasked with monitoring the constitutionality of multi-year public finance programming bills, finance acts and social security finance acts; [...] acting under Article 61 of the Constitution, it must, in particular, ensure the fairness of such legislation; [...] it shall carry out such monitoring taking into account the opinions of previously established independent institutions".

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... However, in a letter addressed to the French authorities on 19 May 2016, the Commission raised questions over the legal status of provisions transposing the Treaty into French law: does the French system, under which the medium-term objective and the target structural balance trajectory are laid down in programming bills, ensure compliance with France's European commitments? Is it compliant with Article 3 of the Treaty, which stipulates that "*The rules [of the fiscal compact] shall take effect in the national law of the Contracting Parties [...] through provisions of binding force and permanent character, preferably constitutional, or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes*"?

The Commission highlighted the system's apparent fragility, insofar as the programming law that determines the structural balance trajectory can be amended at any time, or replaced by another bill, and, above all, the fact that it is an ordinary bill that is not legally binding on finance bills.

As was the case for all European countries about which reservations had been expressed prior to implementation of the Treaty, the Commission in the end noted a formal commitment by the Minister, finding that "*strict application of the Constitutional bylaw also appears to be guaranteed by the strength of the monitoring mechanism put in place in accordance with the Treaty*", the final portion of this phrase referring to the role of the HCFP.

With regard specifically to the creation and operation of the High Council, the Commission concluded that "*the French monitoring institution is compliant with the requirements of the TSCG and the common principles*", that "*the institution has been grounded in law and equipped with appropriate safeguards for its functional autonomy*" and that "adequate provisions on the HCFP's endowment with ressources and access to information are in place".

CONTRIBUTING TO PARLIAMENTARY DEBATE ON PUBLIC FINANCES

Article 20 of the Constitutional bylaw of 17 December 2012 stipulates that "*the Chairman of the High Council of Public Finances shall be heard at any time at the request of National Assembly and Senate committees*".

In practice, the Chairman of the HCFP appears before the National Assembly and Senate finance committees in connection with key opinions issued by the High Council (opinion on draft finance acts and social security finance acts, programming bills and the stability programme). These opinions are communicated to Parliament immediately after adoption. They give rise to fruitful discussion between members of Parliament, who draw on them when debating draft financial legislation. Since the High Council's creation, its Chairman has appeared before the National Assembly and Senate finance committees 22 times (i.e. averaging four to five times a year). These hearings are broadcast live on the National Assembly and Senate websites.

PUBLICLY ISSUED OPINIONS

In accordance with the Constitutional bylaw, **all HCFP opinions are publicly issued.** This is done through the www.hcfp.fr website, which offers a wealth of information about the High Council's remit, operation and organisation. All HCFP opinions and all testimony by the Chairman of the HCFP to the National Assembly and Senate finance committees are published on this website.

The site has many visitors keen to find out more about the HCFP's role and opinions, with almost 166,200 people visiting the site since its creation.

The High Council's new website went live in September 2018. This site, the entire content of which is now available in English, helps make opinions more visible to search engines, makes it easier to share them via social media and to foreign readers and promotes the High Council's work beyond producing opinions. In particular, it includes a more extensive international section and will include videos of parliamentary hearings involving the Chairman of the High Council.

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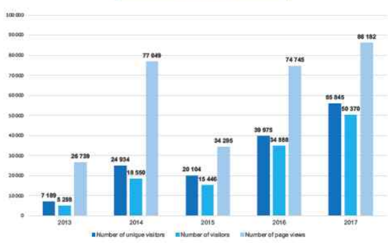
Overall statistics since the HCFP website was created (Sep 2013–Dec 2017)

Website traffic



Source: HCFP

ACTIVITY REPORT 2015–2018 | 15

OPINIONS BROADLY ECHOED IN PUBLIC DEBATE

The High Council's opinions are picked up by international organisations and the media.

■ International organisations

The European Commission refers to the HCFP's opinions in the various multilateral monitoring exercises it undertakes on Member States' budgetary positions. The Commission first referred to the High Council's opinions in May 2013, in its analysis of the Government's macroeconomic scenario associated with the stability programme[6]. Since then, the High Council's opinions have consistently been mentioned in Commission working papers, and even in recommendations issued by the Council of the European Union. They have also regularly been referred to in reports produced by the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF)[7].

Recognition of HCFP opinions by international organisations

European Commission, Country Report France 2019, including an In-Depth Review on the prevention and correction of macroeconomic inbalances

"*Established by the 2012 'Organic Law', the High Council for Public Finances plays a central role in the oversight of the fiscal strategy as it monitors the respect of the numerical fiscal targets and assesses compliance of the budgetary objectives set in the annual budgets with the objectives of the programming laws*".

OECD[8], conclusion of a paper on budgeting in France (2018):

"*France's fiscal council has only been operating since 2013. Although its creation already had visible impacts on the reliability of macro-economic forecasts, it can be said that both the Ministry of Finance and fiscal council are still on a learning curve.*"

June 2018 – Meeting of the High Council of Public Finances

[6] "*The newly established High Council of Public Finances has had a positive impact on budget forecasts.*" [...] "*Opinions issued by the High Council to date have clarified the feasibility of government forecasts and probably played a part in the decision to base the draft 2014 finance act on realistic macroeconomic assumptions, which had not always been the case in previous years.*"

[7] Conclusions of the IMF's 2013 consultation mission: "*The first two opinions issued by the newly created fiscal council [...] attest to its independence and professionalism.*"

[8] Moretti, D. and Kraan, D. (2018), "Budgeting in France", *OECD Journal on Budgeting*, Volume 18 Issue 2.

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■ The media

Opinions published by the High Council of Public Finances are regularly covered in the national and regional press, on the radio, on television and online. Coverage has increased as the High Council has gradually become more firmly established in the media landscape. Coverage differs depending on the type of opinion. Opinions on budget bills (September) generate the most media play (averaging almost 150 mentions over the period 2013–2017). Opinions on stability programmes (April) come in second (averaging 76 mentions), while those on finance review acts (May) generate more limited interest (averaging six mentions).

Some opinions have garnered particularly extensive coverage. In particular, the September 2016 opinion on the draft 2017 budget bills generated over 350 media mentions, 50% more than the whole of the previous year and 2.5 times more than the average number of mentions for opinions on draft budget bills. Similarly, the opinion on the first supplementary budget bill in October 2017 generated almost 250 media mentions, nearly four times the average number of mentions for that type of opinion.


Les Echos

FRANCE

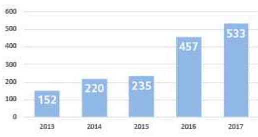
Croissance : le gouvernement ne veut pas céder au pessimisme

● Le Haut Conseil des finances publiques révise légèrement à la baisse la prévision de croissance pour 2018, à +1,6 %.

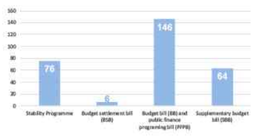
● Mais l'exécutif estime que cela n'affecte pas sa trajectoire budgétaire.

CONJONCTURE

Annual media mentions
(number of appearances in the media)



Average media mentions by type of opinion
(average number of appearances in the media over the period 2013–2017)



Source: HCFP, based on data from Argus de la Presse

PREPARATION OF OPINIONS AND COMPLEMENTARITY WITH THE WORK OF THE COURT OF AUDITORS

The High Council has to issue its opinions within very short timescales. This constraint has led it to adopt a mode of operation that enables it to be highly responsive.

April 2018 – Meeting of the High Council of Public Finances

A RIGOROUS PREPARATION PROCESS

The High Council is subject to tight scheduling constraints laid down in the Constitutional bylaw. The Act stipulates that budget bill, social security financing bill and the public finance programming bill must be referred to the HCFP no later than one week before its opinion is passed on to the Conseil d'État (Council of State) – i.e. a few days before they are presented to Council of Ministers. In practice, the Government also applies this "*seven-day rule*" for most other texts submitted to the HCFP.

This means that on average, the High Council has seven days to issue an opinion. This timescale is particularly short compared with the time allowed for most HCFP's European counterparts to undertake similar work. This means members need to be highly available and responsive in preparing opinions.

Relations between governments and independent fiscal institutions are characterised by information asymmetries. While the wealth of published data means information about macroeconomic forecasts is readily available, the same cannot be said of public finances. In France, government departments usually provide necessary information about financial legislation, as well as answers to the High Council's questions, within a time frame commensurate with the time allowed for the HCFP to draw up its opinions. However, the very tight schedule limits its ability to investigate certain topics.

The High Council does not wait until legislation is referred to it by Government; rather, it begins its work well ahead of time using all the information at its disposal and holding hearings with outside individuals. It refers to these hearings in its opinions.

Staff at the Ministry for Economic and Financial Affairs tasked with drawing up macroeconomic and public finance forecasts, and more specifically the Directorate-General of the Treasury and the Budget Department, are always called upon, and the Social Security Department is regularly called upon.

The HCFP also conducts hearings with qualified individuals from national, European or international public or private in-

Organisations heard by the HCFP, 2015–2018

Source: HCFP

stitutions. In particular, the High Council has held multiple hearings with representatives of the European Commission, the OECD, the European Central Bank, Insee, the Banque de France, France Stratégie, the OFCE and Coe-Rexecode, as well as representatives of private financial institutions. These qualified individuals detail their forecasts and, where applicable, state the associated risks, notably with regard to the forecasting instruments they use. The High Council draws on these hearings when preparing its analysis.

The High Council may also draw on the public finance expertise of the Court of Auditors.

The High Council also organises regular discussions with serving ministers and the European Commission. Over the period covered by this activity report, ministers have appeared in front of the High Council on three occasions: Michel Sapin, Minister for the Economy and Finance, and Christian Eckert, Minister of State with responsibility for the budget, on 20 July 2015 and 5 April 2017; and Bruno Le Maire, Minister for the Economy and Finance, on 18 July 2018. Pierre Moscovici, the European Commissioner for Economic and Financial Affairs, Taxation and Customs appeared three times over the same period.

COMPLEMENTARITY WITH THE WORK OF THE COURT OF AUDITORS

One of the High Council's key characteristics is the degree of complementarity between its work and that of the Court of Auditors. Some of the duties assigned to independent fiscal institutions are performed by the Court of Auditors. This role performed by the Court, originally more at its initiative than as part of its formal responsibilities, became crucial in the 2000s in respect of duties assigned to it by the 2001 Constitutional bylaw on Finance bills. The Court gradually established itself as an authority on macro-fiscal analysis and, even before the High Council was set up, the European Commission recognised it as performing a number of the roles of an independent fiscal institution.

The 2001 Constitutional bylaw requires the Court of Auditors to submit three reports to Parliament, published each spring: one on the central government

budget outturn, one on certification of the central government accounts and one on the position and outlook of the public finances.

Pursuant to legislative provisions, the Court is also tasked with presenting a report on social security and another on local public finances.

Until 2012, there were two major gaps in the Court's monitoring of public finances: it was not able to issue *ex ante* public opinions on draft financial legislation (to do so was beyond its remit), and it lacked the necessary legitimacy to assess the macroeconomic forecasts on which such legislation is based. The High Council was created to address both these shortcomings. It is tasked with formulating *ex ante* public opinions, and the fact that its members include recognised economists means it has the expertise to be able to assess the extent to which economic forecasts are realistic.

While the High Council alone analyses the macroeconomic outlook, the Court and the High Council take turns to express their opinion on the public finances in any given year.

In preparing opinions and reports, the High Council and the Court of Auditors both follow procedures that are collegial and include hearings.

However, the High Council's procedures differ from those of the Court of Auditors on a number of points. The Court of Auditors has the time needed to undertake in-depth analysis. Furthermore, it has to comply with the "fair hearing" procedure under which Government or the body in question has an opportunity to put forward its observations on the Court's findings and recommendations. By contrast, the High Council is required to issue opinions on specific pieces of legislation (draft finance acts, programming bills, stability programme, etc.), working to short timescales within a predetermined calendar. These constraints mean it has to focus only on the aspects that are essential in terms of the financial impact of financial legislation, whereas the Court of Auditors can, in its reports, review and detail the content of such legislation beyond its short-to-medium-term impact on the public finances.

Breakdown of roles between High Council opinions and Court of Auditors reports

	Macroeconomy	Public finances
Stability programme	HCFP	Court (public finances position and outlook)
Public finance programming bill	HCFP	HCFP *ex ante*/Court as regards outturn
Initial/supplementary budget bill for year Y	HCFP	HCFP *ex ante*/Court in May-June of year N
Budget Settlement Bill for year N		HCFP: structural balance/Court: quality of management

REVIEW OF HCFP OPINIONS (2015–2018)

Under the mandate entrusted to it by the Constitutional bylaw of 17 December 2012, the High Council of Public Finances issues opinions on macroeconomic forecasts, potential growth estimates and the trajectory of the public finances.

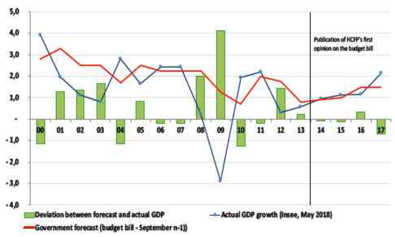
MACROECONOMIC FORECASTS

The High Council's mandate as regards economic forecasts is to review the extent to which forecasts underlying financial legislation, multi-year programming and the stability programme are realistic. These short- and medium-term forecasts are prepared by Government.

To fulfil this duty, the High Council examines whether, in the economic environment as it is known and understood, Government forecasts can be considered central, optimistic or prudent given the available information and forecasts produced by other institutions conducting similar exercises.

Government growth forecasts have significantly overestimated growth over certain periods
The chart below compares Government growth forecasts drawn up in September for the following year with actual results observed after the event.

GDP growth forecasts in budget bills and actual performance

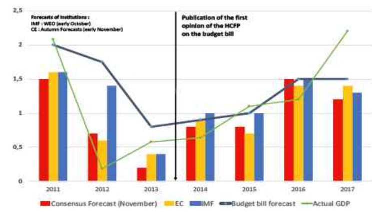


Sources: budget bills, Insee

It is apparent that Government forecasts for the following year significantly overestimated growth for the years 2001–2003, 2008–2009 and 2012. Other years, the deviation was small.

Government growth forecasts for the following year are usually slightly higher than the average of consensus forecasts at the same date. This deviation lessens towards the end of the period. Government forecasts for 2015 and 2017 proved better (closer to actual performance) than consensus forecasts at the same date.

Growth forecasts in draft finance acts, *consensus forecasts* and international institutions



Sources: © Consensus Forecast, European Commission, International Monetary Fund and Insee

Opinions issued by the High Council should be considered in the light of other forecasts produced at similar dates (forecasts published by international organisations and consensus forecasts) and actual results observed later and included in the annual accounts produced by Insee.

■ Growth forecasts

For **2015**, the High Council said in its April 2014 opinion that *"the assumption of 1.7% growth in 2015 is not out of reach, but the Government's macroeconomic scenario relies on a number of favourable assumptions all coming to pass at the same time"*.

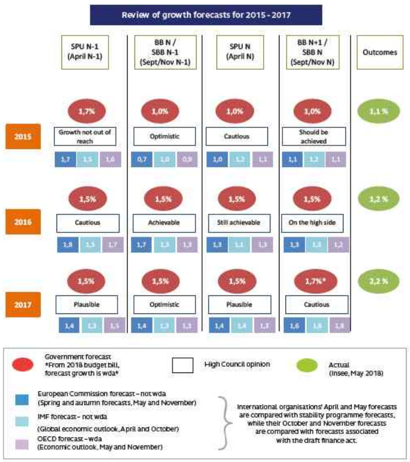
The **2015** growth forecast was revised downwards in the draft finance act put forward in September 2014. In its opinion on the 2015 draft finance act, however, the High Council said it considered the 1.0% growth forecast *"optimistic"*. It noted that this forecast assumed *"a rapid and sustainable upturn in activity not reflected in the latest economic indicators"*. Furthermore, according to the High Council, the Government's scenario had a number of weaknesses relating to the buoyancy of the international environment and domestic demand. According to the latest data reported by Insee, GDP growth for 2015 was 1.1%.

For 2016, the Government's forecast entailed a GDP growth of 1.5% from April 2015 (stability programme) through to the draft finance act for 2017 (September 2016). The High Council described this forecast as *"prudent"* in spring 2015 and *"achievable"* in autumn 2015 (see diagram on following page). At both these dates, the Government forecast still fell within the range of forecasts produced by international organisations. In spring 2016, the High Council felt this forecast was *"still achievable"*, and in autumn 2016, it considered it *"on the high side"*. By that date, international organisations had revised down their forecasts for 2016. According to the latest data reported by Insee (May 2018), GDP growth for 2016 was 1.2%.

For 2017, the forecast GDP growth of 1.5% had been deemed *"plausible"* by the High Council in April 2016. This unchanged forecast had subsequently been considered *"optimistic"* in September 2016 in the aftermath of the Brexit referendum. The same 1.5% forecast for 2017 was deemed *"plausible"* in April 2017 and then *"prudent"* in September 2017 in light of the improvement in the economic climate observed from end 2016 onwards. In May 2018, the provisional 2017 accounts published by Insee showed growth of 2.2%.

Beyond growth forecasts, the High Council has emphasised certain weaknesses in macroeconomic scenarios. In particular, it has highlighted assumptions as regards the international environment and global trade, as well as key variables used in forecasting government revenue (employment and the wage bill, consumer spending and price rises).

Review of growth forecasts for 2015 - 2017



*wda: working day adjusted

Global trade and global demand for French goods and services

Global trade consists of all trading flows between the countries of the world, whereas global demand for French goods and services consists of imports by France's trading partners weighted by the proportion of total French exports they represent. Global demand is a key driver of exports and the mechanism by which global activity is transmitted to the French economy.

In its opinions, the High Council has noted on a number of occasions that assumptions regarding global trade and global demand for French goods and services were overly favourable. In reality, **growth in global demand in 2015 and 2016 was weaker than forecast in the draft finance act for the corresponding year.**

In its September 2014 opinion on the 2015 draft finance act, the High Council said it felt that *"the international environment, which is subject to a number of mostly downside risks, could prove less buoyant than the Government had been expecting"*. Global demand was forecast to grow by 5.1% in 2015. Actual growth was significantly lower (3.1%).

In its September 2015 opinion on the 2016 draft finance act, the High Council considered *"the 2016 global trade forecast high"*. Furthermore, the High Council noted in this opinion that *"for several years, Government forecasts for the following year have tended to overestimate growth in global trade, and thus global demand for French goods and services"*. This analysis focused on forecasts produced by Government in 2014 and 2015. Global demand was forecast to grow by 5.2% in 2016. It actually grew by 3.1%.

In its April 2016 opinion on the stability programme, the High Council noted that the Government had *"revised down its global trade volume growth assumption for 2016 significantly relative to the draft finance act (from 5.2% to 3.2%), and it is now close to those adopted by international organisations"*.

Conversely, the Government – and the High Council – underestimated global demand momentum for 2017. In its September 2016 opinion on the 2017 draft finance act, the High Council observed that Government's assumption on global trade (just over 3% in 2017), which included a moderate quickening in the US economy after a *"turbulent patch"* and the beginnings of an improvement in emerging economies, was *"plausible"*. This assumption was accompanied by an assumption that global trade would grow at just over 3% in 2017. Global demand rallied strongly in 2017, with growth rising from 3.1% in 2016 to 5.3% (Treasury estimate, September 2018).

In its September 2017 opinion on the 2018 draft finance act, the High Council noted that Government's assumptions for global trade were in line with forecasts produced by international organisations.

Employment and the wage bill

The High Council assesses assumptions as regards employment and the wage bill in light of growth assumptions and, more broadly, the macroeconomic scenario as a whole, as well as the effects of employment policy.

Overall, forecasts for the wage bill and employment for the past few years have been consistent with the rest of the macroeconomic scenario taken as a whole. The High Council's observations on the growth scenario have therefore also been largely applicable to the employment and wage bill scenarios.

As such, **in its 2015 opinion on the 2016 draft finance act**, the High Council said it felt the employment forecast was *"consistent with growth assumptions"*. It highlighted, however, that growth in the wage bill could be lower than forecast. In practice, employment proved more buoyant than projected in the 2016 draft finance act, whereas the wage bill grew slightly less than forecast due to wage growth coming in below forecast.

In its September 2016 opinion on the 2017 draft finance act, the High Council said it felt, in relation to its assessment of the growth scenario, that the employment and wage bill forecasts were *"on the high side"*. As was the case with growth, observed employment and the observed wage bill were both higher than projected in the 2017 draft finance act.

Inflation

The direction of consumer prices depends, in particular, on the price of petroleum products, and thus on oil prices. Since trends in commodity prices are difficult to forecast, the Ministry of Economy and Finance usually puts forward a scenario in which oil prices are forecast to stay the same. This assumption of static oil prices has never been challenged by the High Council. In assessing price trends, the High Council therefore focuses its attention on consistency between the core consumer price index (excluding the most volatile prices, and therefore petroleum products) and the macroeconomic scenario as a whole.

In practice, over the past three years, the core inflation forecast has systematically been too high in draft finance acts (0.9% in the 2015 act, compared with 0.5% observed in 2015; 1.2% in the 2016 act, compared with 0.6% observed in 2016; and 0.7% in the 2017 act, compared with 0.5% observed in 2017). In its opinion on the 2016 draft finance act, the High Council stated that inflation in 2016 could be lower than the 1.0% assumption adopted by Government. The High Council deemed other forecasts over the period *"plausible"* (Opinion 2014-3 on the 2015 draft finance act) or *"reasonable"* (Opinion 2016-3 on the 2017 act). In its September 2017 opinion, the High Council arrived at similar conclusions as regards the inflation forecasts adopted for 2017 (1%) and 2018 (1.1%).

Deviations between forecast and actual headline inflation have thus mainly reflected the effects of changes in the price of oil. With oil prices (in euro) falling sharply in 2015 and 2016, observed inflation (0% in 2015 and 0.2% in 2016) was significantly lower than originally forecast (0.9% in the 2015 draft finance act and 1.0% in the 2016 act). With the direct effects of the fall in petroleum product prices fading in 2017, observed inflation (1%) was closer to the forecast level (0.8%).

■ Medium-term scenarios

Overall, medium-term growth forecasts adopted in stability programmes over the period under review have been higher than potential growth. Given the shortfall in growth (reflected in a negative output gap at the start of the forecast period), the High Council has usually approved this expected increase in the pace of growth. However, certain Government forecasts have sometimes gone beyond what the growth lag suggested, in which case the High Council has pointed out that they are *"optimistic"*.

For example, in its **April 2016 stability programme**, the Government assumed that GDP growth would quicken (from 1.5% in 2017 to 1.9% in 2019). The High Council found the growth scenario *"plausible"* for the short term but described the assumed acceleration over the latter part of the period as *"tenuous"*.

In its **April 2017 stability programme**, the Government revised down its medium-term forecasts. The High Council found that *"this more cautious scenario [could] constitute a reasonable basis on which to construct public finance trajectories"*. In **the April 2018 stability programme**, the High Council deemed the Government's growth scenario realistic for 2018 and achievable for 2019 but optimistic for the period 2020–2022.

Medium-term growth forecasts

Opinion	Government forecasts	High Council opinion
2015–2018 SPU *(April 2015)*	2016–2017: 1.5% 2018: 1.75%	"Cautious forecasts"
2016–2019 SPU *(April 2016)*	2017: 1.5% 2018: 1.75% 2019: 1.9%	"The GDP growth scenario is plausible, though the assumed quickening in activity over the latter part of the period is tenuous."
2017–2020 SPU *(April 2017)*	2018: 1.5% 2019: 1.6% 2020: 1.7%	"The High Council notes the downward revision in GDP growth assumptions", "more cautious scenario"
2018–2022 PFBB *(September 2017)*	2018–2021: 1.7% 2022: 1.8%	[By 2020], "the assumption of growth in excess of potential growth is consistent with the observation of an initially negative output gap."
2018–2022 SPU *(April 2018)*	2018: 2.0% 2019: 1.9% 2020–2022: 1.7%	"The scenario of actual growth remaining continuously above potential growth until 2022 is optimistic."

ESTIMATES OF THE POTENTIAL GDP TRAJECTORY

Estimates of the output gap (the gap between actual and potential GDP) and of potential growth are traditionally uncertain and receive little attention in public debate. However, since they are used in estimating the structural balance (see box on following page), they play a vital role in medium-term economic forecasting and the evaluation of fiscal policy.

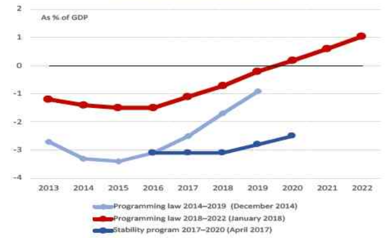
As part of its mandate, the High Council is required to issue an opinion on *"the estimate of potential GDP on which the public finance programming bill is based"*. **Only two programming bills have been passed since the High Council was created, giving rise to two opinions (in 2014 and 2017).** In September 2014, the Government opted to align its estimates of potential GDP with the European Commission's. At the time, the High Council found that the forecasts used in the public finance programming bill constituted *"an acceptable assumption"*.

A few months after this bill was put forward, the Government revised up its potential growth forecasts in its April 2015 stability programme[9]. This resulted in a forecast output gap that remained very wide. **In its April 2015 opinion**, the High Council questioned *"the relevance of an output gap (the gap between actual and potential output) that remains very wide for almost a decade, and which would scarcely narrow between now and 2018"*. Subsequently, the High Council has several times emphasised the implausibility of output gap and potential growth estimates put forward by the Government from April 2015 onwards.

In its April 2017 opinion on the stability programme, *"the High Council [felt] that the Government's scenario, which would give rise to a negative output gap over a very long period (more than 12 years), narrowing only marginally by the end of the forecast period, [lacked] consistency."* It [emphasised] that *"such significant and lasting underutilisation of factors of production was not [in keeping] with the acceleration in investment and inflation adopted in the Government's scenario"*.

It *"once again [emphasised] the implausibility of output gap and potential growth estimates put forward by the Government. Assuming a very large output gap leads to an artificial reduction in the structural deficit, thus playing down the effort required to rebalance the public finances"*.

Output gap (as % of GDP)



Sources: PFPB (2014–2019), 2017–2020 stability programme, PFPB (2018–2022)

[9] The Commission's and the Government's estimates of output gap rapidly diverged after September 2014, with the Commission revising down its estimates several times (it revises them twice a year as part of its forecasting exercises), while the Government increased its potential growth estimates in April 2015.

In the public finance programming bill put forward in September 2017, the Government revised its output gap estimate relative to both the previous public finance programming bill and the April 2017 stability programme. The output gap is now estimated at -1.5% of GDP for 2016, instead of -3.1% (see chart on previous page). The High Council considered this new estimate more realistic. This sharp revision in the output gap leads to a significant increase in the estimated structural deficit (to -2.5 percentage points of GDP for 2016, vs. -1.5 previously).

Output gap and potential growth

The output gap and potential growth play a vital role in the evaluation of fiscal policy, particularly within the new European governance framework.

Concepts

Potential GDP, potential growth, the output gap (the difference between actual and potential GDP) and the structural budget balance have become key economic concepts in the context of fiscal governance, particularly at the European level.

Potential GDP is traditionally defined as *"sustainable"* production – i.e. production that can be achieved without putting a strain on production capacity and, in particular, without giving rise to inflationary or disinflationary effects. It is mainly a supply-side concept. The level of potential GDP depends on the existing stock of capital, the available labour force and the efficiency with which these two factors are utilised.

The output gap is the difference between actual output, as measured by GDP, and potential GDP. It indicates the country's ability to bounce back when negative and the prospect of a slowdown when positive. It can be used to assess the cyclical component of the public deficit and, by calculation, to measure the structural balance.

Weaknesses in principle and measurement

The output gap and potential growth are not pieces of statistical or accounting data; rather, they are the result of estimates which, by nature, are surrounded by uncertainty. Government and most international organisations use an approach based on a production function that calculates potential growth on the basis of changes in the labour and capital factors and total factor productivity (TFP).

Estimating potential growth presupposes making choices about how to measure these production factors and how to estimate and extrapolate trends in them. These estimates turn out to be highly sensitive to the statistical methods and data used. In reality, output gaps can be subject to significant *ex post* revision.

Output gap uncertainties by nature affect measurement of the structural balance, which also depends on how sensitive revenue is to growth. The exceptional scale of the 2008–2009 financial crisis and difficulties assessing its economic implications mean particular caution is required when considering the output gap.

Use in managing the public finances

Although the structural balance is uncertain and hard to estimate accurately, it is nonetheless essential for assessing the public finances and the trajectory of fiscal policy. Measuring it helps neutralise the cyclical component of the balance and assess the structural improvement in the public finances. It provides a rough indication of the effort required to sustainably improve the public accounts.

In a number of its recent opinions, the High Council has noted the instability of structural balance estimates over time as well as their sensitivity to GDP revisions, indicating that it would prefer the analysis to take into account other more significant indicators: either the change in the structural balance (structural adjustment) or, better still, structural effort (the sum of new measures on the revenue side and efforts to curtail spending). Since structural effort is calculated using potential growth but not the size of the output gap, it is less subject to revision than the structural balance.

TRAJECTORY OF THE PUBLIC FINANCES

■ Public finance targets regularly postponed

As the High Council has noted in a number of its opinions, **multi-year programming of the public finances has, in the past, often been characterised by an optimistic bias.**

Successive stability programme trajectories have all forecast an improvement in the general government balance, usually with the aim of reaching equilibrium at the end of the programming period.

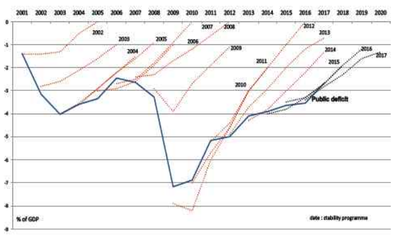
This highlights the need for an independent view of public finance programming and associated forecasts and measurements. For France, as for other countries, the continuous postponement of fiscal consolidation efforts has meant that European commitments are hardly ever kept. Since 2001, there have only been four years when France's public deficit was below 3% of GDP. Consequently, debt has risen sharply (from 58.1% of GDP in 2001 to 96.8% in 2017), climbing well above the 60% limit laid down in European treaties.

■ HCFP analysis of public finance forecasts

In conducting its *ex ante* analysis of forecasts, **the High Council examines changes in key variables in the general government accounts in light of macroeconomic forecasts and taking into account Government announcements** on measures relating to taxation and public spending.

Reviewing the government accounts entails checking that public finance forecasts are consistent with macroeconomic assumptions: for example, checking that revenue and spending are consistent with forecast inflation, that social security contributions are consistent with the wage bill and that interest costs

General government balance trajectories in stability programmes



Note: the dotted public deficit trajectories are those included in successive stability programmes. The undotted curve shows the actual public deficit.

Source: France's stability programmes

are consistent with interest rate assumptions. At a more granular level, the High Council also analyses the trajectory of public spending by branch of government (central government, local government and social security) and type of expenditure (wage bill, investment, health insurance, etc.), reviewing whether planned savings are sufficiently supported by appropriate measures[10]. Lastly, it compares the expected change in the various categories of revenue with changes in their drivers (the "*tax bases*" such as activity, wage bills, consumer spending, etc.)[11].

To carry out this review, the High Council draws on Government answers to its detailed questionnaires and on available forecasts, analysis and infra-annual implementation data such as, for example, the monthly central government budget position, ACOSS (Central Agency for Social Security Funds) recoveries and forecasts for social security contributions, opinions issued by the alert committee on health insurance spending, Unédic forecasts, and analysis by the Court of Auditors and the Social Security Accounts Committee.

Access to information is particularly crucial for analysing the public finances.

Information is rarely made public, and few organisations produce detailed analysis and forecasts in this area. The High Council is thus dependent on information provided by Government. While this information has gradually become more comprehensive and detailed since the High Council was created, it is often provided late and is sometimes incomplete. This is particularly the case when last-minute decisions are made concerning new measures. This makes it difficult to provide a counter-expertise on the quantification of tax measures or to assess the credibility of savings measures announced.

Due to the tight timescales within which the High Council must prepare its opinions and the quantity of information to be reviewed, the Council's analysis of the public finance scenario focuses on the most significant items of revenue and spending.

Over the past three years, the High Council has reviewed public finance forecasts for 2016, 2017 and 2018 and the medium-term trajectory out to 2022.

For the three years for which the outturn is now known (2015, 2016 and 2017), the High Council's analysis has led to the following conclusions:

Government structural balance forecasts and High Council opinion (2015–2017)

Legislation	Date	2015	2016	2017	High Council opinion
BB for 2015	Sep 2014	-2.2			*"There is a risk that the 2015 target spending growth of 1.1% by value may not be met. In that case, the same would apply to the target improvement in the structural balance."*
BB for 2016	Sep 2015	-1.7	-1.2		*"Significant risks to attainment of the expenditure target, and thus to the structural balance"*
2015 BSB	May 2016	-1.9			
BB for 2017	Sep 2016	-1.9	-1.6	-1.1	*"The HCFP considers the deficit reduction forecast in the finance act for 2017 (from -1.6 to -1.1 percentage points for the structural balance) unlikely [under the Government's assumption of 1.5% GDP growth]."*
SBB for 2016	Nov 2016	-1.9	-1.5		*"Realistic forecast"*
2016 BSB	June 2017	-2.0	-1.7		
SBB for 2018	Sep 2017		-2.5/-1.5*	-2.2	*"Revenue could be higher than expected, but there are significant risks to the attainment of expenditure savings."*
SBB for 2017	Nov 2016		-2.5/-1.5*	-2.2	*"A plausible deficit forecast"*
2017 BSB	May 2018		-2.5/-1.5*	-2.2	

PFPB: public finance programming bill; BB: budget bill; SSFB: social security financing bill; SBB: supplementary budget bill; SPU: stability programme update; BSB: budget settlement bill.

** Figures shown from the draft finance act for 2018 are not comparable with previous years' figures. The significant revision in the output gap assumption (from -3.1 to -1.5 percentage points of GDP) in September 2017 caused the structural balance estimate to worsen by one percentage point, rising to -2.5 percentage points of GDP in 2016 (compared with -1.5 points in earlier estimates). The second figure shown is an estimate of the structural balance under the old potential GDP scenario.*

[10] In its opinion on the draft finance act for 2015, for example, the High Council stressed that the public sector wage bill growth target implied a significant break with the trend for local government and hospitals.

[11] For example, the High Council has observed on a number of occasions that, assuming no change in legislation, growth in income from certain taxes appeared to have been overestimated.

Estimating the structural balance

To assess the trajectory of the public finances, it is customary to consider the structural balance, which corresponds to the general government balance adjusted to exclude the direct effects of the economic cycle as well as exceptional events. The general government balance is thus split into two components:

- a cyclical component representing the impact of the economic cycle on general government expenditure and revenue
- a structural component corresponding to what the general government balance would be if national production were at its full potential.

Fundamentally, the cyclical and structural components of the public deficit are identified based on the potential GDP estimate. Specifically, they are identified by first calculating the cyclical portion of Government revenue and expenditure:

- On the revenue side, only compulsory levies are assumed to be cyclical. Cyclical levels of income tax, corporate income tax, social security contributions and other compulsory levies are calculated separately based on observed levels, the estimated output gap and the specific elasticity of each category of tax[12].
- On the expenditure side, only unemployment allowances are assumed to be cyclical[13]. As with revenue, the cyclical component is estimated based on their elasticity to the output gap.

The cyclical component of the balance and structural balance, which is determined by subtracting the actual balance, can be calculated directly from these estimates.

A simplified method can be used to approximate the cyclical balance. Given that compulsory levies and cycle-dependent expenditure account for around half of GDP and their average elasticity is close to one, France's cyclical balance corresponds to just over half the output gap.

A final correction is applied to the structural balance to exclude certain events or measures which, due to their exceptional nature, have no lasting impact on the general government balance. However, there is no exhaustive definition of one-off and temporary measures, and their identification is partly a matter of interpretation.

In its opinion on the draft finance review act for 2012, the High Council lamented the fact that the scope of one-off and temporary measures had not been clearly and precisely established. In response, the Government has published its policy as an appendix to programming bills since 2014.

[12] The elasticity values used are OECD estimates, revised in summer 2014. They are used by the European Commission.

[13] Other expenditure is either discretionary or cannot be clearly and reliably linked to the cycle.

- For 2015, the High Council considered that attainment of the target improvement in the structural balance at the time of the draft finance act for 2015 was at risk. In the end, targets for the structural balance and the improvement in it were met[14].
- For 2016, the High Council judged, in autumn 2015 in respect of the draft finance act for 2016, that there were significant risks to attainment of the spending target, and thus of the structural balance target (-1.2 percentage points of GDP, according to estimates at the time). Indeed, actual performance was slightly poorer than that forecast in the draft finance act (-1.5 percentage points of GDP, assuming comparable potential GDP), notably due to lower than forecast structural effort.
- For 2017, the 0.5 percentage point reduction in the structural deficit forecast in the draft finance act (from 1.6 to 1.1 percentage points of GDP) was deemed "*unlikely*" by the High Council in September 2016. May 2018 estimates put the outturn at a 0.3 point reduction. More specifically, the High Council's reservations on spending proved justified. Public spending increased 2.2% by value in 2017 (excluding reimbursement of the 3% tax on dividends) rather than the 1.6% forecast in the draft finance act. This overspend was offset by significantly higher than forecast revenue.

Structural balance trajectory in programming bills

	2014	2015	2016	2017	2018	2019	2020	2021	2022
2014–2019 PFPB (Dec 2014)									
Structural balance[15]	-2.4	-2.1	-1.8	-1.3	-0.8	-0.2			
Change in structural balance	0.1	0.4	0.3	0.5	0.5	0.5			
2018–2022 PFPB (Jan 2018)									
Structural balance (a)				-2.2	-2.1	-1.9	-1.6	-1.2	-0.8
Change in structural balance				0.3	0.1	0.3	0.3	0.4	0.4
Structural effort				0	0.2	0.3	0.4	0.5	0.5
Actuals (finance review act)									
Structural balance (b)	-2.3	-2.0	(-1.7) -2.5	-2.2					
Change in structural balance	0.3	0.2	0.3	0.3					
Structural effort		0.7	0.1	-0.1					

(a) The structural balance series set out in the 2018–2022 public finance programming bill is not comparable to that set out in the previous bill due to the output gap assumptions being significantly revised in September 2017. This change in assumptions resulted in approximately a one percentage point deterioration in the structural balance.

(b) For 2016, the first figure (-1.7 percentage points of GDP) is calculated based on a series of potential GDP consistent with the 2014–2019 public finance programming bill; the second (-2.5 percentage points) is calculated based on new output gap estimates put forward by the Government in September 2017 (2018–2022 public finance programming bill). The estimated output gap for 2016 fell from -3.1 to -1.5 percentage points between the two programming bills.

[14] The 2015 budget bill forward in May 2016 noted that the structural adjustment and effort targets had not been met. Subsequently, however, a significant revision of GDP prices in 2015 (between the May 2016 provisional accounts and the May 2017 semi-final accounts) resulted in amended structural adjustment and effort estimates that appeared in May 2017 and were, in the end, in line with targets.

[15] In September 2014, the High Council gave its opinion on the 2014–2019 public finance programming bill including very small structural adjustments for 2014 (0.1 percentage point), 2015 (0.2 point) and 2016 (0.3 point). Savings measures agreed during the autumn 2014 budget debate resulted in the forecast 2015 adjustment being increased in the bill passed in December (up from 0.2 to 0.4 percentage point of GDP).

■ **Multi-year structural balance trajectory and programme deviations**

The medium-term target and the structural balance trajectory required to achieve it are laid down in public finance programming bills.

1 – December 2014 and January 2018 programming bills: unambitious structural balance trajectories not in keeping with France's European commitments

The last two programming bills have had the following characteristics in common:

- Both included little in the way of structural adjustments at the start of the programme period.
- In both cases, the structural adjustment was concentrated over the last few years of the programme period.

In its September 2014 opinion on the 2014–2019 public finance programming bill, the High Council noted that "*the public finance trajectory laid down in the programming bill is not consistent with the commitments entered into by France, currently under an excessive public deficit procedure, in its April 2014 stability programme [...], with the structural adjustment for each of the years 2014, 2015 and 2016 falling well short of these commitments.*" Accordingly, and following European Commission recommendations, the Government put forward an amendment to the public finance programming bill containing an improved structural balance trajectory, notably including a larger structural adjustment in 2015.

In its September 2017 opinion on the 2018–2022 public finance programming bill, the High Council emphasised that "*the proposed trajectory deviates from France's European commitments by assuming an annual structural adjustment below that laid down in Article 5 of European Regulation 1466/97. This has the effect of delaying attainment of the medium-term objective (MTO) in respect of the structural balance until after the end of the programme period.*"

2 – Structural balance targets laid down in programming bills were met for the four years from 2014 to 2017 but with low structural adjustments

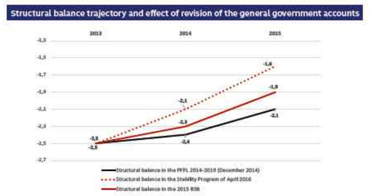
The correction mechanism was therefore not triggered during this period.

3 – Structural balance estimates have been affected by GDP revisions in previous years and by changes in revenue elasticities

3.1 – Impact of GDP revisions

In May 2016, the HCFP noted in its opinion on the draft finance review act for 2015 that, due to the revision of the general government accounts for 2014 and 2015, "*observed 2015 GDP is 0.6 percentage points higher than that stated in the public finance programming bill, resulting in a smaller output gap (-2.8% in 2015 instead of -3.4%) and representing a 0.4 percentage point reduction in the cyclical deficit*". The structural deficit was thus automatically 0.3 percentage points worse (falling to -1.9 percentage points of GDP instead of -1.6). The entire structural balance curve therefore shifted downwards from 2014 onwards following this revision of the general government accounts, for reasons independent of public finance policy[16].

Structural balance trajectory and effect of revision of the general government accounts



Sources: 2015 Budget settement law (May 2016), stability programme (April 2016) and public finance programming law (December 2014)

[16] Revisions to the general government accounts had already had an impact on structural balance estimates for 2012 and 2013.

In its opinion on the draft finance review act for 2015, the HCFP reached the following conclusion on this point: *"The 2015 outcome once again highlights the fact that structural balance data are subject to significant revisions, linked in particular to revisions of GDP estimates for previous years. This variability in the level of the structural balance, and its sensitivity to revisions of economic variables, bolster the argument that the analysis should also take into account other indicators that better represent the direction of fiscal policy, such as structural effort".*

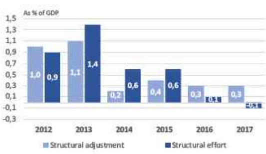
3.2– Fluctuations in revenue elasticity to GDP

Deviations in the level of the structural balance may reflect an increase in revenue excluding the impact of legislative changes (also known as *"spontaneous"* revenue growth) either higher or lower than GDP growth: revenue elasticity to growth is then said to be greater or less than one[17]. The provisional medium-term balance trajectory generally assumes an elasticity value of one. If observed elasticity values are less than (or greater than) one, deviations from this trajectory will appear even if discretionary effort is on target. **Most of the gap to the 2013 trajectory observed in 2014 – which triggered the correction mechanism – was thus due to the very low elasticity of compulsory levies. Conversely, the improvement in the structural balance observed *ex post* for 2017 is purely a reflection of the impact of revenue elasticity being greater than one.**

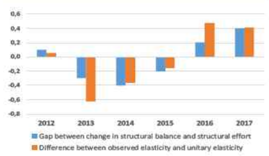
Activation of the correction mechanism in such circumstances can give rise to undesirable procyclical effects: had the rules been applied, the gap observed for 2013, which was a result of low elasticity linked to weaker economic conditions, would have prompted restrictive measures that would have worsened the situation. This would have been all the more unjustified given that the elasticity of compulsory levies over a number of years averages out at one, and *"lost revenue"* during cyclical downturns is subsequently *"clawed back"* a few years later, as was the case in France in 2016–2017.

Conversely, taking into account the level of the structural balance alone can make targets too easy to achieve and relatively meaningless when elasticity is favourable. This was notably the case in 2017, when the structural balance improved 0.3 percentage points without any discretionary effort. The target trajectory (laid down in the 2014 public

Change in structural balance and structural effort between 2012 and 2017



Gap between structural adjustment and effort and elasticity of compulsory levies



Sources: 2018–2022 stability programme and 2018–2022 public finance programming bill

[17] Revenue elasticity to growth is the ratio of the rate of spontaneous revenue growth to the rate of GDP growth by value.

finance programming bill) can thus be adhered to without difficulty.

All in all, implementation of the Constitutional bylaw on the correction mechanism is confronted with a number of difficulties:

» **Sensitivity of structural balance estimates to GDP revisions**

Deviations from the structural balance trajectory can result from revisions of economic variables just as much as from the direction of fiscal policy. This is because the criteria under which the mechanism is triggered are defined in terms of the deviation in the level of the structural balance, while that level is itself dependent on the size of the output gap. Any change in the output gap has an automatic knock-on effect on the structural balance.

» **Elasticity effects**

Fluctuations in the elasticity of compulsory levies to GDP make the "structural balance" as estimated by international organisations and the Treasury more difficult to read. Structural balance estimates are only partially corrected to exclude the impact of the prevailing economic situation insofar as changes in revenue elasticity, while mostly cycle-related, are not taken into account in this correction. They therefore continue to be included in the "structural" balance, which thus retains a significant degree of procyclicality.

This decision not to treat elasticity effects when correcting for the impact of the prevailing economic situation arises, of course, from the difficulty of identifying a clear and systematic relationship between elasticities and phases in the cycle. However, it has significant adverse effects on structural balance estimates and changes in the structural balance – two indicators that play a key role in European monitoring (2012 Treaty and regulations amended by the "six-pack")[18]:

- The estimated *"structural balance"* is not *"pure"*, in that it is not stripped of all cyclical effects.
- Changes in the structural balance from year to year are not always representative of the direction of fiscal policy.

For these reasons, the High Council has been arguing for several years that ***"analysis of the public finances should also take into account other indicators that better represent the direction of fiscal policy"***. In particular, it considers that ***"the analysis must place greater importance on structural effort[19] and more specifically effort on expenditure"***[20].

The European Commission has moved in this direction by placing the emphasis in its analyses and recommendations on *"expenditure net of discretionary revenue measures"* – a concept close to that of structural effort.

» **The temptation of unambitious programming bills at the start of the period**

The less ambitious the trajectory, the easier it is to adhere to.

The last two programming bills (December 2014 and January 2018) have thus adopted structural balance trajectories that included only small or very small improvements at the start of the programme period. In spite of High Council opinions emphasising that the targets put in place were not in keeping with France's European commitments, these programming bills have been passed and subsequently served as baselines for assessing the trajectory.

In the absence of a system requiring national structural balance targets to be fully aligned with European rules, unambitious public finance targets can be set, as has been the case with the last two programming bills. In such circumstances, the monitoring responsibilities entrusted to the HCFP become less effective.

» **Frequency of programming bills**

The frequency with which programming bills are passed appears to be too high for the correction mechanism to be able to properly function. With regard to the year during which a programming bill is put forward (2014, then 2017), the structural balance estimated in the finance review act in May of the following year does not usually deviate significantly from this new programming bill (excluding the effects of any revised economic assumptions and elasticity values).

The High Council considers the programming bill currently in force to be the last one passed in Parliament. For example, the January 2018 programming bill estimated the structural balance for 2017, and it was against this estimate that the High Council assessed actual performance in its May 2018 opinion.

In practice, there is usually little deviation between a forecast made towards the end of a year for that

[18] The 2012 Treaty on Stability, Coordination and Governance (TSCG) defines the balanced budget rule in terms of the level of the structural balance and convergence towards the MTO. Regulations 1466/97 and 1467/97 define minimum variations in the structural balance.

[19] Defined as that portion of the improvement in the structural balance that is directly related to effort on expenditure or new compulsory levy measures.

[20] June 2017 opinion on the draft finance review act for 2016.

same year and the outturn observed a few months later[21].

Similarly, there is little at stake in the second year of the programme period if the Government decides to put forward a new programming bill at the end of that second year. If the deviation is significant (as defined in the Constitutional bylaw[22]) and the correction mechanism is applied, the new programming bill can serve as an opportunity to respond to the institutional requirement to take corrective steps.

This, in practice, is what happened in 2014: after the High Council, through its opinion on the finance review act for 2013, triggered the correction mechanism in May 2014, the December 2014 public finance programming law did not include any corrective measures but rather amended the structural adjustment path. In practice, the December 2014 public finance programming law laid down a new structural balance trajectory that became the new baseline, and that turned out to be less ambitious than that laid down in the previous programming law.

For these various reasons, the correction mechanism has, in practice, proved ineffective.

Forecast and actual structural adjustments over the last three public finance programming bills

Note: public finance programming laws lay down structural adjustment targets. For example, the 2014–2019 public finance programming law of December 2014 forecast a structural adjustment of 0.5 percentage point of potential GDP in 2017. The actual structural adjustment observed in 2017 was 0.3 percentage point. This appears compatible with the structural adjustment forecast in the 2018–2022 programming law of January 2018 (which forecast an adjustment of 0.3 percentage point). The High Council of Public Finances gives an opinion on attainment of the target based on the programming law in force at the time its opinion is published – i.e. in May of year Y+1 for year Y. The programming law in force may have changed between the date on which the programming law for a given year was put forward and the date of the finance review act for that same year. This is what happened in 2014 and 2017 in particular.

Sources: HCFP, based on the last three public finance programming bills put forward

[21] Excluding the impact of any revisions of GDP for previous years.

[22] i.e. of the order of 0.5 percentage point over that year or an average of 0.25 percentage point over the first two years.

EUROPEAN AND INTERNATIONAL RELATIONS

The High Council of Public Finances maintains close relationships with independent fiscal institutions in other countries, the European Commission and the OECD.

NETWORK OF EUROPEAN UNION INDEPENDENT FISCAL INSTITUTIONS (*EU IFI NETWORK*)

EU INDEPENDENT FISCAL INSTITUTIONS

A network of independent fiscal institutions[23] was formed in 2013 at the initiative of Slovakia's Council for Budget Responsibility. This network, open to all independent institutions in the European Union[24], provides a forum for sharing opinions, expertise and resources on matters of common interest. It aims to encourage institutions to share information about their practices, the difficulties they encounter in performing their duties, their interpretation of European legislation and regulations, and so on. The network holds two meetings a year, in spring and autumn. Autumn meetings have been held in Bratislava (2013–2015), Paris (2016) and Madrid (2017). Spring meetings are held alongside OECD meetings (in Vienna in 2015, Paris in 2016, Edinburgh in 2017 and Seoul in 2018). Network members also frequently communicate by e-mail and hold many bilateral meetings.

After operating informally for two years, **the network was established more formally in September 2015** at a meeting held in Bratislava at which 26 independent institutions from 24 European countries signed an agreement. The network has a chair and a deputy chair, each of whom is elected for a two-year term. José Luis Escrivá, president of Spain's Independent Authority for Fiscal Responsibility (AIReF), was elected chair and subsequently re-elected in November 2017. The first deputy chair was Ludovit Odor, a member of Slovakia's independent institution from 2015 to 2017. Giuseppe Pisauro, president of Italy's Parliamentary Budget Office, succeeded him in November 2017.

The network has a Committee for EU Affairs tasked with preparing for plenary meetings, assisting institutions on matters relating to implementation of the Fiscal Compact and managing relations with other EU authorities.

The network is very useful for exchanging information and comparing working methods between institutions.

The main topics discussed at the network's first few meetings, besides the terms of implementation of the European Treaty, were estimating the output gap and the structural balance, the classification of exceptional and temporary measures and the definition of common principles for independent fiscal institutions. The most recent meetings have covered the simplification and upgrading of the budgetary framework, to which the network is keen to contribute.

The network supports efforts to better leverage synergies between the Fiscal Compact rules and institutions while abiding by the principle of subsidiarity and encouraging national ownership of rules. In November 2015, the network's representatives produced a position paper on initiatives likely to strengthen the European budgetary framework.

Two working groups have been set up within the network, based on voluntary participation:

- a working group on **medium-term budgetary frameworks**, chaired by the Italian institution (UPB), which issued its report in May 2018
- a working group on **the output gap and its utilisation**, chaired by the Lithuanian institution (National Audit Office), which held its first meeting in Vilnius in September 2018.

The High Council of Public Finances is a participant in both working groups. In particular, it made a significant contribution to the May 2018 report.

The working group on budgetary frameworks met over a period of around 18 months. Its final report is a very detailed document high-

[23] The network's website can be found at www.euifis.eu

[24] The following countries have at least one institution that is a member of this network: Austria, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Spain, Sweden and the United Kingdom. Croatia (*Commission on Fiscal Policy*) and the Czech Republic (*Czech Fiscal Council*) joined the network in 2018.

lighting, in particular, a certain disconnect between the European framework (rules and stability programmes) and national frameworks (definition of operational rules); it also underscores the vital importance of spending targets in medium-term budget programming and supports the Commission's proposal to strengthen the role of spending in European rules.

Cooperation is gradually taking shape between independent fiscal institutions belonging to the network and European committees at which economic and financial issues are discussed (Economic and Financial Committee and Economic Policy Committee). This is the fruit of a collective initiative taken by independent fiscal institutions in early 2015 by way of two letters, one to the European Commissioner for Economic and Financial Affairs and the other to the chair of the European Economic Policy Committee. Independent fiscal institutions now have easier access to methodological documentation on the operation of the Stability and Growth Pact.

HALF-YEARLY MEETINGS ORGANISED BY THE EUROPEAN COMMISSION

In autumn 2013, the European Commission (Directorate-General ECFIN) took the initiative of inviting IFIs to regular and informal technical meetings (initially held once a year, then twice since 2015), in full recognition of their independence, to discuss matters of common interest (European fiscal rules, methodology, etc.) as part of a network dubbed EUNIFI (EU Network of Independent Fiscal Institutions).

These half-yearly meetings organised by the Commission are very useful for informing independent institutions about European legislation and its implementation, as well as the calculation methods used by the Commission. The Commission has notably had to answer numerous questions and criticisms from IFIs on *output gap* and structural balance estimates, with the majority of institutions encountering difficulties in applying the Fiscal Compact rules as a result of significant revisions to these variables.

These meetings are supplemented by annual training seminars organised by DG ECFIN on the European budgetary framework, aimed at finance ministry experts and members of independent institutions, at which European rules and their terms of implementation are presented and discussed in detail. The High Council's secretariat attended these seminars in April 2014, February 2015 and July 2017.

OECD NETWORK OF PARLIAMENTARY BUDGET OFFICIALS AND INDEPENDENT FISCAL INSTITUTIONS (PBO)

Since 2009, the Organisation for Economic Co-operation and Development (OECD) has held annual meetings of parliamentary budget officials and independent fiscal institutions (IFIs) of the organisation's 35 member countries. Topics addressed at these meetings include governance of public finances (medium-term programming, performance-based management, principles to be applied to independent institutions, etc.), economic matters (potential growth, the relationship between debt and growth, sustainability, etc.) and practical issues (access to information, modes of communication, etc.). These meetings cover a geographical scope broader than the European Union, since they include, in particular, the United States, Canada, Japan, South Korea, Brazil and European countries outside the EU. The most recent meetings have been held in Jerusalem, Vienna, Paris, Edinburgh and Seoul.

The number of attendees at these meetings has risen sharply as European countries have established new independent fiscal institutions since 2013. Attendance has averaged around 80 people since 2015.

EUROPEAN FISCAL BOARD

The European Fiscal Board was established in autumn 2015 following the Five Presidents' Report of June 2015 titled *"Completing Europe's Economic and Monetary Union"*, which aimed to strengthen the European Union's economic governance framework. The European Fiscal Board is an independent advisory body reporting to the European Commission. It was set up to contribute to public debate on the coordination of national fiscal policies and the most appropriate fiscal policy for the euro area as a whole.

The European Fiscal Board has five members who are experts in fiscal policy, public finances and macroeconomics. It is chaired by **Niels Thygesen**, Professor Emeritus of International Economics at the University of Copenhagen and former adviser to governments and international institutions in Denmark. Its other members are as follows: **Roel Beetsma**, Professor at the University of Amsterdam and Vice-

Dean of the Faculty of Economics and Business, the Netherlands; **Massimo Bordignon**, Professor and Director of the Department of Economics and Finance at the Catholic University of Milan, Italy; **Sandrine Duchêne**, General Secretary of AXA France; and **Mateusz Szczurek**, former finance minister, lecturer at Warsaw University and Associate Director at the European Bank for Reconstruction and Development, Poland. The Board is supported by a permanent secretariat.

Its key responsibilities are as follows[25]:

- evaluate implementation of the European Union's fiscal framework and the appropriateness of the actual fiscal stance at euro area and national level
- make suggestions for the future evolution of the EU's fiscal framework
- assess the prospective fiscal stance appropriate for the euro area as a whole based on economic judgment, as well as appropriate national fiscal stances, within the rules of the Stability and Growth Pact
- cooperate with national independent fiscal councils
- provide *ad hoc* advice to the Commission President[25]

Every June, the European Fiscal Board publishes a report on its *"Assessment of the prospective fiscal stance appropriate for the euro area"* for the following year. In its June 2017 report on the most appropriate fiscal stance for 2018, the Board recommended a neutral fiscal stance for the euro area as a whole. In its June 2018 report, the Board recommended a somewhat restrictive fiscal stance for 2019. On the basis of the Commission's spring 2018 projections, the Board noted that corrective measures would need to be adopted to arrive at such a fiscal stance for the euro area in 2019.

In November 2017, the European Fiscal Board published its first annual report, in which it set out a comprehensive independent assessment of how the Stability and Growth Pact (SGP) was implemented in 2016. Based on its analysis, the Board put forward a number of proposals. These proposals aim to (i) encourage governments to take advantage of the favourable economic climate to improve public finances, (ii) reinforce the application of rules, (iii) strengthen the effectiveness of national independent fiscal institutions, (iv) encourage Member States to implement structural reforms to increase economic resilience and (v) simplify the Stability and Growth Pact while maintaining sufficient flexibility thanks to independent judgement.

[25] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/european-fiscal-board-efb_fr

RESOURCES

The High Council of Public Finances has 11 members. It is assisted in the performance of its duties by a permanent secretariat headed by a General Rapporteur and two Deputy General Rapporteurs.

April 2018 – Members and permanent secretariat of the High Council of Public Finances

BOARD

The Board, chaired by the First President of the Court of Auditors, consists of four magistrates of the Court of Auditors, five qualified individuals and the Director-General of the National Institute of Statistics and Economic Studies (Insee). **Members nominated by the First President and parliamentary authorities include strictly as many women as men.** Board members are not paid and serve for five years[25]. Their work is very demanding around the times when opinions are issued (approximately 15 meetings a year)[26].

Members' independence is protected by firm guarantees. They may not receive or seek instructions from Government or from any other public or private person or entity. With the exception of magistrates of the Court of Auditors, they cannot be reappointed to the Board. They cannot be dismissed except in the event of a serious breach or physical incapacity. Lastly, although the HCFP is not an independent administrative authority as defined in the Act of 11 October 2013 on transparency in public life, Board members must complete a declaration of interest that is published on the HCFP website.

Around 15 meetings a year, with 27 opinions issued during 81 meetings

[25] Two and a half years for four members in the High Council's original constitution.

[26] 27 opinions issued during 81 meetings.

PERMANENT SECRETARIAT

The Board is assisted by a permanent secretariat of six people working part-time, most of whom belong to the First Chamber of the Court of Auditors, whose remit covers economic, fiscal and financial issues. A General Rapporteur, assisted by two Deputy General Rapporteurs, leads the work of the secretariat, which is also assisted by one or two specialised rapporteurs and an assistant.

BUDGET

The HCFP has its own budget programme funded by appropriations from the budget of the Court of Auditors. Establishing the High Council was therefore budget-neutral for central government. The High Council's budget covers staffing costs and ongoing operating expenses.

The bulk of the High Council's expenditure (€362,000 in 2017) consists of staffing costs.

Thanks to being hosted on the premises of the Court of Auditors, the HCFP also has access to physical and logistical facilities. In particular, the High Council's secretariat and Board members meet on the premises of the Cour. This proximity also facilitates access to the Cour's documentation.

The HCFP budget

	2016		2017	
	Forecast	Actual	Forecast	Actual
Staff	373,000	345,000	404,000	357,000
Operations	150,000	20,000	50,000	5,000
TOTAL	522,000	365,000	454,000	362,000

Source: annual performance reports appended to the finance review act

Ⅱ. opinion on the budget bill for 2020

1

Opinion n° HCFP-2019-3

On the budget bill and the social security financing bill for the year 2020

23 September 2019

On 23 September 2019, the High Council of Public Finance (HCFP) delivered an opinion concerning the budget bill (PLF) and social security financing bill after deliberating on the realism of macroeconomic forecasts and the consistency of annual structural fiscal balance forecasts vis-à-vis the multi-year structural balance targets.

Main conclusions

The High Council of public finance considers that the Government's growth forecast is achievable by 2019 and plausible by 2020. He stressed that this forecast does not take into account the possibility of a no-deal Brexit and its consequences on French growth.

The High Council considers that inflation, employment and private wage bill forecasts used by the Government for 2019 are consistent with the information available. They are reasonable for 2020.

*

Regarding public finances, the High Council considers that the forecasts of the compulsory levies for 2019 and 2020 are consistent with the macroeconomic scenario used by the government. It considers that the forecasting trend of public expenditure for 2019 and 2020 is plausible. The interest expenditures could be lower than expected. On the other hand, there are risks on the revenue levy in favor of the European Union and the evolution of public local administration expenditures. In total, the High Council considers that the forecast of general government balance for 2019 and 2020 (respectively -3.1 and -2.2 points of GDP) is plausible.

The Government forecasts a 0.1 point of GDP reduction in the structural deficit for 2019, which would amount to 2.2 points of GDP. In relation to the trajectory defined in the public finance programming law for 2018 to 2022 (LPFP), the structural balance gap would be -0.1 points in 2018 and -0.3 points in 2019 respectively. The High Council indicates that such a deviation is very close to the trigger threshold of the correction mechanism provided for in article 23 of the 2012 Organic Law (-0.25 points on average over two years).

In 2020, the structural deficit would still be 2.2 points of GDP, compared with 1.6 points in the 2018 LPFP. The High Council therefore notes that the Government submits an introductory article of the budget bill, which deviates significantly from the trajectory of the 2018 public finance programming law. Such a choice leads to a problem of coherence between the PLF 2020 and the 2018 LPFP and weakens the scope of the multi-year programming exercise in terms of public finances.

2

The Government referred to the High Council on Public Finance on 14 September 2019, pursuant to article 14 of Organic Law No. 2012-1403 of 17 December 2012 on public finance programming and governance, macroeconomic forecasts and public finance information on which budget bill and social security financing bill for 2020 are based. The High Council adopted the following opinion after deliberation at its meeting on 20 September 2019.

Introductory remarks

1- On the opinion's scope

Under article 14 of the constitutional bylaw of 17 December 2012 on public finance planning and governance, the High Council gives an opinion on:

- The macroeconomic forecasts, which the budget and social security financing bills are based on;
- The consistency of the budget bill's introductory article with the multi-year targets for public finances set in the public finance programming law.

2- On the information submitted

The Government referred to the High Council its macroeconomic forecasts and information about public finances, on which are based the budget and social security financing bills of 2020. To this file were added detailed answers to questions addressed in advance by the High Council to the relevant administrations.

3- On the methodology used by the High Council

To assess the realism of the macroeconomic forecasts and public finance content of the budget and social security financing bills, the High Council analyzed the Government's assumptions as well as the evolutions anticipated within the forecast period. It relied on the last available statistics and information provided by the Government about its economic policy measures.

The High Council also paid attention to all available forecasts and analysis.

As permitted by article 18 of the constitutional bylaw, the High Council held hearings of the relevant administrations' representatives – Treasury, budget and social security departments. It also held hearings of experts and representatives of the Banque de France, the Bank for International Settlements, the CEPII, COE-Rexecode and the OFCE.

The High Council also heard the European Commissioner for economic and financial affairs, taxation and customs.

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After a brief presentation of the global and European economic situation (I) the High Council exposes its remarks on the macroeconomic forecasts attached to the budget and social security financing bills for 2020 (II) and on the public finance scenario (III).

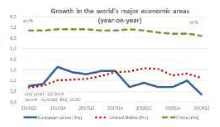
3

I- A marked slowdown in global and European growth since mid-2018

1- A slowdown in trade flow

The world economy has been facing a marked slowdown in recent quarters, mainly in the European Union, China and some other emerging countries. In the United States, growth remained strong until mid-2019, but the deterioration in the business climate suggests that activity will slow.

This slowdown was particularly significant in the industry. It has weighed on international trade, which has also been affected by the introduction of protectionist measures. Growth in world merchandise trade, which had been rapid in 2017 (+4.9% in volume) and still sustained in 2018 (+3.4%), stopped at the end of 2018, giving way to a slight decline in the first half of 2019. Trade in services, on the other hand, continued to grow.



2- Euro area: weaker growth and contrasting evolutions

Growth in the euro zone slowed to 1.2% year-on-year in the second quarter of 2019, from 2.3% a year earlier. This decline covers contrasting evolutions over the last four quarters: almost zero growth in Germany (+0.4%) and Italy (-0.1%), moderate growth in France (+1.4%), still strong in Spain (+2.1%). While industrial production slowed in the euro area, activity in services remained relatively dynamic.

The slowdown in euro area activity has been mitigated by a slightly expansive fiscal policy, as measured by the structural effort, the continuation of an accommodative monetary policy and the depreciation of the euro against the dollar since the beginning of 2018.

The slowdown in world trade and rising uncertainties had a particularly marked impact in Germany. Its exports of goods and services stagnated and the contribution of foreign trade to GDP was very negative between mid-2018 and mid-2019 (-1.1 points), while domestic demand excluding stocks increased by 1.7 points.

The August business climate indicator for the euro area is close to its long-term average of 100. However, it is significantly below this average in Germany (94) where it continues to deteriorate, suggesting weak growth in the coming months.

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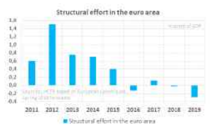

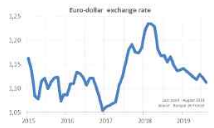

3- In France, growth slightly above the European average

The French economy has not been exempt from the general slowdown, but its growth has been slightly above the average of its European partners since mid-2018.

Domestic demand excluding stocks grew by 1.6% year-on-year in the second quarter of 2019, driven by purchasing power measures and a sustained increase in business investment. Despite the unfavorable trend in world trade, French exports rose by 2.5%, marking a slight improvement in France's market share.

After a sharp deterioration in 2018, the business climate resulting from the business surveys recovered slightly at the beginning of 2019 and then stabilized at a level above its long-term average, suggesting that moderate growth is expected to continue at the end of 2019.

4- Main risks: a no-deal Brexit and an escalation of protectionist measures

In the short term, the main risk is a no-deal Brexit. The economic impact of this unprecedented event is difficult to estimate. In the first year, according to the OECD, it would be close to 2 points of GDP for the United Kingdom, close to 0.5 points for France, Germany and Italy, and above 0.5 points for Spain and the Netherlands.

Further tariff increases by the United States, particularly against the European Union, and more generally an escalation of protectionist measures, are another risk to growth.

In addition, geopolitical tensions in the Middle East and their possible repercussions on oil prices, financial vulnerabilities related to the increase in global debt and the fragile economic situation in several emerging countries also pose a risk to growth.

Finally, in Germany, where household confidence has fallen sharply in recent months, the decline in domestic demand could be added to the ongoing industrial recession, further slowing activity in its main partners.

The growth prospects of the French economy are thus surrounded by unfavorable external factors.

II- Remarks on macroeconomic forecasts for 2018 and 2019

1- The Government's scenario

According to the Government's referral file, *"the French economy would grow by 1.4% in 2019 and 1.3% in 2020, a slowdown compared to 2018, mainly due to less favorable global demand, which would weigh on exports. Global demand for France would slow in 2019 and then recover in 2020."*

"Household consumption is expected to be supported from 2019 onwards by purchasing power measures and strong employment dynamics. Consumption would accelerate slightly behind the gains in purchasing power, as households gradually consume them. After increasing at a high rate since 2017, business investment is expected to gradually normalize, remaining dynamic in a context of low interest rates."

"Total employment is expected to grow strongly again in 2019 (+250,000 jobs on average per year, after +245,000 in 2018), thanks to the dynamism of employment in the non-agricultural market sectors [...]". "In 2020, total job creation is expected to be lower (+180,000 jobs on average per year), reflecting a slowdown in market employment."

"After increasing very slightly in 2019 (+0.9% after +0.8% in 2018), core inflation is expected to remain stable in 2020 (+0.9%)". Overall inflation, which had reached +1.8% in 2018 as a result of the rise in oil prices (which resulted in a +0.6 point contribution of oil products to the CPI), is expected to fall in 2019 and then remain stable in 2020 (+1.2%)."

2- The High Council's Assessment

The High Council evaluates successively the assumptions of activity growth, inflation, employment and the private sector wage bill.

a) Activity growth

The Government forecasts a real GDP growth of 1.4% in 2019 and 1.3% in 2020. Compared to the April 2019 stability program, the assumption is unchanged for 2019, and revised slightly downwards (-0.1 points) for 2020.

For the year 2019, the Government's growth forecast is slightly higher than that of international organizations and business institutes, which are mostly 1.3%. Taking into account the growth achieved in the second quarter, estimated at 1.1%, achieving 1.4% growth in 2019 requires GDP increases of around 0.35% per quarter in the second half of the year. Recent forecasts for growth in the third quarter point to a close pace (0.3% for the Banque de France and 0.4% for the OFCE).

Overall, the High Council considers that the growth projected by the Government for 2019, very close to consensus, is achievable.

GDP growth forecasts for 2019-2020

	France		euro area	
	2019	**2020**	**2019**	**2020**
European commission (July 2019)	1,3	1,4	1,2	1,4
IMF (July 2019)	1,3	1,4	1,3	1,6
OECD (September 2019)	1,3	1,2	1,1	1,0
Banque de France / ECB (September 2019)	1,3	1,3	1,1	1,2
OFCE (September 2019)	1,4	1,4	1,2	1,1
Rexecode (September 2019)	1,3	1,2	1,2	1,0
Consensus forecasts (September 2019)	1,3	1,2	1,1	1,2
Governement (2020 Budget bill - September 2019)	**1,4**	**1,3**	**1,2**	**1,2**

Source : HCFP from different institutions forecasts

For the year 2020, the Government forecasts a slight decline in GDP growth to 1.3%.

As the consumption of purchasing power gains in early 2019 was slower than expected, the Government's forecast assumes that it will continue into 2020. The savings rate is expected to decline slightly (from 14.8% in 2019 to 14.6% in 2020), after increasing by 0.6 percentage points in 2019. The High Council notes that this moderate decline in the savings rate is likely, assuming a return to the behavior usually observed in response to a similar change in purchasing power.

Non-financial business investment is expected to slow in 2020 but remain dynamic (+2.7% in 2020, after +3.3% in 2019). Despite the slight slowdown in activity and the recent easing of tensions on production capacity, this forecast seems plausible, particularly in view of the favorable investment climate marked by low interest rates and a high margin rate.

French exports are expected to grow by 2.5%, in line with global demand (+2.6%). The Government thus adopts a relatively cautious assumption on the stability of market shares. On the other hand, this scenario assumes that the external uncertainties surrounding the growth forecast do not materialize.

The Government's growth forecast for 2020 (1.3%) falls within the range of available forecasts, between 1.2% and 1.4%.

The High Council considers that the Government's growth forecast is achievable by 2019 and plausible by 2020. He stressed that this forecast does not take into account the possibility of a no-deal Brexit and its consequences on French growth.

b) The rise in consumer prices index

According to the Government, the rise in the consumer price index is estimated at 1.2% on average annually in 2019 and 2020, after 1.8% in 2018. Core inflation[1] is expected to increase very slightly in 2019 and to stabilize in 2020.

Consumer Price Index

Changes in %	Government Forecasts (yearly average)		
	2018	**2019**	**2020**
Index	1.8	1.2	1.2
Core index	0.8	0.9	0.9

In its April 2019 opinion on the stability program, the High Council considered that "*the [expected] increase in core inflation could be slower than expected by the Government*[2]".

Since then, the Government has revised its core inflation forecasts for 2019 and 2020 downwards. This would be part of a somewhat lower dynamic than explained by its fundamental determinants, in line with what has been observed in recent years[3].

The decrease in inflation forecast by the Government in 2019 and 2020 compared to 2018 is mainly due to the lower contribution of petroleum products (zero in 2019 compared to 0.6 points in 2018). It is based on the conventional assumption that the oil price will remain stable at its August level, leading to an average of $63 per barrel in 2019 (€56) and $59 per barrel (€53) in 2020. Given the risks to the operational maintenance of production capacity (as illustrated by the destruction of Saudi oil infrastructure in September 2019), the price of oil could be higher than anticipated by the Government[4]. Administered prices would contribute 0.2 points to inflation in 2019 and 0.3 points in 2020, mainly due to the rise in tobacco prices.

These forecasts for 2019 and 2020 are close to the average of the September Consensus forecasts (1.2% and 1.3% respectively).

The High Council considers that the inflation forecasts adopted by the Government for 2019 and 2020 are reasonable.

c) Employment and private wage bill

According to the Government's forecast, employment in the non-agricultural market sectors is expected to be dynamic in 2019 and then to slowdown in 2020. The wage bill is expected to follow similar trends, increasing by 3.3% in 2019 and 2.8% in 2020, after 3.5% in 2017 and 3.4% in 2018.

[1] Price increase excluding volatile products and administered prices.
[2] Core inflation was then expected to reach 1.1% in 2019 and 1.2% in 2020.
[3] This scenario includes a near stabilisation of core inflation observed in the first half of the year, from 0.5-0.6% in the first months of the year to 0.9% in June-July before falling back to 0.7% in August.
[4] According to the estimates presented in the April 2019 stability program, a $10 increase in oil prices would reduce activity by 0.1 percentage points in the 1st year and by 0.2 percentage points in the 2nd year compared to the reference scenario. Similarly, consumer prices would increase by 0.3 points in the 1st year and by 0.4 points in the 2nd year. The impact on public finances would be slightly negative (the primary public balance would deteriorate by 0.1 percentage point of GDP in the 1st year and by 0.2 percentage point in the 2nd).

Employment creation was higher in the first half of 2019 than expected due to the slowdown in activity. This increase in net job creation could be due in particular to certain reforms (transformation of the CICE into a reduction in contributions, various measures to reduce contributions, functioning of the labour market, etc.) but also partly to a further fall in trend productivity gains. Given this good start of the year, employment growth in the market sector is expected to be almost as high in 2019 as in 2018. In 2020, the employment growth forecast by the Government would be lower under the reasonable assumption of a gradual return to productivity gains close to the previous trend.

The Government's wage bill forecast for 2019 (+3.3%) includes the payment of the exceptional bonus introduced at the end of 2018[5] and exempt from any tax (€2.1 billion in 2019). Excluding the exceptional bonus, the change in the contribution base of the non-agricultural market branches would be 3.0% in 2019. This forecast is consistent with the latest available statistics, with the year-on-year increase in the total payroll subject to social security contributions estimated at 3.1% in the second quarter of 2019. The slowdown in the wage bill forecast for 2020 (2.8%) reflects the slowdown in employment.

Market sector wage bill (evolution in%)

	2017	2018	2019	2020
Number of employees	1.8	1.7	1.5	0.9
Average wage	1.7	1.7	1.8	1.8
Wage bill	**3.5**	**3.4**	**3.3**	**2.8**
Wage bill excluding exceptional bonus	3.5	3.4	3.0	2.8

Source : High Council of public finance, from government and ACOSS forecasts and data

The High Council considers that the employment and wage bill forecasts for 2019 are consistent with the information available. They are reasonable for 2020.

III- Remarks on public finances forecasts for 2019 and 2020

The High Council analyzed the consistency of the budget bill with the multi-year structural balance targets. Then it assesses the risks on public revenues and expenditure.

1- The Government's scenario

According to the Government's referral file, *"The draft budget and social security financing laws for 2020 forecast a nominal deficit of 3.1% in 2019 and 2.2% in 2020 and a structural deficit[6] that improved by 0.1 percentage point of GDP in 2019 and remained stable in 2020. [...]*

[5] This bonus, exempt from social security contributions and taxes up to a maximum of €1,000 for employees whose compensation is less than 3 times the minimum wage, could be paid between 11 December 2018 and 31 March 2019. The amounts paid were €0.1 billion in the 4th quarter of 2018 and €2.1 billion in the 1st quarter of 2019. The payroll including this bonus increased by 1.5% in the 1st quarter of 2019 and then decreased by 0.3% in the 2nd quarter as a result. The amount of this bonus represents 0.3% of the annual payroll in 2019.
[6] The structural balance is defined as the public balance adjusted for the direct effects of the economic cycle and temporary measures (see Annex 3).

9

The tax rate net of tax credits, after having reached 45.0% of GDP in 2018, would reach 43.8% in 2019 and 44.0% in 2020 (amounts restated for the creation of France compétences[7], 44.0% and 44.3% without this restatement), representing a decrease of more than 1 pt of GDP since 2017 (45.2%). [...]

These tax cuts are made possible by the control of public spending. Indeed, public expenditure excluding tax credits would be contained at +0.7% in volume in 2019 and 2020, or +1.7% per year in value (amounts restated for the creation of France compétences), while financing the economic and social emergency measures announced at the end of December 2018, as well as the measures concluding the Great National Debate announced at the end of April 2019."

2- The consistency with the multiannual structural balance targets

Under the constitutional bylaw of December 17, 2012 the High Council gives an opinion on the consistency of the structural balance path presented in the 2020 budget bill with the latest programming law targets i.e. the one of January 2018 for the years 2018 to 2022. According to the same constitutional bylaw, a deviation of the structural deficit is deemed significant once it exceeds 0.5 point of GDP a year or 0.25 on average over two years.

According to the Government, the public balance is estimated at -3.1 points in 2019 and 2.2 points in 2020. The structural balance would be -2.2 points in both years. The cyclical component would be almost zero for both years, taking into account the Government's estimate of an output gap that is itself very close to zero. The year 2019 was marked by the exceptional accumulation of the CICE and the reduction in social contributions, which worsened the nominal balance without affecting the structural balance.

a) A structural balance that deviates from the programming law path

The structural budget balance is calculated with the same potential GDP assumptions as in the programming law. In its September 2017 opinion on this programming law, the High Council deemed that the Government's potential growth estimate (1.25% in 2018 and 2019) "*was a reasonable basis to implement the mid-term public finances planning*".

In 2019, the structural balance is estimated at -2.2 points of GDP, an improvement of 0.1 point compared to 2018. The cyclical component of the deficit would be zero, with GDP at its potential level according to the Government's assessment. However, there are uncertainties about the assessment of the French economy's position in the cycle (see Annex 4).

According to the data presented in the draft budget bill for 2020, the gap with the programming law trajectory would be -0.1 points of GDP in 2018 and -0.3 points of GDP in 2019. The average difference over two years would therefore be 0.2 points per year on average.

It would thus be slightly below 0.25 points per year, just below the threshold for triggering the correction mechanism provided for in article 23 of the 2012 constitutional bylaw. However, the possibility that the correction mechanism will be triggered when the budget settlement bill for 2019 is examined cannot be ruled out, given the uncertainties surrounding both macroeconomic forecasts and public finances.

[7] The integration into the field of public administrations of expenditure and revenue from vocational training and apprenticeship carried by *France compétences*, beyond the Skills Investment Plan (PIC), would have a symmetrical impact on public expenditure and revenue, of €4.6 billion in 2019 and an additional €1.5 billion in 2020.

10

Decomposition of the general government public balance

In points of GDP	**Budget bill for 2020 (sept. 2019)**			*Programming law (Jan 2018)*		
	2018	**2019**	**2020**	*2018*	*2019*	**2020**
Nominal Balance	**-2,5**	**-3,1**	**-2,2**	*-2,8*	*-2,9*	*-1,5*
Cyclical component	0,0	0,0	0,1	*-0,4*	*-0,1*	*0,1*
One-off measures	-0,2	-0,9	-0,1	*-0,2*	*-0,9*	*0,0*
Structural balance	**-2,3**	**-2,2**	**-2,2**	*-2,1*	*-1,9*	*-1,6*
Deviation from the programming law	*-0,1*	*-0,3*	*-0,5*			

Note: Figures being rounded to the nearest tenth, components may not add to the total.

Source: 2020 budget bill and 2018 programming law.

In 2020, the structural balance would be - 2.2 points of GDP, a level identical to the nominal balance. The cyclical component (+0.1 point) would be offset by one-off and temporary measures (-0.1 point). The budget bill's structural deficit forecast for 2020, which takes into account in particular the measures announced at the end of April following the great national debate, is revised upwards against the stability program by 0.3 point of GDP.

The structural balance in 2020 would deviate significantly from the target set in the January 2018 programming law: -2.2 points in the budget bill versus -1.6 points in the LPFP[8].

The High Council notes that the structural balance path presented in the 2020 Budget Billis not consistent with the programming law. The public finance scenario associated with the budget bill deviates significantly *ex ante* from the path defined in the current programming law.

[8] This difference in the structural balance reflects a lower structural effort than that provided for in the programming law, but other factors also contributed to it over the period, including changes in the scope of general government in 2018 (in particular the integration of SNCF réseau), revenue windfalls (elasticity effects), which were significant in 2017 and 2018, revisions in GDP growth leading to a different cyclical component than that of the programming law, etc.

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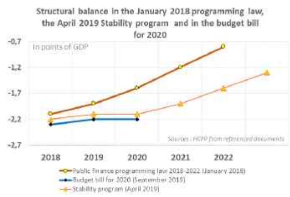

b) Structural adjustment and structural effort almost nill

Structural adjustment, i.e. the change in the structural balance, would be very small in 2019 and 2020 (0.1 point and 0.0 point respectively, see Annex 5).

The structural adjustment and the structural effort in 2018 and 2019 as presented by the government

In points of potential GDP	2020 Budget bill (sept. 2019)				Programming law (january 2018)			
	2018	**2019**	**2020**	**Cumulation 2018-20**	*2018*	*2019*	*2020*	*Cumulation 2018-20*
Structural adjustment	**0,1**	**0,1**	**0,0**	**0,2**	*0,1*	*0,3*	*0,3*	*0,7*
Structural effort	**0,1**	**0,1**	**0,1**	**0,3**	*0,2*	*0,3*	*0,4*	*0,9*
Of which expenditure restraint (excluding tax credits)	0,3	0,3*	0,4*	1,0	*0,4*	*0,4*	*0,5*	*1,3*
Of which tax credit key	-0,2	-0,3*	-0,6*	-1,1	*-0,3*	*-0,1*	*-0,5*	*-0,9*
Non-discretionary component	0,0	0,1	0,3	0,4	0,0	0,0	0,4	0,4
Key on credit tax**	**0,0**	**0,0**	**-0,1**	**-0,1**	*-0,1*	*0,0*	*-0,1*	*-0,2*

Source: 2020 budget bill, January 2018 programming law.

Note: Figures being rounded to the nearest tenth, components may not add to the total.

** Those data neutralize the impact of the creation of France Compétences on 1 January 2019. On a constant field, expenditure effort and the effort in compulsory levies (new revenue measures) would be 0.1 point and -0.1 point respectively in 2019, and 0.3 point and -0.5 point in 2020.*

*** In national accounts, tax credits are recorded on the basis of claims filed and not refunds charged to the budgetary balance. The difference between refunded tax credits and tax credit receivables, known as the "credit tax key", affects the structural adjustment measure. In 2020, the high level of this "key" is linked to the removal of the CICE. It reflects the significant difference between the still significant payments made in previous years and the near disappearance of receivables.*

12

The High Council stresses that the structural adjustments planned for 2019 and 2020 are below those provided for in the Programming Law (0.3 in both years), and even higher than those provided for in the provisions of the "preventive arm" of the Stability Pact (a structural adjustment strictly in excess of 0.5 points of GDP per year for countries that have not reached their medium-term objective[9]).

The structural effort, which represents the part of structural adjustment directly linked to expenditure effort or new tax measures, would amount to a cumulative 0.3 point of GDP over the period 2018-2020, compared to 0.9 point in the LPFP.

The cumulative structural effort gap between the budget bill and the LPFP (-0.6 point) essentially corresponds to a lower expenditure effort of -0.3 points of GDP, despite the decline in interest payments, and a further reduction in taxes by -0.2 points of GDP.

The Government forecasts a 0.1 point of GDP reduction in the structural deficit for 2019, which would amount to 2.2 point of GDP. In relation to the trajectory defined in the public finance programming law for 2018 to 2022 (LPFP), the structural balance gap would be -0.1 points in 2018 and -0.3 points in 2019 respectively. The High Council indicates that such a deviation is very close to the trigger threshold of the correction mechanism provided for in article 23 of the 2012 Organic Law (-0.25 points on average over two years).

In 2020, the structural deficit would still be 2.2 points of GDP, compared with 1.6 percentage points in the 2018 LPFP. The High Council therefore notes that the Government submits an article of the budget bill, which deviates significantly from the trajectory of the 2018 public finance programming law. Such a choice leads to a problem of coherence between the PLF 2020 and the 2018 LPFP and weakens the scope of the multi-year programming exercise in terms of public finances.

3- Risks on revenue and expenditure

The High Council has focused on identifying the risks affecting the 2019 and 2020 revenue and expenditure forecasts based on the information available to it.

a) Receipts

The Government forecasts a decline in receipts for 2019 and 2020 due to new tax measures, while their growth at constant legislation would be close to that of GDP.

In 2019, the amount of new measures[10] would be €28.2 billion (on a constant field), or €8.2 billion excluding the effect of the transformation of the CICE into a lower contribution rate.

According to the Government, the growth in compulsory levies at constant legislation would be consistent with the GDP growth in nominal terms: the ratio of these two growth rates, known as the elasticity of compulsory levies to GDP, would be around 1. This elasticity close to unity would essentially be due to the more dynamic growth than GDP in State taxes (and in particular corporate income tax, income tax and VAT), offset by a slightly lower increase in social security revenues than in activity.

[9] By reducing its deficit below 3 percentage points of GDP in 2017, France emerged from the excessive deficit procedure in June 2018, thus moving into the preventive arm of the Stability and Growth Pact. European rules require a reduction in the structural deficit of strictly more than 0.5 points of GDP per year but allow a deviation of 0.25 points on average over two years.
[10] These include measures to reduce or increase the compulsory contributions of the 2020 budget bill or previous measures affecting the year 2019.

For 2020, the new measures would amount to €8.5 billion once the impact of the transformation of the CICE has been neutralized. This decrease is the result of three significant measures: the reduction in income tax (€5.0 billion), the third instalment of the housing tax rebate for 80% of households (€3.7 billion), the continued reduction in the corporate income tax rate (€2.5 billion), partially offset by a few upward measures, notably relating to tobacco taxation (+ €2.0 billion).

The Government has adopted the reasonable assumption of unit elasticity of compulsory taxes to GDP.

For 2019 and 2020, the High Council considers that the projections for taxes and social security contributions are consistent with the macroeconomic scenario adopted.

b) Public expenditure

Public expenditure growth in the 2020 budget bill
(excluding tax credit, constant field[11])

In %	2017	2018	2019	2020
Public expenditure in value	1.6	1.8	2.0	1.6
GDP deflator	0.5	0.8	1.3	1.2
Public expenditure in volume	1.2	1.0	0.7	0.4

Source : High Council of public finance, based on data from ministry of economics and finances

In 2019, the overall increase in expenditure excluding tax credits presented in the 2020 budget bill (excluding the creation of *France compétences*) was 2.0% in value, or 0.7% in volume (deflated by GDP prices)[12].

In 2020, on the same field, public expenditure would increase by 1.6% in value, or 0.4% in volume (deflated by GDP prices). The State's expenditure target for 2019 includes an increase in ministerial appropriations of €5.7 billion compared to the 2018 execution. This target includes savings of €1.5 billion compared to the initial budget bill for 2019, which remain to be achieved in implementation. Ministry appropriations are expected to continue to grow between 2019 and 2020 to the tune of €6 billion.

The High Council notes that efforts to achieve a more realistic budgeting of government expenditure have been made since the 2018 budget bill, although some pockets of under-budgeting remain (e. g. field operations and domestic missions). The State's expenditure target for 2019 includes an increase in ministerial appropriations of €5.7 billion compared to the 2018 execution. This target includes savings of €1.5 billion compared to the initial finance law for 2019, which remain to be achieved in implementation. Ministry appropriations are expected to continue to grow between 2019 and 2020 to the tune of €6 billion.

The High Council notes that efforts to achieve a more realistic budgeting of government expenditure have been made since the 2018 budget bill, although some under-budgeting remain (e. g. field operations and domestic missions).

The Government plans that the implementation of the reform of the method of calculating housing subsidies (APL)[13], which will save around €1 billion on State's expenditure, will take place

[11] Excluding tax refund at 3% (€4.7 billion in 2017, €3.7 billion in 2018 and €0.1 billion in 2019), excluding Areva recapitalization in 2017 (€4.8 billion), excluding France compétences (€4.6 billion in 2019, €1.5 billion in 2020).
[12] If we take the consumer price index excluding tobacco as a deflator, as the Government usually does, the volume growth of public expenditure would be 1.0% in 2019 and 0.6% in 2020.
[13] Called "contemporaneous", i.e. the calculation of the APL based on the resources received by the recipients in the previous quarter, and not based on the resources received two years earlier.

in January 2020. However, given the multiple postponements of this reform during 2019, compliance with the envisaged timetable remains uncertain.

The High Council notes that there are uncertainties surrounding the forecasts for the revenue levy in favour of the European Union (PSR UE) and interest payments.

In PLF 2020, the Government's forecast for the PSR UE is slightly lower (€0.1 billion) than the 2019 budget law, while the last year of the Multi-annual Financial Frameworks generally shows a strong acceleration in EU spending and PSR UE (which has increased on average over the last three the Multi-annual Financial Frameworks by €1 billion in the last year).

Conversely, interest payments[14] could be slightly lower than in the 2020 budget bill forecast. For example, if interest rates remained unchanged at their value observed on the 1st September 2019 (-0.6% for the 3-month rate and -0.2% for the 10-year rate), the additional expenditure savings would be around €1 billion in 2020.

Social security expenditure is expected to decelerate slightly in 2020 compared to 2019 (1.9% after 2.2% in value in national accounts). This forecast is achievable if the savings announced, particularly on the Ondam and Unédic, are achieved for the expected amounts.

Local government operating expenditure, composed mainly of local authorities, would increase by 1.5 per cent in 2019 and 0.7 per cent in 2020 in the Government scenario. Their investment would increase by 8.9% in 2019 and then decrease by 0.1% in 2020 in line with the electoral cycle[15].

With regard to expenditure over the first 8 months of 2019 (+1.6% for operating expenditure and almost +16% for investment, excluding debt repayment[16]), the trend in local expenditure could be more sustained in 2019 than expected in the budget bill. The same could be true in 2020, particularly given the high level of savings by local authorities.

The High Council considers that the forecast of public expenditure trends for 2019 and 2020 is plausible. The interest payments could be lower than expected. On the other hand, there are risks to the revenue levy in favour of the European Union and to the evolution of local expenditure.

Overall, the High Council considers that the nominal government balance forecast for 2019 and 2020 (-3.1 and -2.2 percentage points of GDP respectively) is plausible.

Finally, he pointed out that the public debt-to-GDP ratio would fall from 98.4% in 2018 to 98.8% in 2019, as a result of the temporary increase in the nominal deficit, due in particular to the transformation of the CICE into a reduction in contributions, and would then remain at 98.7% in 2020. The debt ratio would thus be almost stable over the period 2018-2020, in contrast to the decline observed in the euro area since 2016.

[14] The 10-year interest rate assumptions used in the Government's scenario (0.20% at the end of 2019 and 0.70% at the end of 2020) are higher than those recorded in the *Consensus forecasts* (0.0% in September 2020). On the other hand, the short-term interest rate assumptions (3 months; stable at -0.5% over the entire period) are very slightly lower than the *Consensus forecasts* (stable at -0.4% until September 2020).
[15] Expenditures amounted to 8.1% and -1.8% respectively, excluding *Société du Grand Paris*.
[16] If the annual growth in Local Authorities' expenditure (APUL) were to be at the rate observed at the end of August 2019, an increase in expenditure of more than €4 billion would be recorded in 2019 compared to the forecast in the 2020 budget bill. The actual and structural public deficits would be reduced by 0.2 percentage point of GDP. However, these monthly General Directorate of Public Finance (DGFiP) data should be interpreted with caution. For example, operating expenses increased by 0.9% between the eight-month cumulative figures at the end of August 2017 and the end of August 2018, but by 0.2% over the entire year 2018. Similarly, investment expenditure increased by 7% between the end of August 2017 and the end of August 2018, but by 4.5% over the year as a whole.

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* *

This opinion has been published in the Official Journal of the French Republic and attached to the budget bill for 2020.

Done in Paris, 23 September 2019.

For the High Concil of public finance,
The first president of the Court of Auditors,
President of the High Concil of public finance

Didier MIGAUD

Annex 1: the macroeconomic scenario attached to the 2018 budget bill

Economic forecasts for France

	2018	2019	2020
Goods and services, real terms	%, annual average		
Gross domestic product	1.7	1.4	1.3
Final consumption of households	0.9	1.2	1.5
Final public consumption	0.8	0.8	0.8
Grossed fixed capital formation	2.8	2.9	2.0
Of which : Non-financial corporates	*3.9*	*3.3*	*2.7*
Public administrations	*2.4*	*5.3*	*1.4*
Households(excluding individual entrepreneurs)	*2.0*	*0.8*	*0.5*
Imports	1.2	2.2	2.5
Exports	3.5	2.3	2.3
Contributions to real GDP growth	In points of GDP		
Private domestic demand (excluding inventories)	1.0	1.1	1.2
Public demand	0.3	0.4	0.2
Inventories	-0.3	-0.2	0,0
External Trade	0.7	0.0	0.0
Prices and nominal aggregates	%, annual average		
Consumer prices inflation index	1,8	1.2	1.2
Core inflation	0.8	0.9	0.9
Gross domestic product deflator	0.8	1.3	1.2
Nominal gross domestic product	2.5	2.7	2.6
Productivity, employment and wages	%, annual average		
Market-sector (excluding agriculture) :			
- Productivity	0,3	0,0	0,6
- Payrolls	1,7	1,5	0,9
- Average salary	1,7	1,8	1,8
- Wage bill	3,4	3,3	2,8
Total employment	0,9	0,9	0,6
Non-financial corporate account	%, annual average		
Value Added	3,0	3,5	3,4
Gross operating product	1,3	7,6	0,6
Markup rate	31,2	32,4	31,6
Saving rate	22,6	23,8	22,8
Investment rate	24,1	24,5	24,7
Self-financing rate	93,4	97,3	32,1
Households account	%, annual average		
Total wage bill	2,9	2,9	2,4
Gross disposable income	2,7	3,3	2,5
Purchasing power of gross disposable income	1,2	2,0	1,2
Saving rate	14,2	14,8	14,6
Operations with the rest of the world	In GDP points		
Trade balance FAB-FAB (customs data)	-2,5	-2,3	-2,3
Trade balance FAB-FAB (in billions of euros)	-59	-56	-56
International context	%, annual average		
Global demand for France	3,8	2,0	2,6
Euro-dollar exchange rate	1,18	1,12	1,12
Oil Price (per Brent baril in dollars)	71	63	59

Source : ministry of economy and finance (September 2019), Working day adjusted data

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Annex 2: introductory article of the 2020 budget bill

Texte de l'article :

Les prévisions de solde structurel et de solde effectif de l'ensemble des administrations publiques pour l'année 2020, l'exécution de l'année 2018 et la prévision d'exécution de l'année 2019 s'établissent comme suit :

(En points de produit intérieur brut)

	Exécution 2018	Prévision d'exécution 2019	Prévision 2020
Solde structurel (1)	-2,3	-2,2	-2,2
Solde conjoncturel (2)	0,0	0,0	0,1
Mesures ponctuelles et temporaires (3)	-0,2	-0,9	-0,1
Solde effectif (1 + 2 + 3)	-2,5	-3,1	-2,2

Exposé des motifs de l'article :

Cet article présente, conformément à l'article 7 de la loi organique n° 2012-1403 du 17 décembre 2012 relative à la programmation et à la gouvernance des finances publiques, la prévision de solde structurel et de solde effectif de l'ensemble des administrations publiques pour 2020. Il présente également ces mêmes soldes pour les années 2018 (exécution) et 2019 (prévision d'exécution).

La prévision de déficit public pour 2019 s'établit à 3,1% du PIB. En effet, le solde 2019 est affecté de manière ponctuelle et temporaire par le double-coût pour les finances publiques de la bascule du crédit d'impôt pour la compétitivité et l'emploi (CICE) en allègements pérennes de cotisations sociales (0,8 point de PIB). En 2020, le solde serait de -2,2% du PIB. En termes structurels, la résorption du déficit se poursuivrait en 2019 et 2020, avec un niveau de solde structurel de -2,2% du PIB potentiel en 2020 après -2,3% en 2018.

En 2019, la croissance serait proche mais légèrement supérieure à son rythme potentiel, traduisant une légère amélioration conjoncturelle du solde public. L'ajustement structurel de +0,1 point de PIB serait porté par un effort en dépense de +0,3 point, une fois neutralisé l'impact de la création de France Compétences. En recettes, les mesures nouvelles en prélèvements obligatoires pèseraient sur l'ajustement à hauteur de -0,2 point.

En 2020, la croissance serait légèrement supérieure à son rythme potentiel, si bien que la variation conjoncturelle du solde public serait très légèrement positive. L'ajustement structurel serait nul, malgré un effort positif (+0,1 point), porté par un effort en dépense de +0,4 point une fois neutralisé l'impact de la création de France Compétences. A l'inverse, les mesures nouvelles en prélèvements obligatoires pèseraient sur l'effort structurel à hauteur de -0,3 point. Par ailleurs, l'ajustement structurel serait légèrement pénalisé par la composante non discrétionnaire des recettes (-0,1 point).

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Comme débattu devant le Parlement à l'occasion de l'examen du Projet de loi de règlement des comptes 2018, le niveau de solde structurel en 2018 s'avère légèrement inférieur à celui projeté dans la programmation (-2,3% vs -2,1% dans la LPFP), suite à l'intégration du déficit de SNCF Réseau dans la mesure du solde public (-2,5 Md€ de solde 2018), élément contribuant à la sincérité de nos comptes, et à la révision de la croissance 2018 par l'Insee en mai dernier. En 2019, cet écart s'accroitrait légèrement (-2,2% contre -1,9%) malgré un ajustement structurel positif (+0,1 pt), cependant inférieur à celui projeté en LPFP (+0,3 pt). Cette révision du rythme d'amélioration structurelle des comptes publics est à la fois liée à la réponse d'ampleur qu'a apportée le Gouvernement à l'urgence économique et sociale ainsi qu'à un contexte économique moins favorable (croissance revue à 1,4% contre 1,7% dans la programmation).

En 2020, le rythme de consolidation des comptes publics a de nouveau été ajusté (solde structurel de 2,2%), pour tenir compte à la fois de l'effet des mesures d'urgence adoptées en 2019 sur 2020 et des mesures issues du Grand Débat National annoncées le 25 avril (la loi de programmation prévoyait un solde structurel de 1,6% en 2020).

Les hypothèses ayant servi au calcul du solde structurel et notamment l'estimation de la croissance potentielle de l'économie sont inchangées par rapport à celles de la loi de programmation des finances publiques pour les années 2018 à 2022.

Pour mémoire :

en Md€	Exécution 2018	Prévision d'exécution 2019	Prévision 2020
Solde effectif	-59,5	-73,9	-53,5
PIB nominal	2 353,1	2 416,9	2 479,4

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Annex 3: estimating the general government structural balance

The structural balance estimate

To assess the public finance path, the structural budget balance is usually considered. The structural balance is the **public balance adjusted for the direct impact of the economic cycle and exceptional events**. The public balance is thus divided into two components:

- **A cyclical component,** which reflects the impact of the economic cycle on public administrations' expenditure and revenue;

- **A structural component,** being what the public balance would be if domestic production were at its potential level.

The calculation of the cyclical and structural components of the public balance is based on the potential GDP estimate. Potential GDP is the "sustainable" output, i.e. the quantity that can be produced without having positive or negative impacts on inflation. The cyclical component of the public balance results from the cyclical variations in public revenue and expenditure, considered as follows:

- **On the revenue side**, only compulsory levies are assumed to be cyclical. The cyclical parts of the income tax, corporate income tax, social security contributions and other mandatory contributions are calculated separately based on the observed levels, the estimated output gap and the elasticity of each tax category to GDP growth[17];

- **On the expenditure side**, only the unemployment compensation expenses are considered dependent on economic conditions[18]. Their cyclical share is estimated, as for revenue, based on their elasticity to the output gap and the amounts observed.

The structural balance is calculated as the difference between the nominal public balance and the cyclical component estimate. Given the fact that compulsory levies and cyclical expenses account for about half of GDP and that their average elasticity is close to one, the cyclical component of the public balance is equal to just over half the output gap (for France). **A final correction is made to the structural balance in order to exclude certain events or actions** that have no lasting impact on the public balance. **However, there is no comprehensive definition of one-off and temporary measures and their assessment is partly based on interpretation.**

The components of the structural adjustment

The variation of the structural balance is known as "structural adjustment". A positive structural adjustment reflects a budgetary policy directed towards the medium term objective (-0.4% for France as set by the programming law), when there initially is a deficit. Conversely, a negative structural adjustment reflects an expansionist budgetary policy, increasing the structural deficit.

In order to assess more sensibly the budgetary policy, the **structural adjustment is divided into two components**.

- **The structural effort, which measures the discretionary part of the structural adjustment, i.e. controlled by public decision makers, is made of:**

[17] This effect is evaluated on the basis of the average "elasticities" of each tax category with respect to the output gap. The elasticities used are those estimated by the OECD.
[18] As for other expenditures, they are either discretionary in nature or no link with the economic situation can be clearly and reliably identified.

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o **the expenditure restraint**, which compares the public spending real growth (calculated with the GDP deflator) to the economy's potential growth. It has a positive contribution to the structural adjustment when public spending grows slower than potential GDP;
o the new measures on compulsory levies.

- **The non-discretionary part** takes into account:
- the impacts of **changes in revenue elasticities**: since the cyclical component of the public balance is based on average elasticities, the structural balance includes the effects of elasticity fluctuations around the long-term average value;
- **the changes in revenues other than compulsory levies.**

Annex 4: Uncertainties in the evaluation of the economy's position in the economic cycle and the implications for the structural balance estimation

Estimating the economy's position in the cycle makes it possible to assess the cyclical component of the public balance and to deduce the structural balance from it. However, there are uncertainties around the estimation of the output gap.

The output gap represents the gap between GDP and potential GDP, corresponding to the national wealth that the economy could produce without creating tensions. The assessment of the output gap makes it possible to assess, in particular, the economy's ability to rebound or, conversely, the expected increase in growth.

As an unobservable quantity, the output gap must be evaluated using statistical tools. Indeed, measures of this output gap diverge across institutions.

The output gap in 2018 is estimated by international organisations to be in a range from -0.3 points of GDP (OECD, May 2019 forecast) to +0.4 points of GDP (European Commission, May 2019), the IMF estimate being +0.2 percentage points of GDP (April 2019). The Government's assessment is -0.1 percentage point of GDP.

However, revisions in the output gap can be substantial and lead to a posteriori reinterpretation of an economy's position in the cycle[19]. In particular, the updating of output gap estimates in the forecasts published by the European Commission and the IMF since 2017 has generally supported a

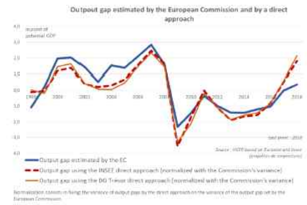
[19] See opinion HCFP-2017-3.

closing of the output gap. These revisions can have several origins: revisions to actual GDP growth data and revisions to potential growth estimates.

The estimation of the output gap can also be confronted with other indicators related to the economic cycle, such as production capacity utilisation rate, production bottlenecks, recruitment difficulties[20]. An analysis based on these indicators may lead to the conclusion that the French economy is higher than estimated so far, as indicated by the Treasury Directorate General in a recent publication (Trésor éco n° 223 of June 2018). In addition, this method is characterized by the fact that it provides a diagnosis that is hardly revised after the fact, unlike the methods used by the Government and international organizations. In particular, DG Treasury has highlighted that these estimates are closer to the European Commission's final estimate than the Commission's initial estimates.

However, this tool is based on surveys and does not take into account quantitative variables (inflation, unemployment, etc.). Insee conducted an analysis[21] based on a methodological approach similar to that of DG Treasury but including quantitative variables such as inflation and unemployment. Taking these into account leads to a more nuanced diagnosis of the economy's position in the cycle: in 2018, the French economy's GDP would be slightly above its potential level, but to a lesser extent than DG Treasury's assessment.

The results of this work suggest that the output gap may already be positive in 2019, although it is difficult to accurately assess the magnitude of this gap. Thus, if the cyclical component of the public balance is positive in 2019, the structural deficit would be worse than that currently estimated by the Government.

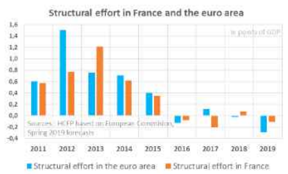


[20] See opinion HCFP-2018-1

[21] « Tensions sur l'offre et position de l'économie dans le cycle », Insee, Note de Conjoncture, December 2018

Annex 5: The fiscal stance has been almost neutral in France since 2016

The structural deficit in France was reduced by 2.5 points of GDP between 2011 and 2019, a decline of the same magnitude as that observed in the euro area (2.6 percentage points). Nevertheless, France started from a higher deficit level in 2011 (-5.1 points) than the euro area average (-3.5 points). France has therefore not closed the gap and its structural deficit is expected to be one of the highest in the euro area in 2019 (-2.6 GDP points[22] compared to -0.9 GDP points according to European Commission estimates).

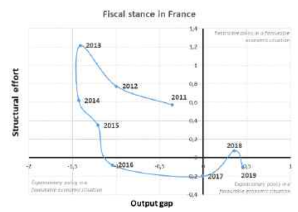


In France and the euro area as a whole, the effort for improving the structural balance was much more pronounced in the period 2011-2015 than in the period 2016-2019. It was on average 0.7 GDP points per year during the period 2011-2015 and would then be slightly negative on average during the period 2016-2019 (-0.1 GDP point).

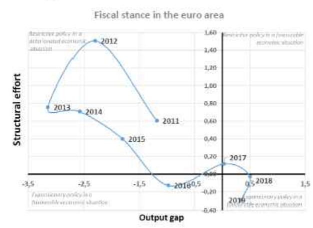
The recovery of public finances over the period 2011-2015, mainly as a result of an increase in taxes, took place in a very deteriorated economic context, marked by the euro area crisis and the simultaneous implementation of public finance recovery policies in several countries. According to European Commission data, the fiscal policy orientation (measured by the structural effort) was restrictive during the period when the output gap was very negative (2011-2015[23]). It was then broadly neutral between 2016 and 2019 as the output gap closed (see graph).

[22] The structural deficit in 2019 is higher in the European Commission's estimate (-2.6 percentage points of GDP) than in the Government's estimate (-2.2 percentage points). The difference is explained by different estimates of the output gap (+0.5 percentage points of GDP for the Commission, 0.0 percentage point for the Government).

[23] The European Fiscal Board makes a fairly similar observation for the European Union as a whole over a longer period; in general, during the period 1999-2018, counter-cyclical policies were conducted in periods of deteriorated economic conditions (European Fiscal Board, "Assessment of EU fiscal rules with a focus on the six and two-pack legislation", August 2019).



Both France and the euro area have implemented a pro-cyclical fiscal policy overall over the period 2011-2019, restrictive in a period of weak economic activity and expansionary in a period of positive economic activity.



별첨 2 OECD 정책동향자료

OECD 세계경제전망 발표

◆ **OECD는 2019년 11월 21일 세계경제에 대한 2019~21년 전망 (OECD Economic Outlook No. 106)을 발표**

○ 세계경제는 '19년 2.9%, '20년 2.9%, '21년 3.0% 성장하고, 한국경제는 '19년 2.0%, '20년 2.3%, '21년 2.3% 성장 전망

* OECD는 매년 2회(5-6월경, 11월경) 경제전망 보고서를 발간

< 세계 및 주요국 경제 전망 (%) >

	'18년	'19년*	'20년*	'21년*
실질 GDP 증가율				
전세계	**3.5**	**2.9**	**2.9**	**3.0**
G20	3.8	3.1	3.2	3.3
OECD	2.3	1.7	1.6	1.7
한국	**2.7**	**2.0**	**2.3**	**2.3**
미국	2.9	2.3	2.0	2.0
유로존	1.9	1.2	1.1	1.2
일본	0.8	1.0	0.6	0.7
비OECD	4.6	3.9	4.0	4.0
중국	6.6	6.2	5.7	5.5
인도	6.8	5.8	6.2	6.4
실업률	5.3	5.2	5.1	5.1
인플레이션	2.3	2.0	2.1	2.1
재정수지(GDP 대비)	△2.9	△3.2	△3.3	△3.3
글로벌 교역량	3.7	1.2	1.6	2.3

< 세계경제 성장률 전망 (Real GDP Growth) >

* OECD Economic Outlook No. 106, 기획재정부 보도참고자료 등을 참조하여 작성

- 1 -

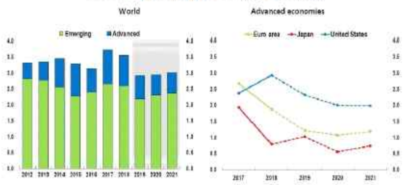
1. 세계경제 전망 : *"Low growth ahead"*

○ 글로벌 GDP는 '19년 2.9%, '20년 2.9%, '21년 3.0% 성장할 전망

* 금융위기 이후 가장 낮은 수준이며, 세계 잠재성장률을 0.3~0.4%p 하회

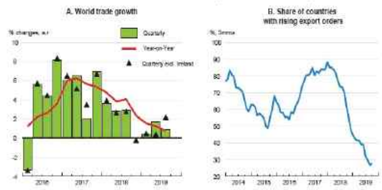
• 글로벌 불확실성 지속에 따른 교역·투자 위축으로 선진국·신흥국 전반적으로 성장 둔화, '21년까지 유사한 성장세 전망

<그림 1> 세계경제 성장률 전망 (Real GDP Growth)



○ 미·중 등 무역분쟁이 지속되면서 세계교역은 '19년 1.2%로 위축된 이후 '20년(1.6%) ~ '21년(2.3%) 중 완만한 속도로 증가세 확대 전망

<그림 2> 세계 교역 전망 (World Trade Growth)

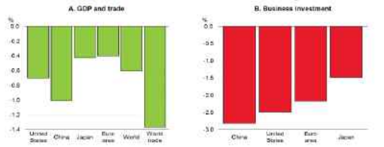


- 2 -

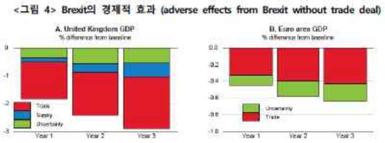
○ 세계경제 주요 하방리스크로는
①무역갈등 등 보호무역주의, ②브렉시트 ③중국 성장 둔화 등 지적

1」 미·중 관세가 추가 인상되거나 서비스 부문으로 확대될 가능성 배제 곤란
2」 노딜 브렉시트 가능성이 상존하는 가운데, 비교적 완만한 브렉시트 (Smooth Brexit)의 경우에도 영국 중심으로 유로존 전반에 대한 부정적 영향
3」 중국 정부의 경기부양책에도 불구 수입수요 등이 크게 위축되며 추가 둔화 우려

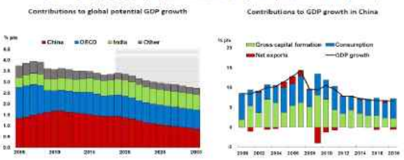
<그림 3> 미-중 무역갈등의 경제적 효과 (adverse effects from higher US-China Tariffs)



<그림 4> Brexit의 경제적 효과 (adverse effects from Brexit without trade deal)



<그림 5> 중국의 성장기여도 (contributions to global potential GDP growth)



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2. 주요국 성장전망

○ (미국) '18년 2.9% → '19년 2.3% → '20년 2.0% 성장 전망

• 감세정책 효과는 감소하는 가운데, 관세인상과 불확실성이 투자·수출을 제약하며 성장세 둔화 전망

○ (중국) '18년 6.6% → '19년 6.2% → '20년 5.7% 성장 전망

• 경제구조 변화(수출→내수중심) 과정에서 무역분쟁이 제조업 생산과 투자에 부정적인 영향을 미치며 '20년 5%대 성장 예상

○ (유로존) '18년 1.9% → '19년 1.2% → '20년 1.1% 성장 전망

• 글로벌 경기 둔화에 따라 제조업 및 교역의존도가 높은 독일·이탈리아 중심으로 유로존 전체 성장도 둔화

○ (일본) '18년 0.8% → '19년 1.0% → '20년 0.6% 성장 전망

• 확장재정과 올림픽이 소비세 인상의 부정적 영향을 일부 상쇄할 전망이나, 중국 수입수요 둔화 등 하방리스크 상존

<표 1> 세계 및 주요국 경제 전망(%, OECD)

	'12~'19평균	'18년	'19년*	'20년*	'21년*
실질 GDP 증가율					
전세계	**3.3**	**3.5**	**2.9**	**2.9**	**3.0**
G20	3.6	3.8	3.1	3.2	3.3
OECD	2.1	2.3	1.7	1.6	1.7
미국	2.4	2.9	2.3	2.0	2.0
유로존	1.5	1.9	1.2	1.1	1.2
일본	1.1	0.8	1.0	0.6	0.7
비OECD	4.4	4.6	3.9	4.0	4.0
중국	6.9	6.6	6.2	5.7	5.5
인도	7.1	6.8	5.8	6.2	6.4
실업률	6.6	5.3	5.2	5.1	5.1
인플레이션	1.6	2.3	2.0	2.1	2.1
재정수지(GDP 대비)	△3.6	△2.9	△3.2	△3.3	△3.3
글로벌 교역량	3.4	3.7	1.2	1.6	2.3

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3. 정책권고 : *“Time to turn the tide”*

○ (통화정책) 성장 및 인플레이션이 추가적으로 둔화되는 경우, 향후에도 완화적 통화정책을 지속 추진할 필요

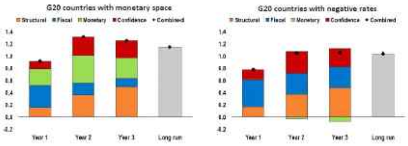
* 다만, 무역갈등 등에 따른 글로벌 불확실성 확대가 경기 둔화의 원인인 만큼 통화정책의 효과성은 제한될 수 있음을 지적

○ (재정정책) 재정건전성을 감안하되, 단기 수요진작 및 잠재성장률 제고 필요성을 우선 고려하여 결정

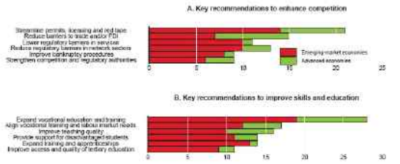
* 독일, 네덜란드, 스웨덴 등 상대적으로 부채수준이 낮은 상황에서 성장률이 둔화되는 국가들의 경우 추가적인 재정확대 검토 필요
* ’20년 상대적으로 큰 규모의 확장재정을 추진하는 대표적 국가로 한국 등을 언급하며, 이러한 경기대응적 재정정책에 대해 바람직(desirable)하다고 평가

○ (구조개혁) 선진국·신흥국 모두 기술교육 확대, 상품시장 규제 완화 등 구조개혁 정책 가속화 필요

<그림 6> 정책공조의 성장기여 효과 (potential effects of combined policies on GDP)



<표 2> 분야별 구조개혁 정책 우선순위 (key structural reform priorities)



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< 한국경제 전망 및 정책권고 >

1 [전망] 한국경제는 ’19년 2.0%, ’20년 2.3%, ’21년 2.3% 성장 전망

○ (수출·투자) 글로벌 경기 둔화, 미·중 등 무역갈등에 따른 불확실성, 반도체 가격하락 등으로 수출과 투자가 둔화되는 상황

* 주택공급의 순환주기상(Cyclicality) 둔화와 대출규제 등으로 주택투자도 위축

○ (소비) 소비심리 약화 및 민간일자리 둔화가 내구재 소비를 제약하고 있으나, 가계실질소득 증가가 소비에 긍정적으로 작용

○ (실업률) 경기 둔화와 ’18~’19년 최저임금 인상에도 불구하고 보건복지 중심 공공일자리 창출에 힘입어 실업률은 감소세

○ (물가) 농산물가격 하락 등의 영향으로 낮은 수준을 유지하고 있으며, 근원 인플레이션도 인플레이션 목표(2%)에 미달

< 한국 경제 전망(%) >

※ GDP 성장률은 중간전망(’19.9월), 다른 지표는 본전망(’19.5월) 기준
(중간전망에서는 본전망과 달리 G20 국가들의 ‘성장률’ 수정 전망치만 공개)

연도	2019년*		2020년*		2021년*
전망시점	’19.5월 ’19.9월	’19.11월	’19.5월 ’19.9월	’19.11월	’19.11월
GDP 성장률	**2.1**	**2.0**	**2.3**	**2.3**	**2.3**
민간소비	2.5	1.8	2.7	1.9	2.4
총고정자본형성	△2.4	△4.1	1.6	0.0	1.2
수 출	△0.5	1.5	3.4	3.7	1.7
수 입	△1.4	△0.5	3.8	3.1	2.0
실업률	3.9	3.7	3.9	3.5	3.5
소비자물가	0.8	0.3	1.5	1.1	1.4
재정수지(GDP대비)	1.1	1.3	0.6	△0.1	△0.4
경상수지(GDP대비)	4.3	3.5	4.4	3.9	4.0

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2 [정책권고] 구조개혁 정책을 동반한 확장적 거시정책 필요

○ (재정정책) 한국 정부는 글로벌 경기둔화에 대응하여 ’19.8월 추가경정예산을 편성하였고 ’20년에도 확장재정정책을 추진할 계획

• OECD는 낮은 부채비율 등 건전한 재정상황과 복지지출 확대 필요성을 감안하여 이러한 정책방향을 “환영(Welcome)”한다고 평가

* This is welcome, given the government’s sound budget position, low debt level and need to expand social welfare
* 다만, 빠른 속도의 인구고령화 등에 따라 미래 복지 등 지출증가가 예상되는 점도 신중히 고려할 필요가 있다고 지적

○ (통화정책) 한국은행은 ’19.7월과 10월 두차례 기준금리를 인하하였으며 인플레이션이 2%를 하회함에 따라 내년 추가 인하 예상

• 그간 도입된 거시건전성(macroprudential) 정책은 가계부채 증가세 완화에 도움이 되었으며, 필요시 향후 추가강화 검토 필요

○ (구조개혁) 포용적이고 지속가능한 성장을 위해서는 노동 이동성과 생산성을 제고하여 급속한 인구고령화에 대비 필요

* 특히, 한국의 노동생산성은 OECD 상위 50% 국가의 절반 수준에 불과

• 노동시장 규제완화, 디지털 기술교육 등은 여성·청년 고용을 제고하고 노인일자리 질을 향상시켜 노동시장 이중구조 완화 기대

• 경쟁을 촉진하고 중소기업 역동성을 강화하는 규제개혁을 통해 생산성(특히 서비스업 분야)을 제고할 필요

3 [종합평가] 확장적 재정정책, 완화적 통화정책, 반도체 수요의 점진적 증가는 향후 우리 경제 성장에 긍정적으로 작용할 전망

○ 투자는 낮은 수준에서 점차 안정화될 것으로 예상되며, 공공부문 일자리 확대 등에 힘입어 고용 증가세가 유지될 전망

* ’20년 낮은 수준의 최저임금 인상으로 민간일자리 창출에 미치는 부정적 영향도 제한적

○ 다만, 무역갈등에 따른 글로벌 불확실성 확대 등 하방리스크 상존

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참고 1 | OECD 「19.11월 세계경제전망」 성장률 전망치

	<OECD 전망>								<IMF 전망>	
	’18년	’19년 전망			’20년 전망			’21년 전망	’19년 전망	’20년 전망
전망시점	실적	19.9 (A)	19.11 (B)	조정폭 (B-A)	19.9 (C)	19.11 (D)	조정폭 (D-C)	19.11	’19.10	’19.10
세계	3.5	2.9	2.9	0.0	3.0	2.9	△0.1	3.0	3.0	3.4
G20	3.8	3.1	3.1	0.0	3.2	3.2	0.0	3.3	-	-
미국	2.9	2.4	2.3	△0.1	2.0	2.0	0.0	2.0	2.4	2.1
캐나다	1.9	1.5	1.5	0.0	1.6	1.6	0.0	1.7	1.5	1.8
멕시코	2.0	0.5	0.2	△0.3	1.5	1.2	△0.3	1.6	0.4	1.3
유로존	1.9	1.1	1.2	0.1	1.0	1.1	0.1	1.2	1.2	1.4
독일	1.5	0.5	0.6	0.1	0.6	0.4	△0.2	0.9	0.5	1.2
프랑스	1.7	1.3	1.3	0.0	1.2	1.2	0.0	1.2	1.2	1.3
이탈리아	0.7	0.0	0.2	0.2	0.4	0.4	0.0	0.5	0.0	0.5
영국	1.4	1.0	1.2	0.2	0.9	1.0	0.1	1.2	1.2	1.4
일본	0.8	1.0	1.0	0.0	0.6	0.6	0.0	0.7	0.9	0.5
한국	2.7	2.1	2.0	△0.1	2.3	2.3	0.0	2.3	2.0	2.2
중국	6.6	6.1	6.2	0.1	5.7	5.7	0.0	5.5	6.1	5.8
인도	6.8	5.9	5.8	△0.1	6.3	6.2	△0.1	6.4	6.1	7.0
인도네시아	5.2	5.0	5.0	0.0	5.0	5.0	0.0	5.1	5.0	5.1
아르헨티나	△2.5	△2.7	△3.0	△0.3	△1.8	△1.7	0.1	0.7	△3.1	△1.3
브라질	1.1	0.8	0.8	0.0	1.7	1.7	0.0	1.8	0.9	2.0
호주	2.7	1.7	1.7	0.0	2.0	2.3	0.3	2.3	1.7	2.3
터키	2.8	△0.3	0.3	0.6	1.6	3.0	1.4	3.2	0.2	3.0
러시아	2.3	0.9	1.1	0.2	1.6	1.6	0.0	1.4	1.1	1.9
사우디	2.2	1.5	0.2	△1.3	1.5	1.4	△0.1	1.4	0.2	2.2
남아공	0.7	0.5	0.5	0.0	1.1	1.2	0.1	1.3	0.7	1.1

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참고 2 **OECD Economic Outlook 한국 경제전망 원문**

Korea

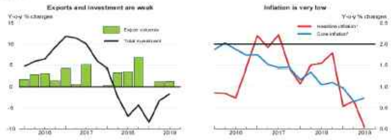
Economic growth will remain subdued, as the global slowdown and trade tensions hold back exports, while high uncertainty weighs on investment. Job creation in the public sector will mitigate the impacts of sluggish output growth on employment. A gradual recovery in global demand for semi-conductors and expansionary fiscal policy will support the economy.

Further monetary policy easing is expected in 2020, as headline inflation will remain below the 2% inflation target. The fiscal expansion of over one percentage point of GDP in 2020 provides a welcome stimulus, but sustaining long-term growth in the face of rapid population ageing will require structural reforms to boost productivity and create better jobs.

Weak exports and investment are pulling down growth

Shrinking export markets, heightened global uncertainty and falling prices for semi-conductors are holding back exports and driving down business investment. Residential investment is falling sharply, reflecting strong cyclicality in housing supply and tightened mortgage lending regulations. The creation of public sector jobs, notably in health care and welfare services, is bringing the unemployment rate down, despite the negative impact of the weak economy and the 29% increase in the minimum wage in 2018-19 on business employment and economic growth. Real household income growth supports private consumption, even though weak consumer confidence, reflecting uncertainty and subdued private job creation, restrains sales of durable goods. Although very low headline inflation is partly due to falls in food prices, core inflation is also well below the 2% inflation target.

Korea



1. The central bank's 2% target is for CPI inflation.
2. Excludes food and energy.
Source: OECD Economic Outlook 106 database.

StatLink https://doi.org/10.1787/888934045677

Korea: Demand, output and prices

Korea	2016 Current prices KRW trillion	2017	2018	2019	2020	2021
		Percentage changes, volume (2015 prices)				
GDP at market prices	1 740.8	3.2	2.7	2.0	2.3	2.3
Private consumption	834.8	2.8	2.8	1.8	1.9	2.4
Government consumption	265.3	3.5	5.6	6.6	7.0	4.7
Gross fixed capital formation	517.3	9.8	-2.4	-4.1	0.0	1.2
Final domestic demand	1 617.4	5.2	1.5	0.7	2.3	2.5
Stockbuilding[1]	7.4	0.4	0.2	0.4	-0.2	0.0
Total domestic demand	1 624.8	5.6	1.7	1.1	2.0	2.5
Exports of goods and services	698.8	2.5	3.5	1.5	3.7	1.7
Imports of goods and services	582.7	8.9	0.8	-0.5	3.1	2.0
Net exports[1]	116.0	-2.0	1.1	0.8	0.3	0.0
Memorandum items						
GDP deflator	_	2.2	0.5	-0.6	1.1	1.3
Consumer price index	_	1.9	1.5	0.3	1.1	1.4
Core inflation index[2]	_	1.5	1.2	0.8	1.1	1.4
Unemployment rate (% of labour force)	_	3.7	3.9	3.7	3.6	3.5
Household saving ratio, net (% of disposable income)	_	7.5	8.0	8.2	8.2	8.4
General government financial balance (% of GDP)	_	2.7	2.8	1.3	-0.1	-0.4
General government gross debt (% of GDP)	_	40.6	36.4	38.7	40.4	42.4
Current account balance (% of GDP)	_	4.6	4.4	3.5	3.9	4.0

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 106 database.

StatLink https://doi.org/10.1787/888934045608

Macroeconomic policy support needs to be complemented by structural reforms

The government took strong measures to counter the headwinds of waning global growth and mounting uncertainty. A supplementary budget of 0.3% of GDP was voted in August 2019 and fiscal stimulus of about 1.2% of GDP is planned for 2020. This is welcome, given the government's sound budget position, low debt level and the need to expand social welfare. Caution is nevertheless warranted to avoid unfunded spending becoming permanent, especially as rapid population ageing and rising demand for social services will push up public spending over the next decades. Reinforcing the fiscal framework would ensure that active fiscal policy remains consistent with long-term fiscal sustainability.

The Bank of Korea cut its policy rate by 25 basis points twice, in July and October 2019, to 1.25% and is expected to lower it further next year, as inflation will remain below the 2% target and economic activity will stay lacklustre. The wide range of macroprudential measures put in place in recent years should help contain increases in high household debt, and could be tightened further if necessary.

To foster inclusive long-term growth, Korea needs to implement structural reforms. As the population is ageing very rapidly, labour resources should be better mobilised and productivity, which is only about half of that in the top half of OECD countries, needs to rise. Easing labour market regulations and investing further in skills, especially digital, would help lift female and youth employment, enhance the quality of older workers' jobs, and reduce labour market duality. Regulatory reform to increase competition and greater policy focus on innovation and business dynamism in small and medium-sized enterprises would raise productivity, especially in services, where it is lagging.

한국의 청년고용 현황과 과제
(Investing in Youth: Korea)

◇ **OECD는 한국청년고용 리뷰보고서(Investing in Youth: Korea)를 통해 우리나라의 청년노동시장을 분석하고 정책방향을 제시함**

○ 동 보고서에 따르면, '18년 기준, 우리나라의 청년고용률은 43%로 OECD 평균(54%)보다 매우 낮은 수준

○ 이는 학업에 종사하는 청년의 비중은 높으나 일과 학업을 병행하는 비율은 낮고, 다른 OECD 국가와 달리 고학력 청년니트(NEET)의 비중이 높기 때문

* 니트 중 대졸이상자의 비율(%): OECD평균(18%)/우리나라(45%)

◇ **청년고용의 질적 측면은 여타 OECD 국가에 비해 개선되는 추세**

○ 청년의 임시직 비율은 감소('00년 47.7%→'17년 35.4%)하고, 저임금 일자리 및 비정규직에서 정규직으로의 이행 등의 노동시장 성과도 OECD 평균에 비해 양호한 것으로 평가됨

◇ **청년의 일자리와 숙련수준 불일치는 OECD 평균(36.4%)에 비해 다소 낮고(24.9%), 전공불일치는 OECD 평균(36.8%)에 비해 다소 높음(46.8%)**

* 현재의 일자리보다 자신의 숙련수준이 높은 과잉스펙의 비율이 증가('07년 26.6%→'15년 33.2%)하는 경향

○ 임금 중 학력프리미엄은 OECD 국가 중 낮은 편으로 높은 교육투자를 고려할 때 학력프리미엄이 교육투자를 상쇄하지 못하는 경향

* '17년 경제활동인구조사 결과, 전문대 졸업자의 29% 대졸자의 18%가 고졸자 평균임금보다 낮은 소득수준으로 등록금 및 재학기간 동안 포기한 소득 등을 감안하면 재정적인 측면에서 고등교육의 효용 낮을 수 있음을 시사

◇ **OECD는 한국 청년고용과 관련, 다음과 같은 정책방향 제시**

○ **(숙련미스매치 해소)** 어린 나이부터 직업에 대한 인식을 갖고 그에 맞는 교육과정·기관을 선택할 수 있도록 학령기 직업진로지도 강화

- 마이스터고·직업고와 도제훈련에 대한 투자 확대 기업의 참여 유인 강화, 기업의 능력기반 채용시스템 구축 지원

- 졸업자의 노동시장 성과(임금수준·직업경로 등) 제공, 산업계의 참여 확대 등을 통해 대학 등 고등 교육기관의 질적 수준 강화

○ **(청년에 대한 지원체계 개선)** 새로운 비전형적 일자리에 대한 고용보험 사각지대 해소, 자발적 실업에 대한 수급자격 고려 필요

- 니트족 등 비경제활동 인구가 많은 청년이 취업성공패키지에 더 많이 참여할 수 있도록 확대 필요, 민간고용서비스 기관의 질적 수준 개선을 위해 계약방식 및 평가체계 개편 필요

- 청년에 대한 전세자금 대여 정책을 주거수당 또는 모기지 지원 등으로 개편하는 방안 검토 필요

○ **(노동시장 및 생산물 시장의 이중구조 개선)** 대기업집단 중심의 산업구조 개선, 중소기업의 생산성 제고 및 역동성을 강화하여 기업규모에 따른 노동시장 이중구조 개선 필요

※ 출처: Investing in Youth: Korea(2019. 11월 발간)

Ⅰ. 한국청년의 교육 및 노동시장 상황

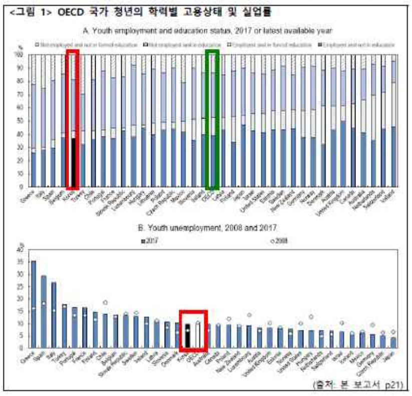
※ OECD는 청년을 15-24세로 분류하고 있으나 우리나라는 15-29세로 분류하는 경우가 많아 동 보고서에는 기준이 다를 수 있음

□ '18년 기준, 15-29세 한국청년의 고용률은 43%로 OECD 평균(54%)보다 매우 낮은 수준

○ 한국의 청년은 여타 OECD 국가와는 달리 일과 학업을 병행하는 비율이 매우 낮음(한국1/8, OECD 1/4)

○ '17년 기준 실업률은 OECD 평균수준이지만 노동시장의 유사성이 높은 일본에 비해 2배 수준으로 높고, '08년에 비해 상승하였음

<그림 1> OECD 국가 청년의 학력별 고용상태 및 실업률



(출처: 본 보고서 p21)

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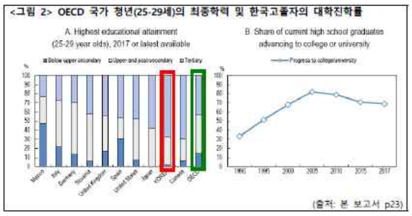
□ 여전히 높은 진학률('17년 69%)로 청년의 대부분이 고학력이며, 이로 인해 정규교육과정에서의 교육비 지출* 높음

* GDP대비 정규교육과정에서의 교육비 지출(공교육+사교육, 16년)
: 5.4%(한국), 5.0%(OECD 평균)

○ 이로 인해 청년의 숙련도는 OECD 국가 중 매우 높은 수준

<그림 2> OECD 국가 청년(25-29세)의 최종학력 및 한국고졸자의 대학진학률

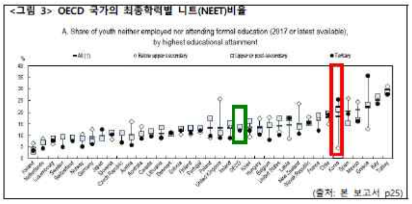


(출처: 본 보고서 p23)

□ 높은 교육열로 청년의 숙련도는 매우 높은 편이나 청년 중 니트(NEET)*비율이 높고, 니트 중 고학력자 비율 높은 특징

* NEET: Not in Employment, (formal)Education or Training

<그림 3> OECD 국가의 최종학력별 니트(NEET)비율



(출처: 본 보고서 p25)

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○ '00년 이래 니트비율이 점차 감소하고는 있으나 '17년 기준 청년 니트의 비중은 18.4%로 OECD 평균(13.4%)에 비해 다소 높은 편

○ 저학력자의 니트 비율이 높은 여타 OECD 국가와는 달리 대졸자 등 고학력자 니트 비중이 높은 특징

* 니트 중 대졸이상 비율(%): 한국(45%), OECD(18%)

- 이는 대학졸업 후 취업준비로 학원 등 비공식교육(informal education)에 참여하는 경우가 많은 현실이 반영된 것

※ 우리 정부는 이러한 한국적 현실을 반영하여 학원 등을 통해 취업준비를 하는 경우 이를 훈련참여로 분류할 것을 지속 요청, 이런 특성 감안 시 청년 니트 비율은 14.1%로 감소하지만 여전히 높은 수준

□ 학교에서 직장으로의 이행에 소요되는 기간은 통상 1년 내외, 이행 기간의 차이가 일자리의 질(고용형태, 소득)과 직접 연결되지는 않음

○ 이는 일부 OECD 국가(미국, 호주, 캐나다, 독일 등)에 비해서는 길고 이탈리아, 스페인, 영국에 비해서는 짧은 편

○ 고학력일수록 직장으로의 이행 기간이 짧아지는 경향으로 '17년 기준, 대졸이상은 9개월 내외, 고졸 이하는 평균 16개월 소요

○ 이행기간에 비해 첫 직장 근속기간은 비교적 짧은 편으로 첫 직장에서 평균 1.5년 근속한 것으로 나타남

- 근로조건에 대한 불만족 및 불투명한 전망 등이 주된 이직 사유

□ 임시직 비율이 증가·유지되는 다른 OECD 국가와는 달리 한국 청년층의 임시직 비율은 감소하는 경향으로 고학력 청년의 경우 두드러짐

○ '00년~'17년 사이 청년의 임시직 비율은 47.7%에서 35.4%로 하락, 파트타임 청년은 증가추세이나 여타 OECD 국가(22.8%)에 비해 상당히 낮은(15.9%) 수준

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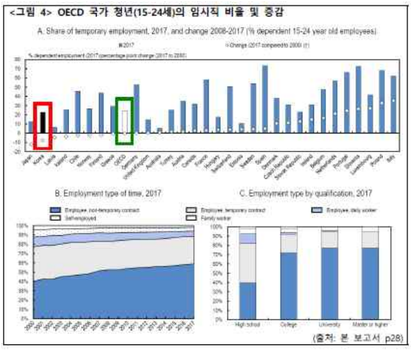
<그림 4> OECD 국가 청년(15-24세)의 임시직 비율 및 증감

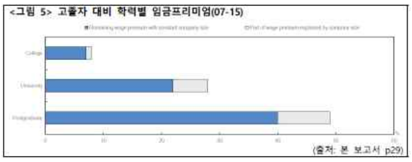


(출처: 본 보고서 p28)

□ 임금 중 학력프리미엄이 여전히 존재*하나 한국의 학력프리미엄은 OECD평균에 비해 낮은 편이며 교육투자를 상쇄하지 못하는 경향

* 한국의 학력프리미엄은 1980~90년대에는 감소, '05~'16년은 유지

<그림 5> 고졸자 대비 학력별 임금프리미엄(07-15)



(출처: 본 보고서 p29)

○ '17년 경제활동인구 조사결과에 따르면, 29%의 전문대졸업자와 18%의 대졸자가 고졸자 평균임금보다 낮은 소득으로 나타남

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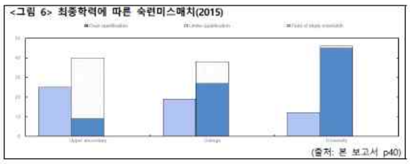
- 대학 등록금과 재학기간 동안 포기한 소득 등을 감안하면 재정적인 측면에서 고등교육(특히, 전문대)의 효용이 낮을 수 있음을 시사

□ 한국 청년의 경우, 일자리와 숙련(Skill)의 불일치는 OECD 평균에 비해 낮은 수준이나 전공불일치는 매우 높은 수준*

* 성인역량평가(PIACC) 결과: 숙련불일치(OECD: 36.4%, 한국24.9%)
전공불일치(OECD: 36.8%, 한국: 46.8%)

○ 일반고와 고등교육에 대한 강한 사회적 선호와 인식으로 직업에 대한 다양한 인식 낮고, 전반적인 고학력화로 대졸자의 과잉스펙 경향

<그림 6> 최종학력에 따른 숙련미스매치(2015)



(출처: 본 보고서 p40)

○ 숙련미스매치 중 과잉스펙의 비율이 지속적으로 증가('07년 26.6% →'15년 33.2%)하고 있는데, 대졸자의 44.5%와 대학원 졸업자의 78.5%가 자신의 숙련이 현재 일자리에 비해 과잉이라 인식

- 고졸자의 33%, 전문대 졸업자의 10%는 자신의 숙련이 일자리에 비해 모자란다는 인식

○ 우리나라 뿐 아니라 OECD 국가에서도 일자리보다 과잉스펙인 근로자는 숙련수준이 잘 매치된 근로자에 비해 평균적으로 저소득 경향이 나타남

○ 특히, 직업생활 시작 시 과잉스펙인 경우 그 영향이 직업생애에 지속되어 유사한 스펙의 숙련이 잘 매치된 근로자에 비해 저소득, 직업에 대한 낮은 만족도가 지속적으로 유지되는 경향

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Ⅱ. OECD의 정책제안

1. 숙련미스매치 해소

□ 직업진로지도 강화

○ 한국은 직업진로상담·지도에 대한 투자 지속적으로 늘려왔으나* 인턴십 등 직업현장 학습, 학령기의 직업진로 지도 등은 OECD 평균보다 다소 낮다는 평가

* 학령기 단계에서 교육부는 중·고교에 5000명의 직업상담사 채용, 자율학기제, 직업능력개발원의 각종 정보제공 등

○ 직업진로 지도교사의 전문성을 강화하기 위해 현재의 최소 훈련과정 이수 등의 의무수료제도는 유지하되, 고숙련 수준(석사과정 등)에서 직업상담 과정 확대 필요

*호주(뉴사우스웨일즈주) 교사자격 외에 직업지도관련 석사과정 수료 필요

○ 학교별 직업진로 수준 측정 및 상호벤치마킹을 통해 질적 수준 제고, 상담교사의 업무부담 경감 등의 조치 고려 필요

○ 현장 방문(job-shadowing), 멘토, 인턴십 등 사업주의 참여를 통해 현장성 강화 필요

□ 고등학교 과정의 직업교육 강화

○ 대기업이 숙련부족을 겪는 OECD 국가의 경향과 달리 우리나라는 중소기업 및 고등학교 수준 직업의 숙련부족 높은 경향

* 40%의 중소기업이 숙련부족 경험, '18년 기준 빈일자리의 37%는 고졸 수준의 숙련도 요구

- 일반계 고교보다 직업계 고교 및 도제훈련에 대한 투자를 통해 숙련미스매치 해소 가능

○ 직업계 고교 진학에 대한 유인을 강화하고, 도제 등 현장성 높은 직업교육 확대 필요

* 마이스터고 및 도제제도 도입 통해 직업고 졸업생이 저기능 단순인력이라는 인식을 상당부분 개선한 성과는 있으나 아직까지 참여수준 저조

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○ 도제 참여 기업에 대한 비용지원 및 인센티브를 통해 더 많은 기업이 도제활동 에 참여할 수 있도록 지원

□ 대학 등 고등교육의 질적 수준 강화

○ 한국 고등교육의 질적 수준*은 초중등 교육에 비해 상대적으로 낮은 것으로 평가되며, 교육기관 간 질적 스펙트럼이 다양한 경향

* 2013년 IMD 조사에 의하면 한국교육의 전반적 경쟁력은 60개국 중 25위이나 대학교육의 경쟁력은 41위(2013년 IMD)

- 최근에는 교육기관(대학, 전문대 등)간 차별화도 낮아져 전문대의 과정이 학사과정에서 수행되기도 하고, 직업고의 과정이 전문대에서 수행되기도 함(예: 4년제 대학의 미용학사학위 과정)

○ 졸업생의 임금수준, 직업경로 등 대학교육의 노동시장 성과에 대한 정보제공을 강화하고 각종 지원체계와 연계하여 학생의 합리적 대학선택 지원 필요

* 미국(콜로라도, 텍사스, 테네시)은 상공회의소, 연구기관, 갤럽, 주정부가 투자하여 "Launch my Career" 웹사이트 개설, 각 대학의 학비, 졸업 후 20년 간 소득변화 등 정보 제공

○ 대학이 교육과정을 스스로 지속적으로 모니터링하고 노동시장의 숙련수급 상황에 따라 관련 교육과정을 개편할 수 있는 시스템 마련 필요

○ 사업주의 참여와 협력을 통해 교육과정의 노동시장 적합성 강화하고 기업가정신에 대한 내용을 공통과정으로 편입하여 전공과 관계없이 기업가정신에 대한 인식 갖출 수 있도록 지원

□ 기업의 채용방식 전환 등 지원

○ 능력기반 채용이 확산될 수 있도록 인사담당자에 대한 훈련제공, 중소기업에 대한 지원 필요

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2. 청년에 대한 지원체계 개선

□ 고용보험 등 사회보험의 적용범위 및 보장범위 개선

○ 사회보험 가입대상임에도 가입되지 않은 경우 고용주에 대한 제재를 강화하고, 다양한 고용형태의 등장에 따라 고용보험 가입대상을 지속적으로 확대할 필요

○ 구직급여의 보장성(임금대체율)을 높이고, 자발적 실업에 대해서도 적용확대 고려

□ 청년에 대한 강화된 고용서비스 제공

○ 니트족 등 비경제활동 인구가 많은 청년이 취업성공패키지에 더 많이 참여할 수 있도록 확대전략 마련 필요

- 특히, 민간고용서비스 기관의 질적 수준 개선을 위해 계약방식 및 평가체계 개편 필요.

□ 주거복지와 관련, 청년에 대한 전세자금 대여 정책을 주거수당 또는 모기지 지원 등으로 개편하는 방안 검토 필요

3. 노동시장 및 생산물 시장의 이중구조 개선

○ 대기업 집단 중심의 산업구조 개선, 중소기업의 생산성 제고 및 역동성을 강화하여 기업규모에 따른 노동시장 이중구조 개선 필요

○ 우리나라의 고용보호법제(EPL)*는 정규직에 대한 보호수준은 OECD 평균보다 낮고, 비정규직에 대한 보호수준은 높아 균형성을 갖춘 것으로 평가됨

* 본 보고서의 고용보호법제는 2013년 기준으로 작성됨. OECD는 2020년에 회원국의 고용보호법제의 내용을 업데이트 할 예정

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별첨 3 UNEP FI Publications

FIDUCIARY DUTY IN THE 21ST CENTURY 2

ABOUT THIS REPORT

In January 2016, the PRI and UNEP FI, with the generous financial support of The Generation Foundation, launched a four-year project to clarify investor obligations and duties (known in common law markets as fiduciary duties) in relation to the integration of environmental, social and governance (ESG) issues in investment practice and decision making. The project involved working with investors, governments and intergovernmental organisations:

1. To develop and publish an international statement on investor obligations and duties.
2. To prepare policy analysis and research into investor duties across a range of markets, published in country roadmaps.
3. To engage with policy makers and encourage them to adopt policy measures that clarify and formalise that investor duties and obligations incorporate ESG issues in their markets.

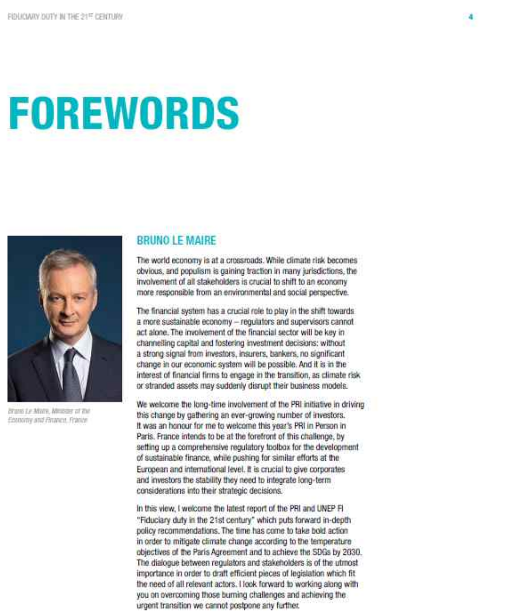
This is the final report from that project. It replaces the original 2015 report which found that the "failure to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty". Despite significant progress, many investors were not fully integrating ESG issues into their investment decision-making processes, necessitating regulatory clarification.

The origins of the modern interpretation of fiduciary duty date back to the landmark 2005 Freshfields Report, commissioned by the United Nations Environment Programme Finance Initiative (UNEP FI) Asset Management Working Group. Whereas there was relatively little change in the law relating to fiduciary duty between 2005 and 2015, there has been a great deal of development in the past few years.

This report describes how the integration of ESG issues into investment practice and decision making is an increasingly standard part of the regulatory and legal requirements for institutional investors, along with requirements to consider the sustainability-related preferences of their clients and beneficiaries, and to report on how these obligations have been implemented. It also identifies areas where further work is required and reflects on how investors' duties and obligations may further evolve over time.

FIDUCIARY DUTY IN THE 21ST CENTURY 3

CONTENTS



FIDUCIARY DUTY IN THE 21ST CENTURY 4

FOREWORDS

Bruno Le Maire, Minister of the Economy and Finance, France

BRUNO LE MAIRE

The world economy is at a crossroads. While climate risk becomes obvious, and populism is gaining traction in many jurisdictions, the involvement of all stakeholders is crucial to shift to an economy more responsible from an environmental and social perspective.

The financial system has a crucial role to play in the shift towards a more sustainable economy – regulators and supervisors cannot act alone. The involvement of the financial sector will be key in channelling capital and fostering investment decisions: without a strong signal from investors, insurers, bankers, no significant change in our economic system will be possible. And it is in the interest of financial firms to engage in the transition, as climate risk or stranded assets may suddenly disrupt their business models.

We welcome the long-time involvement of the PRI initiative in driving this change by gathering an ever-growing number of investors. It was an honour for me to welcome this year's PRI in Person in Paris. France intends to be at the forefront of this challenge, by setting up a comprehensive regulatory toolbox for the development of sustainable finance, while pushing for similar efforts at the European and international level. It is crucial to give corporates and investors the stability they need to integrate long-term considerations into their strategic decisions.

In this view, I welcome the latest report of the PRI and UNEP FI "Fiduciary duty in the 21st century" which puts forward in-depth policy recommendations. The time has come to take bold action in order to mitigate climate change according to the temperature objectives of the Paris Agreement and to achieve the SDGs by 2030. The dialogue between regulators and stakeholders is of the utmost importance in order to draft efficient pieces of legislation which fit the need of all relevant actors. I look forward to working along with you on overcoming those burning challenges and achieving the urgent transition we cannot postpone any further.

Brian Schatz, United States Senator for Hawai'i

BRIAN SCHATZ

Climate-related financial risks are not just something that will happen in the distant future: climate change is already increasing the frequency and severity of severe weather events like droughts, floods, and wildfires, and it will drive changes to long-term climate patterns that will be economically devastating. Temperature increases will lower labor productivity and stress agricultural yields. Rising sea levels will devalue and destroy coastal properties. Insurance coverage will be prohibitively expensive or simply not available.

Market participants recognize this reality. Investors increasingly seek opportunities with positive environmental, social, and governance attributes precisely because doing so will maximize returns over the long term. Contrary to the longstanding perception in some circles that ESG investing is associated with a "performance penalty", we know companies that incorporate sustainability into their business models often outperform those that do not. As climate change impacts every sector of the economy, investors who choose responsible investing will also be choosing investment performance.

This report demonstrates that ESG integration is a component of asset managers' fiduciary duty. But our financial regulators' understanding of fiduciary duty also needs to reflect the materiality of ESG issues, particularly the risks posed by climate change. For asset managers to understand the full scope of their clients' risk exposure, companies need to clearly disclose their own exposure to—and management of—climate-related risks. Financial regulators must mandate consistent and comparable corporate reporting on climate risks and enable fiduciaries to deliver on their duties.

I applaud the authors of this report for highlighting the importance of ESG issues to long-term investment value, and I am working to ensure their recommendations are better reflected in U.S. financial regulation.

Sharon Hendricks, Chair of the Board, CalSTRS

SHARON HENDRICKS

As Chair of the Teachers' Retirement Board, my main role is to grow and protect the retirement savings of the 950,000 teachers and their families who are members and beneficiaries of CalSTRS. My fiduciary duty to the CalSTRS members and beneficiaries comes first. This means that every day, as I perform my duties and make decisions as Chair of the Teachers' Retirement Board, my top priority is to guide the system solely for the benefit of CalSTRS members and to do so in a prudent manner.

As a significant investor with a very long-term investment horizon, the success of CalSTRS is linked to global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of that growth are not in the long-term interests of the fund. Because of this, we see integration of environmental, social and governance (ESG) factors into our investment decisions as an integral part of the fulfilment of our fiduciary obligations.

Consistent with our fiduciary responsibilities to our members and beneficiaries, the board has an obligation to require that the corporations and entities in which we invest meet a high standard of conduct and strive for sustainability in their operations.

The PRI's work on sustainable investing has helped CalSTRS further understand the alignment between comprehensive ESG integration and the fulfilment of our fiduciary duty. I hope the following report will help pension fiduciaries in the U.S. and around the world advance their own ESG integration activities and help them see that we all have a role to play in advancing government policies that facilitate ESG integration for our members and beneficiaries and for future generations.

Hiro Mizuno, Executive Managing Director and CIO, Government Pension Investment Fund

HIRO MIZUNO

GPIF's journey in improving the sustainability of our portfolio and the capital market as a whole has never been easy. One of the most contentious points both internally as well as with external stakeholders and asset managers has been the relationship between fiduciary duty and ESG.

We are gradually coming to the realization that a more holistic understanding of fiduciary duty is critical to preserving capital over the long-term. Issues such as climate change or social disruption caused by inequality pose long-term systemic risks that ultimately affect our fund performance, and these risks cannot be hedged away through traditional portfolio diversification. Companies that generate significant negative externalities in pursuit of short-term gains hinder our ability to fulfil our duty as a fiduciary.

Fiduciary duty as a legal concept is defined and interpreted differently depending on the constituency or jurisdiction. As such, there is no one-size-fits-all solution to resolving this debate; each investor needs to do their homework in finding out the best way to address the issue in the context of their own specific situation.

The report on Fiduciary Duty in the 21st Century can be greatly beneficial to many investors in this regard. It provides evidence for investors who are struggling to make headway in convincing sceptics of the financial benefit of sustainable investing. We welcome this report and expect it will be instrumental in facilitating ongoing discussions around ESG and fiduciary duty, and in bringing all asset owners on board in the journey to sustainable investing.

EXECUTIVE SUMMARY

The fiduciary duties of investors require them to:

- Incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes, consistent with their investment time horizons.
- Encourage high standards of ESG performance in the companies or other entities in which they invest.
- Understand and incorporate beneficiaries' and savers' sustainability-related preferences, regardless of whether these preferences are financially material.
- Support the stability and resilience of the financial system.
- Report on how they have implemented these commitments.

There are three main reasons why the fiduciary duties of loyalty and prudence require the incorporation of ESG issues.

1. ESG incorporation is an investment norm.

   There is now such momentum behind the idea of responsible investment that the PRI has grown to over 2500 signatories, investing $90 trillion; and it is still growing.

   In 2018, the PRI introduced minimum requirements for signatories including an investment policy that covers the investor's responsible investment approach, which must account for more than 50% of assets under management, as well as senior-level commitment and accountability mechanisms for implementation. Ongoing annual disclosures by signatories demonstrate further progress towards the implementation of the Principles by signatories, including disclosure requirements which map to the TCFD.

   This tells us that there is convergence between the ideas and motivations of responsible investment and investment. The incorporation of ESG issues into investment analysis and decision-making processes has become a necessary part of investment.

2. ESG issues are financially material.

   Empirical and academic evidence demonstrates that incorporating ESG issues is a source of investment value. ESG analysis assists investors to identify value-relevant issues. Neglecting ESG analysis may cause the mispricing of risk and poor asset allocation decisions and is therefore a failure of fiduciary duty.

   Systemic issues, like climate change, may significantly alter the investment rationale for particular sectors, industries and geographies and may have generalised negative impacts on economic output. Ultimately, the consideration of ESG issues has become one of the core characteristics of a prudent investment process.

3. Policy and regulatory frameworks are changing to require ESG incorporation.

   Globally, there are over 730 hard and soft-law policy revisions, across some 500 policy instruments, that support, encourage or require investors to consider long-term value drivers, including ESG issues. Policy change has clarified that ESG incorporation and active ownership are part of investors' fiduciary duties to their clients and beneficiaries.

   Investors that fail to incorporate ESG issues are failing their fiduciary duties and are increasingly likely to be subject to legal challenge.

Looking forward

The assumption that ESG issues were not financially material, and so therefore inconsistent with fiduciary duties, is no longer supported. However, further work is required.

First, we must ensure that policy and regulatory change is effectively implemented. This requires quality drafting, oversight and monitoring of policy change, as well as industry capacity building, and disclosure. It also requires policy makers to be accountable for effective implementation, modifying policy where weaknesses are identified.

Second, in jurisdictions lagging on policy change investors must engage policy makers to urgently clarify ESG incorporation requirements, supporting efforts to institutionalise ESG requirements across the investment market as a whole. This is notably the case in the US.

In 2014, the PRI, UNEP FI and our UN partners identified the misinterpretation of fiduciary duties as the primary barrier to ESG incorporation. The Fiduciary Duty in the 21st Century programme sought to "end the debate about whether fiduciary duty is a legitimate barrier to ESG incorporation." As this final report demonstrates, the programme has contributed a substantial evidence base and promoted policy change to do so.

We would like to thank all our partners, investors, policymakers and stakeholders that we have worked with along the way.

Third and finally, investors and policy makers now need to explore how investors might explicitly incorporate sustainability impacts in investment decision making processes.

Fiduciary duties require ESG incorporation, however capital markets remain unsustainable. As currently defined, the legal and regulatory frameworks within which investors operate require consideration of how ESG issues affect the investment decision, but not how the investment decision affects ESG issues. Changing this will be our next phase of work.

THE ORIGINS OF FIDUCIARY DUTY

In the modern investment system, organisations or individuals, known as fiduciaries, manage money or other assets on behalf of beneficiaries and investors. Beneficiaries and investors rely on these fiduciaries to act in their best interests, typically defined exclusively in financial terms.

In practice, these fiduciaries have discretion as to how they invest the funds they control. The scope of that discretion varies. It may be narrow, for example, in the case of tailored mutual funds where the beneficiary specifies the asset profile and only the day-to-day stock selection and other management tasks are left to the investment decision maker. It may be wide, as with many occupational pension funds. Further, some public funds are subject to considerable state control and the discretion afforded to these decision makers may be further narrowed by parameters set by government.

Within the scope of discretion left to the investment decision maker, fiduciary duties – and equivalent obligations in civil law jurisdictions – exist to ensure that those who manage other people's money act responsibly in the interests of beneficiaries or investors, as opposed to serving their own interests. These duties are of particular importance in relationships where there is vulnerability (e.g. where there are imbalances in expertise or where the ability of the beneficiary to monitor or oversee the actions of the person or entity acting in their interests is limited), power to act or discretion.

The manner in which these duties are framed differs between countries and between common and civil law jurisdictions (see Box 1).

Box 1: Common and Civil Law Jurisdictions

In general terms, jurisdictions use two distinct legal systems – common law or civil law – with some jurisdictions using a hybrid of the two, and some using additional systems of customary and religious law (for example, a combination of common and civil law exists in South Africa, and civil law in China is influenced by customary law). There are approximately 150 jurisdictions using a civil law system, and 80 using a common law system. Common law systems are administered by decisions made in the courts, typically based on previous court decisions and statutes. These decisions are universally binding until overturned by a higher court or statute. Civil law systems are defined by written codes containing general principles, supplemented by detailed statutes and treat previous court decisions with secondary importance.

In the common law jurisdictions covered by this report – Australia, Canada, South Africa, the UK (in respect to England and Wales) and the US – fiduciary duties are the key framework governing the discretion of investment decision makers, aside from any specific constraints imposed contractually or by statute/regulation. These fiduciary duties were originally developed by the courts and some have since been articulated by statute. The courts will interpret the duties when deciding specific cases. Over time, the duties are open to re-interpretation by the courts if new facts and circumstances come to light. The government may also pass new statutes in response to changed circumstances or a particular court decision. In the US, for example, the decision maker's duty is to exercise reasonable care, skill and caution in pursuing an overall investment strategy that incorporates risk and return objectives reasonably suitable to the trust.

In jurisdictions where civil law applies – Brazil, China, the EU, France, Germany and Japan – any obligations equivalent to 'fiduciary duties' will be set out in statutory provisions regulating the conduct of investment decision makers and in the governmental and other guidelines that assist in the interpretation of these provisions. The content of each of these statutory provisions differs slightly between jurisdictions and depends on the type of institutional investor, but common themes include:

- Duty to act conscientiously in the interests of beneficiaries – this duty is expressed in various terms, with jurisdictions using expressions such as "good and conscientious manager" (Japan) or "professionally" (Germany).
- Duty to seek profitability.
- Recognition of the portfolio approach to modern investment, either in express terms or implicitly in the form of requirements to ensure adequate diversification.
- Other duties relating to liquidity and limits on the types of assets that may be selected for certain categories of funds.

In all jurisdictions, the rules that affect investment decision making take the form both of specific laws (about the assets that are permitted for certain types of investment, and the extent to which the assets of a fund may be invested in specific asset classes or be exposed to particular issuers or categories of issuers, for example) and general duties that must be fulfilled (such as duties to ensure investments are adequately diversified).

While the specific sources of jurisprudence and mechanisms of enforcement differ, there is striking agreement between civil and common law jurisdictions that the most important duties owed by fiduciaries to investors and beneficiaries are the duty to act prudently and the duty to act in accordance with the purpose for which investment powers are granted (also known as the duty of loyalty). These traditional duties are presented in Box 2.

Box 2: Traditional Fiduciary Duties

Fiduciary duties (or equivalent obligations) exist to ensure that those who manage other people's money act in the interests of beneficiaries and do not serve their own interests. The most important of these duties are:

- Loyalty: Fiduciaries should act honestly and in good faith in the interests of their beneficiaries, should impartially balance the conflicting interests of different beneficiaries, should avoid conflicts of interest and should not act for the benefit of themselves or a third party.
- Prudence: Fiduciaries should act with due care, skill and diligence, investing as an 'ordinary prudent person' would.

These principles require fiduciaries to concern themselves with risks, trends, innovation and the future, both in the short term and over the long term (which in the case of pension funds may be many decades). Fiduciary duty itself is not a static concept. It evolves and adjusts in response to changes in knowledge, market practices and conventions, regulations and policies, and social norms.

As we discuss in the next three sections, there has been a dramatic change in the investment landscape in recent years. The argument that environmental, social and governance issues are important drivers of investment value is widely accepted. The integration of environmental, social and governance issues into investment practices and processes, and into company engagement is increasingly seen as established practice. Critically, many jurisdictions are now starting to formalise these practices as standard expectations of all investors.

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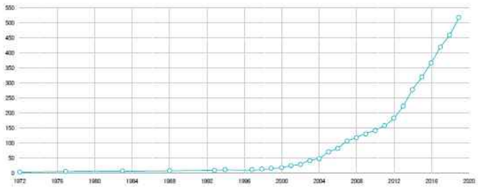
THE NEW POLICY CONTEXT

Across the world's 50 largest economies, there are now over 730 hard and soft law policy revisions across the 500 policy instruments that support investors in their consideration of long-term value drivers, including ESG factors.[1] Forty-eight of the top 50 economies now have some form of policy designed to help investors consider sustainability risks, opportunities or outcomes.

The introduction of regulation and policy relating to ESG and responsible investment is very much a 21st century phenomenon.[2] Of the hard and soft law instruments identified in PRI's Responsible Investment Database,[3] 97% were developed after the year 2000. As illustrated in Figure 1, the rate of adoption has accelerated in recent years.[4]

Figure 1. The growth in responsible investment regulation and policy



Source: PRI Responsible Investment Regulation database

These policy instruments can be divided into three broad categories:

1. **Pension fund regulations** (focusing on asset owners) – The most common types of pension fund regulations have been: (a) disclosure requirements, where pension funds are required to disclose their responsible investment commitments and/or how these commitments have been implemented; and (b) regulations encouraging pension funds to adopt responsible investment practices. Some examples are presented in Figure 3.
2. **Stewardship codes** (focusing on asset managers and asset owners) – These codes govern or steer the interactions between investors and investee companies, with a view to promoting long-term value creation strategies.
3. **Corporate disclosures** (focusing on individual companies, primarily publicly listed companies) – These include requirements to discuss ESG issues in annual reports and accounts, and requirements to provide disclosures on specific ESG issues.

1 See https://www.unpri.org/sustainable-markets/regulation-map
2 In 2000, the UK introduced the world's first regulation requiring disclosure by occupational pension funds of their policies on environmental, social and governance issues. For a useful historic perspective, see Sparkes, R. (2002), Socially Responsible Investment: A Global Revolution (Wiley).
3 See https://www.unpri.org/sustainable-markets/regulation-map
4 For example, the world's first Stewardship Code was introduced in the UK in 2010.

Figure 2. Examples of policy instruments promoting sustainable investment by pension funds

Country	Title	Date	Relevant Text
UK	The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018	2019	"Appropriate time horizon" means the length of time that the trustees of consider necessary for the funding of future benefits by the investments of the scheme; "Financially material considerations" includes (but is not limited to) environmental, social and governance considerations (including but not limited to climate change), which the trustees of the trust scheme consider financially material.
EU	Proposal for a Regulation of the European Parliament and of the Council on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341	2019	Financial market participants shall include descriptions of the following in precontractual disclosures: (a) the procedures and conditions applied for integrating sustainability risks in investment decisions; (b) the extent to which sustainability risks are expected to have a relevant impact on the returns of the financial products made available; (c) how the remuneration policies of financial market participants are consistent with the integration of sustainability risks and are in line, where relevant, with the sustainable investment target of the financial product.
US	EBSA: Field Assistance Bulletin No. 2018-01	2018	"To the extent ESG factors, in fact, involve business risks or opportunities that are properly treated as economic considerations themselves in evaluating alternative investments, the weight given to those factors should also be appropriate to the relative level of risk and return involved compared to other relevant economic factors."
Brazil	Resolution 4661	2018	Resolution n.4661/2018 states that, in their risk analysis processes, pension funds shall consider the environmental, social and corporate governance aspects, whenever possible, in addition to the economic sustainability analysis. This recommendation was enhanced by "Instrução Previc n. 6/2018", which states that pension funds' investment policies shall include guidelines for complying with environmental, social and governance issues, preferably by economic sector.
EU	Directive (EU) 2016/2341 of the European Parliament and of the Council of 14/12/2016 on the activities and supervision of institutions for occupational retirement provision (IORPs)	2016	"The system of governance shall include consideration of environmental, social and governance factors related to investment assets in investment decisions, and shall be subject to regular internal review."
Ontario, Canada	Pension Benefits Act	2016	Under section 78(3), a plan's statement of investment policies and procedures (SIPP) is required to include information as to whether environmental, social and governance (ESG) factors are incorporated into the plan's investment policies and procedures and, if so, how those factors are incorporated.
Korea	National Pension Service Act	2015	The National Assembly passed amendments to the National Pension Act of Korea, which requires NPS to consider ESG issues and to declare the extent to which ESG considerations are taken into account.
Australia	SPG 530	2013	APRA expects that a registrable superannuation entity (RSE) licensee would have a reasoned basis for determining that the investment strategy formulated for such an investment option is in the best interests of beneficiaries, and that it satisfies the requirements of s.52 of the SIS Act for liquidity and diversification. While ESG considerations may not be readily quantifiable in financial terms, APRA expects an RSE licensee would be able to demonstrate appropriate analysis to support the formulation of an investment strategy that has an ESG focus.
South Africa	Pension Fund Act	2013	The Pension Fund Act codifies fiduciary duty and states that it applies to trustees of pension funds. Sections 7(c) and (d) cover the duties (avoiding conflicts, duty of care, diligence, good faith and independence). In 2011, Regulation 28 was revised to require an investment process for which trustees are responsible for developing with respect to the funds circumstance and monitoring. It requires funds to consider all factors (including ESG) that may be relevant to its long-term success.

Source: PRI Responsible Investment Regulation database

These policies have played an important role in encouraging investors to take action on ESG issues and to report on the actions that they have taken. They have also, through improving corporate disclosures, helped address some of the key barriers to the integration of ESG issues into investment research and decision-making processes.

Despite this progress, more needs to be done to ensure the effective implementation of these policies. Our work, as described in the country case studies, identifies different factors. In many cases, the issue is that the policies are either voluntary (e.g. many of the stewardship codes) or 'comply or explain' (where non-compliance is permitted so long as investors explain why they do not comply). In other cases, the formal obligations are relatively weak. For example, the 2016 Canada Pension Benefits Act, requires pension plans to publish information as to "whether ESG factors are incorporated into the plan's investment policies" and, if so, how those factors are incorporated. Finally, the level of resources and attention paid to the quality of implementation remains mixed in many jurisdictions. In many cases, it is because this legislation is relatively new and, therefore, more time is needed before the quality of implementation can be properly assessed.

In jurisdictions where regulations or policies on responsible investment are more mature, these issues are starting to be addressed. Regulators are extending the concept of 'comply or explain' to require investors to explain how they propose to address non-compliance. In other cases, regulators are introducing new policies designed to remove ambiguity around the relationship between sustainability and finance. For example, the 2019 EU investor disclosures regulation requires investors to disclose how sustainability risks are integrated into investment processes. In parallel, the EU is working to amend the rules underpinning key sectoral legislation (such as MiFID II and Solvency II) to clarify that sustainability should be considered by an investor in the fulfilment of their duties.

These changes in investors' duties and in financial system regulations are not occurring in a vacuum. Policy makers, regulators and governments recognise that issues such as climate change and sustainable development represent systemic risks and opportunities that require explicit and targeted interventions. Many countries have started to implement the Paris Climate Agreement[5] and the Sustainable Development Goals[6] in national policy and regulations. While the details differ, domestic policies generally involve the setting of national targets, the development of national policy plans and implementation programmes, the adoption of regulation and other policy instruments (e.g. economic instruments and self-regulation), the allocation of responsibilities to different actors and the creation of incentives for action. Some governments have formally incorporated sustainability into the mandates of their financial regulators.

Many of these strategies – see Box 3 for examples – now explicitly focus on the finance sector, recognising that the capital required to deliver policy commitments on climate change and development cannot be delivered by governments alone and that decisions made in the financial system influence the sustainability of the real economy. This integration of finance into sustainability policy, and the integration of sustainability considerations into finance policy, suggest that we are moving towards a much more integrated and aligned approach to policy across these two areas.

This trend towards alignment and integration is reinforced by other changes. For example, at a multilateral level, the central banks' Network for Greening the Financial System acknowledged in April 2019 that climate change is a source of financial risk. With support from the World Bank, finance ministers from more than 20 countries launched, in April of 2019, a coalition to promote climate action through mainstream financial policies at a national level. In early 2019, IOSCO, the international securities regulators organisation, and IOPS, the international pensions supervisors organisation, launched consultations on ESG integration and disclosure for listed companies and pension fund regulators.

5 See http://unfccc.int/paris_agreement/items/9485.php
6 See http://www.un.org/sustainabledevelopment/sustainable-development-goals/

Box 3: Examples of integrated finance and sustainability policies

In 2016, the People's Bank of China, in collaboration with six other government agencies, issued guidelines establishing the green financial system.[7] The guidelines include proposals on:

- Developing green lending.
- Enhancing the role of the securities market through improving the rules and regulations for green bonds and guiding international investors to invest in green assets.
- Launching green development funds and public private partnerships.
- Developing green insurance.
- Improving and extending environmental rights trading markets.

In France, the energy transition law of 2015 set long-term goals to reduce GHG emissions and energy consumption, improve buildings' energy efficiency and increase renewable energies. The law on energy and the climate, prepared in 2019, outlines a new set of long-term goals to achieve carbon neutrality by 2050. The French government has also been developing strategies and a shared framework to achieve more sustainable growth, including biodiversity protection, a circular economy and a social solidarity economy sector.[8]

In the UK, climate change is embedded in a number of long-term economic goals and strategies. The UK government committed to reducing its greenhouse gas emissions to net zero by 2050. The Clean Growth Strategy adopted in 2017 aims to deliver increased economic growth while cutting emissions. The UK Green Finance Strategy adopted in 2019 seeks to align private sector financial flows with clean, environmentally sustainable and resilient growth while strengthening the competitiveness of the UK financial services sector.[9]

These policy interventions can materially alter the economics of the decisions that companies and investors make. They mean that investors need to pay attention to the changes that these measures catalyse (e.g. the economics of specific investments may shift, and certain companies may find that they need to change their business models). They also mean that investors need to pay attention to the likely future investment trajectories, and consider whether and how incentives will change over time. This may lead to an adjustment of the assessment of the financial characteristics of particular assets or investments and lead investors to potentially take action (e.g. changing investment holdings, company engagement) to minimise downside risk or take advantage of opportunities.

Ultimately, this new policy context – one that is seeing the increased codification of investors' ESG-related obligations and increased integration of financial and sustainability-related policy – removes any ambiguity or doubt about how fiduciary duties are to be interpreted in practice. We have moved from a world where investors' duties relating to ESG and sustainability-related issues were implied and implicit, to one where they are explicitly described in legislation and regulations.

7 See also the China snapshot in the Country section of this report.
8 See also the France snapshot in the Country section of this report.
9 See also the UK snapshot in the Country section of this report.

THE FINANCIAL AND INVESTMENT RELEVANCE OF ESG ISSUES

The previous section demonstrated that changing policy frameworks have removed ambiguity around ESG issues as a core part of an investor's fiduciary duty. In this section we discuss the financial and investment relevance of ESG, presenting evidence that ESG issues can be important drivers of investment performance and that investors use this data to create value in their investment portfolios.

There is now a compelling body of evidence that ESG issues can drive investment value and/or that the failure to effectively manage ESG issues can destroy investment value. The key arguments in support of this statement include:

- **There is a positive correlation between ESG and corporate financial performance** – The 2014 paper 'The Impact of Corporate Sustainability on Organisational Processes and Performance' by Robert Eccles et al. investigated the long-term effect of corporate sustainability on organisational processes and performance.[10] Using a matched sample of 180 US companies, the paper found that corporations that had voluntarily adopted sustainability policies significantly outperformed those that had adopted almost none of these policies – termed 'low sustainability' companies. The paper also suggested that these high sustainability firms generated significantly higher stock returns, signifying that indeed the integration of such issues into a company's business model and strategy may be a source of competitive advantage in the long run.
- **Companies with better ESG performance can have better access to finance** – In their paper 'Corporate Social Responsibility and Access to Finance' (2014), Cheng et al. found that that firms with better corporate social responsibility (CSR) performance, better stakeholder engagement and better transparency on ESG issues faced significantly lower capital constraints.[11]
- **There are significant investment opportunities associated with ESG issues** – For example, it is estimated that between now and 2030, between USD 5 and USD 7 trillion a year is needed if we are to achieve the Sustainable Development Goals worldwide.[12] A least a further USD 1.5 trillion a year is needed in the same period to meet the Paris goal of keeping the average global temperature rise well below 2 degrees Celsius and as close as possible to 1.5 degrees Celsius.[13]

10 Eccles, R., Ioannou, I. and Serafeim, G. (2014), 'The Impact of Corporate Sustainability on Organizational Processes and Performance', Management Science, Vol. 60, Issue 11, pp. 2835–2857. Available at: https://doi.org/10.1287/mnsc.2014.1984. See also University of Oxford and Arabesque Partners (2015), From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 2015). Available at: [illegible]
11 Cheng, B., Ioannou, I. and Serafeim, G. (2014), 'Corporate Social Responsibility and Access to Finance', Strategic Management Journal, Vol. 35, Issue 1, pp. 1–23. Available at: [illegible]. Similar conclusions were drawn by El Ghoul, S., Guedhami, O., Kwok, C. and Mishra, D. (2011), 'Does Corporate Social Responsibility Affect the Cost of Capital?', Journal of Banking and Finance, Vol. 35, Issue 9, pp. 2388–2406. Available at: [illegible]
12 See http://www.unepfi.org/positive-impact/principles-for-positive-impact-finance/
13 See [illegible]

- **The consequences of failing to effectively manage ESG-related risks can be significant** – For example, one analysis of the financial costs of corporate fines and settlements shows that the ten largest fines and settlements in corporate history together amount to USD 45.5 billion, that banks have paid out USD 100 billion in US legal settlements alone since the start of the financial crisis and that global pharmaceutical companies have paid USD 30.2 billion in fines since 1991.[14] Individual incidents and events can also have major impacts on corporate value. For example, the share prices of Vale S.A. fell by almost a quarter in the immediate aftermath of the Brumadinho mine disaster in 2019, and Volkswagen AG lost almost a quarter of its market value in 2015 after it admitted to cheating on US air pollution tests for years. In 2015, the share price of the oil multinational BP plc more than halved following the Deepwater Horizon spill.
- **Firms with good ESG ratings on material issues outperform those with poor ratings** – Khan et al., in their 2016 paper 'Corporate Sustainability: First Evidence on Materiality', found that firms with good ratings on material sustainability issues significantly outperformed those with poor ratings on these issues. They also found that firms with high ratings on immaterial sustainability issues did not significantly outperform firms with low ratings on the same issues.[15]

The question of whether investors will, in fact, take account of these insights in their investment processes can be separated into distinct elements. The first is whether investors will be motivated to act if the evidence is compelling. A May 2018 CFA Institute survey on ESG integration is perhaps the key starting point for this.[16] With a focus on the US market, the paper concluded that a proven link between ESG factors and financial performance would be among the top motivating reasons for those US investors that have not yet adopted ESG integration in their investment practices to do so.

In addition to the evidence presented above, a 2018 PRI study used ESG data provided by MSCI ESG Research tested a momentum strategy (improving ESG scores) and tilt strategy (high absolute ESG scores) across the world.[17] The study concluded that ESG information offers investment outperformance advantages relative to respective benchmarks across all regions. For example, it concluded that, in the world portfolio, the ESG momentum and tilt strategies outperformed the MSCI World Index by 16.8% and 11.2% in active cumulative returns respectively over a ten-year period.

These general findings are confirmed by two other studies. In June 2017, BofA Merrill Lynch Global Research released information concluding that the stocks in its US portfolio that ranked within the top third by ESG scores (using ESG research from Thomson Reuters) outperformed stocks in the bottom third by 18 percentage points in the 2005 to 2015 period.[18] A 2015 study from Calvert Research and Management provided similar findings for fixed income.[19] It concluded that companies ranked in the top half compared to bottom half of entities by aggregate ESG scores and by individual environmental, social and governance scores (using data from Reuters) delivered significant outperformance as measured by the annual rate of change in CDS spreads. These results appear to statistically validate the value proposition of investing in the credit of companies with superior ESG profiles.

The second is whether it is feasible – from a cost perspective and a practical perspective – for investors to analyse and assess these issues. Over the past decade, there has been a significant increase in the quantity and quality of data provided by companies on their ESG performance, and the quality and quantity of research on the investment implications of ESG issues; a variety of actors (including financial data providers, research firms, proxy voting agencies and specialist ESG data providers and research organisations) provide high-quality ESG data at scale.

The third is whether a focus on ESG issues enables investors to generate better investment performance. There are now many examples and case studies of how investors have researched and benefited from analysing ESG issues as an integral part of their investment processes.[20] A 2015 study by Fried et al. provides a more comprehensive analysis of investment performance in practice.[21] It analysed more than 2,000 empirical studies on the relationship between ESG criteria and investment performance dating back to the 1970s. The paper concluded that there is a well-established empirical evidence base to support the business case for analysing ESG in investment research and decision making. It notes that approximately 90% of studies find a non-negative relationship between ESG performance and corporate financial performance, with the large majority of studies reporting positive findings.

14 University of Oxford and Arabesque Partners (2015), From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance (March 2015). Available at: [illegible]
15 Khan, M., Serafeim, G. and Yoon, A. (2016), 'Corporate Sustainability: First Evidence on Materiality', The Accounting Review, Vol. 91, Issue 6, pp. 1697–1724. [illegible]
16 [illegible]
17 Nguyen-Taylor, K. and Martindale, M. (2018), Financial Performance of ESG Integration in US Investing (Principles for Responsible Investment, London). Available at: [illegible]
18 Subramanian et al. (2017), ESG Part II: A Deeper Dive (BofA Merrill Lynch Global Research). Available at: [illegible]
19 Kim Nguyen-Taylor, K., Naranjo, A. and Roy, C. (2015), The ESG Advantage in Fixed Income Investing: An Empirical Analysis (Calvert Investments). Available at: [illegible]
20 The CFA Institute and the Principles for Responsible Investment have produced a series of reports comprising guidance and case studies on how investors can analyse and integrate ESG issues into their investment research and decision-making processes. See, for example, CFA and PRI (2018), Guidance and Case Studies for ESG Integration: Equities and Fixed Income, and associated regional reports for the Americas, for Asia Pacific, and for Europe, the Middle East and Africa. These are all available at: [illegible]. The PRI also produces guidance and case studies on ESG integration in other asset classes, available at: [illegible]
21 Friede, G., Busch, T. and Bassen, A. (2015), 'ESG and Financial Performance: Aggregated Evidence from more than 2000 Empirical Studies', Journal of Sustainable Finance & Investment, Vol. 5, Issue 4, pp. 210–233. Available at: [illegible]

THE CHANGING LANDSCAPE OF INVESTMENT PRACTICE

The previous two sections made the case that investors should integrate ESG issues into their investment research and decision-making processes because of the legal requirements to do so and the evidence that the analysis of ESG issues can drive investment performance. In this section, we examine whether investors actually integrate ESG issues into their investment processes. We find that they do. In turn, this creates a normative expectation that ESG issues are a core part of financial markets.

As of September 2019, the PRI had over 2,500 signatories representing USD 86.3 trillion in AUM, including 465 asset owners and 1,823 asset managers. The PRI's signatories commit to incorporating ESG issues into their investment analysis and decision-making processes, acting as active owners and incorporating ESG issues into their ownership policies and practices, and reporting on their activities and progress towards implementing the principles. These are not just high-level commitments but are being translated into concrete action across the investment system:

- **Investors are increasing their allocations to ESG indices** – MSCI reports that the equity assets under management invested in ESG ETFs linked to MSCI's ESG indices has increased from USD 1.7 billion to USD 20.2 billion over the period 2015 to June 2019.[22]
- **The number of investment products linked to ESG or sustainability themes is growing rapidly** – Morningstar reports that, at the end of 2018, there were over 350 open-end and exchange-traded sustainability themed funds, including equity, fixed income and alternative funds, available to US investors.[23] The number of funds has increased by almost 50% compared to 2017.
- **Investors are accessing and using ESG data** – Bloomberg reports that the number of users of ESG data on its terminals has more than tripled over the period 2012 to 2018.[24]
- **Asset owners are demanding that asset managers pay attention to ESG issues** – In the 2019 PRI Reporting and Assessment framework, 69% of asset owners stated that they include ESG-related factors when appointing asset managers, and 62% stated that they consider ESG-related factors in all stages of asset manager selection, appointment and monitoring.
- **Investors are paying attention to ESG in all asset classes** – The 2018 PRI Reporting and Assessment framework indicated that USD 38 billion of assets in listed equity had some form of ESG integration (e.g. analysis of ESG issues as an integral part of the investment process, screening or thematic investment). Data also showed that there is increasing attention to ESG in other asset classes; for example, 76% of asset owners reported that they consider ESG issues when investing in hedge funds, an increase from 53% in 2017.
- **Sustainable investment is increasingly a standard investment practice:** The Global Sustainable Investment Alliance analysed investment funds across Europe, the United States, Canada, Japan, Australia and New Zealand and identified $30.7 trillion of funds with some sustainability characteristics, a 34% increase in two years.[25]

22 MSCI, September 2019.
23 Morningstar (2019), Sustainable Funds U.S. Landscape Report. Available at: [illegible]
24 Available at: https://www.bloomberg.com/impact/products/esg-data/
25 Global Sustainable Investment Alliance (2018), 2018 Global Sustainable Investment Review. [illegible]

- **Active ownership (engagement and voting) is now widely practised** – For example, more than 360 investors from across dozens of countries, collectively managing more than USD 34 trillion in assets, support Climate Action 100+, a collaborative investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.[26] Other examples include the 477 investors representing more than USD 34 trillion in assets who signed a letter calling upon G20 leaders to support the climate disclosure recommendations from the FSB Task Force on Climate-related Financial Disclosures,[27] and the more than 500 investors that support the CDP's annual disclosure requests.[28]

Box 4: How do investors interpret their fiduciary duties?

In 2019, as part of the annual reporting and assessment framework, the PRI asked signatories to discuss how they interpret their fiduciary (or equivalent) duties.

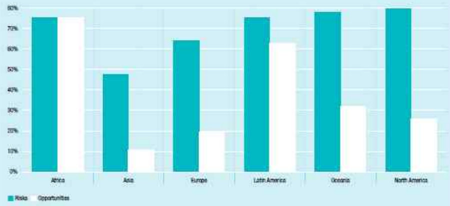
Over 90% of the respondents explicitly acknowledged the consideration of ESG issues in their investment processes as component of their fiduciary duties.

The vast majority of these regarded the consideration of ESG factors as a necessary and important part of fulfilling their fiduciary duty towards their clients or beneficiaries. A smaller number noted that this duty "allowed" or "permitted" them to take account of ESG issues where relevant, and a minority (around 3%) perceived fiduciary duty as a constraint to the consideration of ESG in some circumstances.

For most, the analysis of ESG issues was seen as enabling better risk management or the avoidance of downside risk; less than half highlighted the investment opportunities (or upside) associated with such an analysis (see Figure 3 below).

Stewardship activities such as engagement and voting were identified by close to 40% of respondents as an important way of enhancing value and of delivering on their fiduciary duty.

Figure 3. Do investors focus on ESG-related risks or opportunities?



26 Available at http://www.climateaction100.org/
27 Available at https://www.fsb-tcfd.org/support-additional-statement/
28 Available at https://www.cdp.net/en.

MODERN FIDUCIARY DUTY

The key conclusion from the evidence presented in the previous sections is that there have been fundamental changes in the expectations of fiduciaries. In summary, fiduciaries must:

1. Incorporate financially material ESG factors into their investment decision making, consistent with the timeframe of the obligation.
2. Understand and incorporate into their decision making the sustainability preferences of beneficiaries/clients, regardless of whether these preferences are financially material.
3. Be active owners, encouraging high standards of ESG performance in the companies or other entities in which they are invested.
4. Support the stability and resilience of the financial system.
5. Disclose their investment approach in a clear and understandable manner, including how preferences are incorporated into the scheme's investment approach.

These expectations both align with and clarify the traditional duties of loyalty and prudence. Understanding and taking account of the sustainability preferences of beneficiaries/clients, whether these preferences are financially material or not, is clearly a central element of the duty of loyalty. Similarly, any conception of prudence (i.e. acting with due skill, care and diligence) clearly includes requirements both to consider all financially material factors and to act effectively and appropriately to manage these factors. The interests of beneficiaries frequently extend many decades into the future, requiring fiduciaries to pay attention to issues such as demographic change, climate change and other environmental pressures.

These expectations are now sufficiently mature and underpinned by legislation and policy; they can – and should – be considered central elements of the duties owed by fiduciaries and their beneficiaries. In Box 5, we present our modern definition of fiduciary duty.

Box 5: Modern Fiduciary Duty

Fiduciary duties (or equivalent obligations) exist to ensure that those who manage other people's money act in the interests of beneficiaries, rather than serving their own interests. The most important of these duties are:

- Loyalty – Fiduciaries should:
  - Act honestly and in good faith in the interests of their beneficiaries or their clients.
  - Understand and incorporate into their decision making the sustainability preferences of beneficiaries and/or clients, whether or not these preferences are financially material.
  - Impartially balance the conflicting interests of different beneficiaries and clients.
  - Avoid conflicts of interest.
  - Not act for the benefit of themselves or third parties.
- Prudence – Fiduciaries should act with due care, skill and diligence, investing as an 'ordinary prudent person' would. This includes:
  - Incorporating financially material ESG factors into their investment decision making, consistent with the timeframe of the obligation.
  - Being an active owner, encouraging high standards of ESG performance in the companies or other entities in which they are invested.
  - Supporting the stability and resilience of the financial system.

Fiduciaries should disclose their investment approach to clients and/or beneficiaries including information on how preferences are incorporated into the scheme's investment strategy and the potential risks and benefits of doing so.

NEXT STEPS

The conceptual debate around whether ESG issues are a requirement of investor duties and obligations is now over. However, further work is required in four areas.

The first is to fill the gaps that remain in policy frameworks. While many countries have adopted at least one policy measure, the country analysis presented hereafter confirms that most have yet to establish comprehensive policy frameworks that include pension fund disclosure requirements and responsible investment practices, stewardship codes and corporate disclosure requirements. The particular case of the United States is highlighted in Box 6. In these jurisdictions, investors have an important role to play in pressing for change, and in supporting efforts to institutionalise these requirements across the investment market as a whole.

The second is to ensure that policy and regulation are implemented effectively and translated into concrete actions. This will involve building capacity and awareness across the investment industry and encouraging asset owners and asset managers to implement these measures. It will involve persuading investors to be transparent about the actions they have taken, the outcomes they have achieved and the lessons they have learned. It also requires that policy makers ensure the effective implementation of the policies and other measures they have adopted, and identify and take action where there are weaknesses in adoption or implementation.

Box 6: US Policy Engagement

With a GDP of USD 21 trillion, USD 32 trillion in equity market capitalisation and USD 43 trillion in outstanding fixed income securities, the US has the largest economy and the largest financial markets of any country in the world.

The US is the PRI's largest market, with 490 signatories investing over USD 42 trillion in assets under management.

Confusion among investors about the nature of their fiduciary obligations is often cited as a major barrier to investors' integration of ESG factors into investment decisions.

In 2018, DOL released a Field Assistance Bulletin (FAB), that created confusion for fiduciaries of private sector pension plans. The FAB reiterated DOL's longstanding position that fiduciaries are obliged to consider ESG factors as part of investment decisions "[t]o the extent ESG factors, in fact, involve business risks or opportunities that are properly treated as economic considerations themselves". At the same time, the DOL stated that fiduciaries "must avoid too readily treating ESG issues as being economically relevant to any particular investment choice". While the FAB did not reflect a substantive change to the DOL's position that material economic factors, including ESG factors, are to be considered by investment fiduciaries, the explanatory language in the Bulletin created uncertainty for fiducaries of private pension plans.

The PRI will continue to engage with signatories to facilitate understanding of the applicability and impact of the DOL Bulletin and explore whether it is appropriate to advocate for policy changes that will provide greater clarity for fiduciaries.

The third is to recognise that discussions about the duties and obligations of investors are not confined to investors (asset owners, asset managers, insurance companies, etc.) themselves but require that other actors in the investment system play a role. For example, investment consultants provide counsel on the investment practices of trillions of dollars worldwide. They are a recognised source of authority and knowledge on investment practice, and their advice shapes the beliefs and practices regarding trillions of dollars of invested assets worldwide. The views that investment consultants hold about ESG factors therefore have major implications for the sustainability of the financial system. However, there currently seems little commercial imperative for investment consultants to extend the coverage of ESG integrated services for their clients.

Another example relates to defined benefit pension schemes. In some cases, regulators have been clear that fiduciary or other duties continue to apply (e.g. in South Africa). However, in other markets the nature of the duty to beneficiaries of insurance companies, investment managers and sponsoring organisations in contract-based schemes (i.e. where the pension provider does not have fiduciary or equivalent obligations to the beneficiary in the way that a trustee would in a trust-based scheme) is not yet fully defined.

These examples highlight the importance of ensuring that regulatory and policy changes reflect the realities of investment markets and the investment system. Regulation and policy need to apply to all relevant actors, and to be sufficiently flexible to adapt in response to changes in actors, in institutions, in technology and in the wider societal context within which the investment system functions.

The fourth is that we need to understand how and under what circumstances investors are responsible for the real-world outcomes of their investment activities. Integrating consideration of ESG issues into investment practices and processes is a necessary but insufficient condition to delivering a financial sector that serves societies and individuals within existing planetary boundaries. As currently defined, fiduciary duties do not require a fiduciary to account for the sustainability impact of their investment activity beyond financial performance. In other words, fiduciary duties require consideration of how sustainability issues affect the investment decision, but not how the investment decision affects sustainability. More fundamental changes – to incentives, to structures, to duties, to obligations and to the broader legal frameworks within which investors operate – are needed if the financial sector is to enable economic activities and societies to prosper in a sustainable manner. Wider public policy, more explicitly on real-economy outcomes, is the key next step in moving towards a more sustainable economy.

COUNTRY ANALYSIS

AUSTRALIA

Australia in 2018[29]	
GDP: 1.432 trillion USD	**Population:** 24.99 million
Per capita GDP: 57,305 USD	**Over 65 years:** 15.74%
Market cap: 1.263 trillion USD	**GINI coefficient:** 0.33
PRI signatories: 148 (37 asset owners)	**CO_2 emissions:** 392 Mt
	CO_2 emissions per capita: 16 t

> "Incorporating financially material ESG factors into investment decision making is integral to investors' fiduciary duty. It underpins the delivery of best possible investment outcomes to beneficiaries because we know that ESG issues are fundamental to a company's long-term performance".
>
> AustralianSuper

Policy context

Australia has the highest CO2 emissions per capita among OECD countries. Although the country has ratified the Paris Agreement and the Sustainable Development Goals, there has been little progress on either long-term targets or level of emissions.

In 2018 a group of major Australian financial institutions launched the Australia Sustainable Finance Initiative[30], which aims to launch by 2020 a Sustainable Finance Roadmap including the following objectives:

- Mobilising capital to deliver on our national and global sustainable development goals commensurable with science-based targets and informed by international conventions, treaties and norms.
- Enhancing the sustainability, resilience and stability of the financial system by embedding sustainability and human rights considerations into financial markets, products and services to better account for and manage risk and impact.
- Ensuring better informed financial decision making by enhancing disclosures and transparency in financial markets for enhanced valuation of environmental and social risks and opportunities.
- Delivering a financial system that meets community and consumer expectations around sustainability and norms including informed engagement, improved and informed choice, effective disclosures and client interests while enhancing financial inclusion and financial well-being.

The Fiduciary Duty roadmap for Australia[31]

Australia's pension market has one of the highest growth rates of pension fund assets in the world. Despite this growth, the legal framework for investment decision making in Australia has not changed substantially in recent years. The Australia roadmap makes recommendations for regulatory updates in four categories: regulatory action, stewardship and intermediation, corporate reporting and investor education.

29 OECD 2018 income inequality data https://data.oecd.org/inequality/income-inequality.htm, IEA 2016 CO2 emissions data https://www.iea.org and World Bank 2018 country statistics (https://data.worldbank.org/)
30 https://www.sustainablefinance.org.au/
31 Available at: https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-australia-roadmap/258.article

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Regulatory action The Australian Prudential Regulation Authority (APRA) should update paragraphs 34 and 36 of Prudential Practice Guide SPG 530 Investment Governance (and equivalent prudential standards/guidance applicable to its regulated banks and insurers) to clarify to superannuation funds that ESG issues are material to risk and return analysis. They therefore should be incorporated alongside other risk and return factors in investment decision making.	APRA carried out a review of its prudential framework in 2018 and concluded in its response that SPG 530 Investment Governance and the consideration of ESG factors in formulating investment strategy in particular was one of the potential areas for future enhancement. Further consultation by APRA on any proposed changes is expected to occur by the end of 2019.
Stewardship and intermediation a) The FSC should continue to work with Australian asset managers to strengthen stewardship expectations, including engaging companies on ESG issues. b) Stewardship expectations could be formalised through the development of a stewardship code. This should be industry-led. c) Australian asset owners should incorporate stewardship expectations in the selection, appointment and monitoring of asset managers.	In July 2017, the FSC developed FSC Standard 23 to replace its 'blue book' for its members. Key elements of the standard include asset managers providing (i) a description of their approach to asset stewardship (ii) how this is exercised effectively on behalf of their clients. Asset managers, (iii) a description of their approach to monitoring and engaging with investee companies and (iv) the connection between monitoring, engagement, proxy voting and investment decision. In May 2018, ACSI released the first Australian stewardship code for asset owners. The voluntary code is opened to all asset owners, including non ACSI members. The awareness of stewardship and its benefits to the Australian financial system is low amongst AOs. There needs to more awareness and knowledge building amongst AOs on stewardship practices and the role and responsibilities AOs have in setting the tone on stewardship. This will help to improve on the quality of stewardship practices and the influence AOs should exert on investment managers There should be a coordinated discussion from various stakeholders on an appropriate Stewardship Code, using ACSI's code as a starting point There should be a minimum set of reporting standards on stewardship activities that is applicable to all investors
Corporate reporting The Australian Securities Exchange (ASX) should continue to enhance corporate reporting and disclosure requirements and guidance. The Australian Securities and Investments Commission (ASIC) should monitor the quality of corporate reporting and disclosure.	ASX is now a member of the SSE and is in the process of signing to the TCFD. In its 4th edition of its Corporate Governance Guidelines released in 2019, there have been several measures to encourage improvements on the disclosure of ESG risks. ASX has maintained the same 'if not, why not' approach to disclosure. Whilst there has been no change to Principle 7, Principle 3 has been significantly redrafted to place a stronger emphasis on culture and values. ASX should introduce mandatory disclosure on ESG factors that are financially material ASX and ASIC should agree on a standardised set of primary ESG disclosure indicators that companies should be required to report on
Investor education Trustee boards should ensure capacity and competence on ESG issues. This should be industry-led.	In May 2019, ACSI published its policy update on stewardship. The PRI launched the RI Review Toolkit and RI for Trustees on PRI Academy. Following the climate change litigation case on Rest, one of the largest superannuation funds in Australia, Trustee board awareness on ESG issues, particularly climate risks have increased. This litigation reinforces one of the key findings of the legal opinion that was released by the Centre for Policy Development (CPD) in Oct 2016; directors who fail to consider the impact of foreseeable climate change risks on their business properly could be held personally for breaching the duty of due care and diligence they owe to their companies. While majority of the investment consultants are aware of ESG risks, they have failed to recognise the importance of climate risk and as a result of this, investment consultants have not been strong supporters of climate risk. The litigation has forced the consultants to acknowledge their oversight and climate risk and many are in the process of developing and/or improving their internal ESG capabilities. The legal community, investors associations like CPF and investment consultants are recognising the importance for superannuation trustee boards and company directors to have competence in ESG issues and can demonstrate how these ESG risks are managed in their portfolios. Trustee boards need to ensure there is a clear RI philosophy and RI objectives that is both reflective and supportive of the investment beliefs and investment objective. Trustee boards need to demand more and challenge its investment committee to demonstrate the consideration of climate risks and ESG risks in the investment process. We are supportive of ACSI's recommendation that APRA needs to revise its standards and guidance to explicitly recognise the importance of ESG issues in the formulation of investment strategies and in the investment decision making process. Superannuation trustee boards need to have access to capacity and competence on ESG issues as Trustee board education is imperative.

BRAZIL

Brazil in 2018	Population: 209.47 million
GDP: 1.869 trillion USD	Over 65 years: 8.87%
Per capita GDP: 8,921 USD	GINI coefficient: N/A
Market cap: 916.82 billion USD	CO_2 emissions: 417 Mt
PRI signatories: 48 (13 asset owners)	CO_2 emissions per capita: 2 t

> Previc[32] has incorporated the need for pension funds to consider environmental, social and governance aspects in their investment risk analysis into current regulations, whenever possible, as well as the need to comply with these guidelines in the investment policy.
>
> *Resolution CMN n. 4661 and Instruction Previc n.6*

Policy context

Brazil is the eighth largest economy and the most biodiverse country in the world. It has maintained its relative economic leadership in Latin America, despite the crisis that has slowed its economy since 2014. Continuous fiscal deficits have prevented the country from returning to the growth track. Nonetheless, some structural measures have been implemented, such as the public pension system reform, which has improved expectations of economic growth.

Some of the new government's main objectives:

- Decrease the burden of public spending through privatisation, the review of some welfare programs and the implementation of structural changes such as the public pension system reform.
- Improve the business environment by reducing bureaucracy, simplifying the tax system and reviewing some labour rights.
- Review the roles of the Brazilian National Development Bank, ceasing subsidised credit operations to key sectors and fostering the credit lines of private banks.

In the last decade Brazil has modernised its financial market regulatory framework to include ESG requirements:

- Since 2014, the Brazilian Central Bank has required that banking institutions establish and implement responsible investment policies.
- In 2015, CVM, the Brazilian securities exchange commission, adopted a governance code regarding the issuance of listed securities with a "comply or explain" approach, which includes ESG issues.
- Since 2018, Previc, the pension funds supervisor, has required the disclosure of ESG risks in pension funds' investment policies and analysis.

The private sector has also helped the country foster a sustainable investment agenda. Some key developments include:

- B3, the Brazilian stock exchange, was the first to adhere to the UN Global Compact, in 2004. B3 also is a founding signatory of the UN Sustainable Stock Exchanges (SSE).
- In 2016, AMEC, the Association of Capital Market Investors, launched its stewardship code. The code states that investors shall "take ESG factors into account in their investment processes and stewardship activities".
- In April 2019, Abrapp, the pension funds association, launched their Self-regulation Code of Corporate Governance, which requires that "pension funds always consider the balance between social and environmental responsibility and the return on investments".

32 National Superintendence for Pension Funds in Brazil

The Fiduciary Duty roadmap for Brazil[33]

After a decade of economic and social prosperity from 2004 to 2014, Brazil faced a series of political crises, like the impeachment of the president Dilma Roussef, in 2016. Following official investigations into a major of corruption scandal (known as operation 'Java Lato') the financial market regulator and supervisors have established stricter rules to prevent conflicts of interest and mitigate risks of unethical behaviour. The Brazil roadmap was established on the back of this context which significantly elevated the level of investor focus on corporate governance and stewardship. The roadmap sets out recommendations in five categories: regulatory action, investor education, corporate reporting, stewardship and engagement and industry guidance.

At the time of writing, the Amazon rainforest, the largest in the world, is at serious threat from forest fires. In September 2019, 230 institutional investors, representing more than USD 16 trillion in assets under management, called for corporate action on deforestation: "As investors, who have a fiduciary duty to act in the best long-term interests of our beneficiaries, we recognise the crucial role that tropical forests play in tackling climate change, protecting biodiversity and ensuring ecosystem services".[34]

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Regulatory action a) The Superintendence of Private Pension Funds (PREVIC) should recommend a revision to Resolution 3.792 which governs investment practices and disclosures by closed pension schemes. b) Oversight and monitoring by the Central Bank of Brazil (the Central Bank) of the impact of Resolution 4.327 on the investment activities of relevant regulated entities.	a) In May 2018, the National Monetary Council launched Resolution 4661, which requires that, in their risk analysis, pension funds consider their investments' economic sustainability together with their environmental, social and environmental risks, whenever possible. In November 2019, Previc reinforced this requirement by introducing Instruction 6, which requires that pension funds consider ESG risks in their investment policy. b) The Resolution 4557/2017 included environmental and social risks in the roll of risks that banking institutions shall identify and mitigate. In addition, the Central Bank's audit department has adopted some criteria to measure the level of exposure to ESG risks, which has guided supervisory activities. These criteria are focused on economic activities with a high potential for environmental damage. The National Monetary Council should align the ESG requirements in all regulated markets, extending the regulatory modernisation to the insurance market supervised by SUSEP.
Investor education Industry associations and accreditation agencies are to collaborate on raising ESG awareness and the provision of practical training.	Some initiatives dedicated to improving the knowledge on ESG integration in the financial community have emerged. As an example, in March 2019 the British Council in Brazil sponsored a series of workshops on ESG integration targeted towards pension fund investment managers and Previc's auditors. Abrapp, the pension funds association, should support a comprehensive plan to build capacity on ESG issues among its members.
Corporate reporting The securities regulator (CVM) should review the effectiveness of reporting of material ESG factors by Brazilian corporations.	CVM co-leads the Financial Innovation Lab,[35] the most important initiative for sustainable and innovative finance in Brazil, together with GIZ, the Brazilian Association for Development (ABDE) and the Interamerican Development Bank (IDB). Although disclosure is an issue that has been discussed in all the Lab's working groups, the Lab has just created the Working Group on ESG Risk Management and Transparency, whose main objective is to improve the effectiveness of ESG reporting and disclosure in Brazil.
Stewardship and engagement CVM should adopt the Brazilian Association of Capital Market Investors' (AMEC) stewardship code.	The stewardship code adoption in Brazil is still in its early stages. CVM has supported the market uptake of the code's principles. However, the supervisor recommends that the code should remain a self-regulatory initiative whilst the market matures.
Guidance Regulatory and industry associations are to provide guidance for asset managers and private pension providers on the scope and content of their fiduciary duties.	The market still lacks a glossary of terms, which is one of the deliverables of the Lab's Working Group on ESG Risk Management and Transparency. Therefore, the working group could leverage this experience to develop a guide on ESG integration and reinforce the importance of the analysis of ESG factors as part of asset managers' fiduciary duties. The ESG working group of the Finance Innovation Lab should include the elaboration of a guide on ESG integration for the scope of its activities.

33 Available at: https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-brazil-roadmap/259.article
34 Available at: https://www.unpri.org/news-and-press/230-investors-with-usd-162-trillion-in-aum-call-for-corporate-action-on-deforestation-signaling-support-for-the-amazon/4867.article
35 Available at: http://www.labinovacaofinanceira.com/

CANADA

Canada in 2018	Population: 37.06 million
GDP: 1.71 trillion USD	Over 65 years: 17.4%
Per capita GDP: 46,125 USD	GINI coefficient: 0.31
Market cap: 1.94 trillion USD	CO_2 emissions: 541 Mt
PRI signatories: 133 (43 asset owners)	CO_2 emissions per capita: 14.9 t

> "For Canada to be competitive in a world that is increasingly concerned about sound environmental stewardship, sustainable finance needs to become business as usual in the Canadian financial services industry".
>
> *Tiff Macklem, Chair of the Expert Panel on Sustainable Finance*

Policy context

Canada has yet to formally establish goals directly linked to sustainable finance but has the following official initiatives in place:

- The Federal Sustainable Development Strategy outlining 13 goals linked to environmentally sustainability priorities, which is updated every three years.
- The Pan-Canadian Framework on Clean Growth and Climate Change, a plan developed by provinces and territories (in consultation with indigenous peoples) to meet emissions reduction targets and build resilience to climate change.

In April 2018, the federal government of Canada (Ministers of Environment and Climate Change, and Finance) appointed the Expert Panel on Sustainable Finance to undertake consultation with leaders of the finance community and make recommendations to align Canada's financial system with a sustainable future.

In October 2018, the Expert Panel released its interim report outlining the opportunities and challenges related to sustainable finance and climate related risk disclosures as well as interim recommendations for the Federal government to consider.

The final report was released in June 2019 and included 15 recommendations that were grouped into three pillars: opportunity, foundations for market scale and financial products and markets for sustainable growth.

Pillar I: Opportunity

1. Map Canada's long-term path to a low-emissions, climate-smart economy, sector by sector, with an associated capital plan.
2. Provide Canadians the opportunity and incentive to connect their savings to climate objectives.
3. Establish a standing Canadian Sustainable Finance Action Council (SFAC), with a cross-departmental secretariat, to advise and assist the federal government in implementing the Panel's recommendations.

Pillar II: Foundations for Market Scale

4. Establish the Canadian Centre for Climate Information and Analytics (C3IA) as an authoritative source of climate information and decision analysis.
5. Define and pursue a Canadian approach to implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
6. Clarify the scope of fiduciary duty in the context of climate change.
7. Promote a knowledgeable financial support ecosystem.
8. Embed climate-related risk into monitoring, regulation and supervision of Canada's financial system.

Pillar III: Financial Products and Markets for Sustainable Growth

9. Expand Canada's green fixed income market and set a global standard for transition-oriented financing.
10. Promote sustainable investment as 'business as usual' within Canada's asset management community.
11. Define Canada's clean technology market advantage and financing strategy.
12. Support Canada's oil and natural gas industry in building a low-emissions, globally competitive future.

13. Accelerate the development of a vibrant private building retrofit market.
14. Align Canada's infrastructure strategy with its long-term sustainable growth objectives and leverage private capital in its delivery.
15. Engage institutional investors in the financing of Canada's electricity grid of the future.

The Fiduciary Duty roadmap for Canada[36]

The Canada roadmap sets out recommendations in four categories: regulatory action, stewardship, corporate reporting and investor education.

Canada has, in many ways, a supportive environment for the consideration of ESG issues. For example, the Canadian supreme court has held that directors of Canadian corporations considering action in the best interests of the corporation may take into account the interests of shareholders, employees, creditors, customers, governments and the environment.

The understanding and assumptions of many Canadian corporate boards and pension fiduciaries may "lag the trajectory of the law" and best practice, knowledge and awareness of ESG issues. This is a problem common to other mature markets. As such, trustees of Canadian pension schemes should be trained on ESG issues (such as those carried out by organisations like the International Centre for Pension Management at Rotman Business School and SHARE).

In this context, regulators should broaden their methods to protect investors. This would acknowledge that ESG factors are a key element in investor protection, in addition to the welcome development of policy in relation to avoiding conflicts of interest and poor charging structures.

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Regulatory action Canadian pensions regulators should require pension plans to disclose ESG integration practices. Canadian securities regulators should adopt mandatory "say on pay" votes at Canadian public companies.	Provincial pension regulators have not moved on legislation since FSCO (Ontario regulator) implemented mandatory disclosure in 2015, although there has been some interest in British Columbia and Alberta. Ontario remains company or explain. Recommendation 6.1 of the Expert Panel recommends the Minister of Finance issue a public statement articulating that the consideration of climate factors is firmly within the remit of fiduciary duty. Recommendation 6.3 recommends climate-related disclosure legislation for federally-regulated pension plans and encourage provincial regulators to consider similar requirements. An amendment to the Canada Business Corporations Act (CBCA) was proposed in April 2019 that would require corporations incorporated under CBCA to provide an annual Say on Pay vote.
Stewardship Asset owners should advance trends and best practice in shareholder engagement.	There is no stewardship code in Canada. There have been efforts from industry groups, for example, Canadian Coalition for Good Governance, to advance stewardship. Recommendation 6.4 of the Expert Panel recommends the development of a stewardship code.
Corporate reporting The CSA should conduct a comprehensive review of the reporting of material ESG factors, following which it should expand its reporting framework and guidance.	The Canadian Securities Administrator has released a notice with guidance for public companies on reporting material climate change risks. The notice is focused on disclosure obligations for management discussion and analysis (MD&A) documents and annual information forms (AIF). TSX joined the Sustainable Stock Exchanges Initiative in 2018 but has not yet mandated listing requirements on the basis of ESG reporting. They do have written guidance on ESG reporting (most recent published in 2014).

36 Available at: https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-canada-roadmap/260.article

CHINA

China in 2018	Population: 1.393 billion
GDP: 13.608 trillion USD	Over 65 years: 11.2%
Per capita GDP: 9,771 USD	GINI coefficient: 0.46
Market cap: 6.23 trillion USD	CO_2 emissions: 9,057 Mt
PRI signatories: 31 (1 asset owner)	CO_2 emissions per capita: 6.6 t

"Fiduciary duty implies that asset managers should integrate ESG factors based on beneficiaries interests. Asset managers should not only meet regulatory requirements, but also integrate ESG factors into investment processes to optimize portfolio structure, mitigate risks and identify companies that meet the trend of economic transformation and have growth potential which give good returns."

Hong Lei, Chairman of AMAC

Policy context

China is the world's second largest economy and one of the world's most polluting economies. Historically, economic growth and environmental sustainability were inversely related. This is changing, however. For China today, the guiding principle of sustainability is to simultaneously pursue economic growth, social development and environmental protection, both domestically and internationally.

China has set ambitious goals that provide a supportive environment for the development of sustainable investment regulations. The key economic goals of the government are as follows:

- High-quality economic development through finance, including the following actions:
  - Providing stronger support for the real economy.
  - Further opening up of the financial industry, with foreign financial institutions allowed to set up or hold shares of pension fund management companies in China.[37]
- Sound development of the capital market, including:
  - Reform of stock listing and delisting.
  - Improving the quality of listed companies through better corporate governance and enhanced information disclosure.
  - Encouraging more institutional investors.
- Eradicating poverty, with a focus on poverty alleviation in rural areas by 2020.
- Pollution control (air pollution especially) and resource conservation through industrial structure optimisation by 2020.

Since 2016, China has developed a high-level policy framework on green finance, and Chinese regulators have since been working on implementing this policy in terms of detailed guidance and regulations:

- 2016: **Guidelines for Establishing a Green Financial System** (GEGFS) – This high-level policy framework was adopted by seven government agencies and ministries; it includes measures to develop the green bond market and to promote green and sustainable investment in the securities market.
- 2017: **Government goal of 'creating an ecological civilisation' and 'Beautiful China'** – Promoting resource conservation and environmental protection through green and sustainable finance.

37 State Council, July 2019.

- **Green Investment Guidelines by AMAC** (the Asset Management Association of China) – A voluntary implementation guidance to encourage fund managers to consider environmental sustainability in their portfolio and raise awareness of ESG risks.
- **NDRC (National Development and Reform Commission) guidance on green industry** – A catalogue to clarify the standards of green industry and green projects.

The Fiduciary Duty roadmap for China: Investor Duties and ESG Integration[38]

Fiduciary duty per se is not a well-established concept in Chinese law. However, many of the principles that underpin fiduciary duties – for example, duties of loyalty and prudence; requirements to act with care, skill and diligence; and requirements to act in good faith in the interest of beneficiaries and clients – are familiar to Chinese investors. These duties are not defined in a single body of law but have emerged from the complex interaction of regulation, soft law and market innovation. Together, they create a set of investor duties and obligations that mirror those expected of investors in other jurisdictions.

Investor duties in China do not explicitly require investors to integrate the consideration of material ESG issues into their investment decision making, nor do they require investors to consider the Chinese government's long-term sustainability goal, articulated in the concept of the Ecological Civilisation. However, there is a strong investment case for doing so, while such a consideration is in line with the interests of clients and beneficiaries.

The central recommendation of our roadmap is that investors should integrate ESG issues into their investment decision-making processes as part of fulfilling their duties towards their beneficiaries and to support the development of China's Ecological Civilisation. Investor duties should reflect and align with the Chinese government's Guidelines for Establishing a Green Financial System.

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Sustainable investment guidance Publishing guidance on green and sustainable investment that articulates how institutional investors and their investment managers should implement the Guidelines for Establishing a Green Financial System.	In 2018, AMAC published the Green Investment Guidelines. These guidelines promote ESG integration, long-term investing and company engagement. While voluntary, and focused on green investment, these guidelines are the first regulatory tool directed at investors, issued from the overarching GEFGS. They connect high-level policy with investment decision making. The guidelines constitute a signal to investors as to normative expectations regarding their contribution to the government's goal of creating an ecological civilisation. We recommend that AMAC continues clarifying the role of ESG integration and disclosure in fulfilling the goal of the GEGFS.
Regulatory action Introducing regulation for pension funds to integrate ESG issues, encourage high standards in investee companies and disclose ESG practices and performance.	In 2018, pension funds were authorised to invest in foreign equity through mutual recognition funds. In 2019, the CSRC is expected to publish measures to promote the two-way opening of China's investment market to further facilitate overseas investment. CSRC is expected to fully remove the limit on foreign equity ratios in the securities and futures industries by 2021. There aren't any requirements for pension funds and asset owners to integrate ESG. In order to fulfil the goal of high-quality economic development, and at the same time reduce pollution and poverty, asset owners should be encouraged to systematically integrate ESG issues into their investment decision making. By doing so, they will lead other investors and asset managers by example, mainstreaming sustainable investment and driving green and sustainable economic growth.
Corporate reporting Ensuring and monitoring the effectiveness of the mandatory environmental disclosure framework for companies and aligning with international disclosure standards for ESG issues.	In 2020, CSRC plans to issue a mandatory environmental disclosure framework for listed companies. CSRC should clarify that ESG factors are financially material. In order to provide usable and comparable ESG data to investors, companies should be required to report on a standardised set of primary ESG disclosure indicators.
Investor education Supporting investor education and ESG investment research. Building operational capacity for sustainable investment.	AMAC has published dedicated research on the topic of ESG integration. AMAC, with support from investment managers and service providers, should further promote the integration of ESG topics in investor education and investment research.

38 Available at: https://www.unpri.org/fiduciary-duty/investor-duties-and-esg-integration-in-china/2915.article

EUROPEAN UNION

EU in 2018	Population: 513.21 million
GDP: 18.75 trillion USD	Over 65 years: 19.93 %
Per capita GDP: 36546.40 USD	GINI coefficient: -
Market cap: -	CO2 emissions: 3241.84 Mt (2014)
PRI signatories: 1197 (228 AOs)	CO2 emissions per capita: 6.38 t (2014)

"We do not need economic growth for the sake of growth but for the sake of well-being of people. This means taking social and environmental factors into account".

Valdis Dombrovskis, EU Commissioner

Developments around investor and fiduciary duties

The 2015 report Fiduciary Duty in the 21st Century recognised the significance of the EU as a centre for financial regulation. Although the term "fiduciary duty" is not embedded in EU law, the concepts of prudence and loyalty are part of the foundation of existing EU finance policy.

The report recommended that the EU provide guidance to Member States on the interpretation of fiduciary duty in the national legal context and encourage harmonised and consistent legislation across the EU. It also recommended that Member States monitor the implementation of legislation and other policy measures relating to fiduciary duty and report on the investment, and any additional, outcomes that result.

In 2016, European policy makers reached agreement on a revised Institutions for Occupational Retirement Provision (IORP) Directive which for the first time mandated the consideration of ESG issues by regulated pension funds. Agreement was also reached on a revised Shareholder Rights Directive which sought to strengthen stewardship and address short-termism and principal-agent problems in the investment chain.

In January 2016, the EU launched a call for evidence on long-term, sustainable investment. The PRI's response indicated that, while these developments were welcome, they lacked a clear strategy or vision for the EU.

In 2017, the EU established a High-Level Expert Group on Sustainable Finance, tasked with proposing such a vision. One of the group's key recommendations was that the EU clarify investor duties through an "omnibus" directive. The EU responded to the HLEG by establishing sustainability at the heart of the Capital Markets Union programme and setting up a dedicated Action Plan on Financing Sustainable Growth.

The action plan outlines ten reforms in three areas:

- Reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth:
  - Establish an EU classification system for sustainability activities.
  - Create standards and labels for green financial products.
  - Foster investment in sustainable projects.
  - Incorporate sustainability when providing investment advice.
  - Develop sustainability benchmarks.

"ESG is part of our core mandate. We want to ensure a successful securities market to support sustainable growth in Europe".

Rosana De Carvalho, Head of the Corporate Affairs Department, European Securities and Markets Authority (ESMA)

- Mainstream sustainability into risk management:
  - Better integrate sustainability into ratings and research.
  - Clarify institutional investors' and asset managers' duties.
  - Incorporate sustainability into prudential requirements.
- Foster transparency and long-termism in financial and economic activity:
  - Strengthen sustainability disclosure and accounting rule making.
  - Foster sustainable corporate governance and attenuate short-termism in capital markets.

The first legislative proposals from the Action Plan achieved political agreement in 2019. Of particular relevance, the 'Regulation on sustainability-related disclosures for the financial services sector' was adopted in March 2019. This regulation lays down transparency rules on the integration of sustainability risks and the consideration of adverse sustainability impacts in investors' and financial advisors' processes, and on the provision of sustainability-related information on financial products.

The regulation will also encourage investors to understand and mitigate the potential adverse impacts of their investment on society and the environment. This is consistent with the direction of the broader sustainable finance agenda, as investors increasingly work to understand non-financial investment outcomes.

The European Commission, building on technical advice from the European Supervisory Authorities (ESAs), has been drafting amendments to delegated acts under the UCITS Directive, Solvency II, AIFM Directive, MiFID II and the Insurance Distribution Directive, to clarify that sustainability must be considered in all interpretations of the prudent person principle, governance and risk management.

"Any discussion about fiduciary duty and pension funds must recognise that pension funds need to think about the future. We are currently conducting quantitative and qualitative assessments of how pensions funds are prepared for a 2 degrees scenario".

Manuela Zweimueller, Head of Policy Department, European Insurance and Occupational Pensions Authority (EIOPA)

FRANCE

France in 2018	Population: 66.99 million
GDP: 2.78 trillion USD	Over 65 years: 20.1%
Per capita GDP: 41464 USD	GINI coefficient: 0.29
Market cap: 2.37 trillion USD	CO_2 emissions: 293 Mt
PRI signatories: 217 (22 asset owners)	CO_2 emissions per capita: 4.4 t

"The Paris Agreement on climate change is not just an environmental treaty but offers the basis for a new and inclusive model of development. France is committed to making finance a driving force behind this transition".

Brune Poirson, Secretary of State, Ministry for the Ecological and Inclusive Transition, France

Policy context

France has been a champion of climate action internationally. In 2002, as the US refused to sign the Kyoto Protocol, Jacques Chirac, then President of the French Republic, called for action by all countries, saying "Our house is burning, and we look elsewhere". This commitment was epitomised in 2015 with the organisation of COP 21 and the subsequent adoption of the Paris Agreement. France has continued to act as a coordinator of international climate action, organising the inaugural One Planet Summit as the US announced their withdrawal from the agreement to rally supportive forces.

France reduced its GHG emissions by 16% between 1990 and 2016.[39] France also has the lowest level of emissions per capita in the G7, with 4.4t CO2/cap, and well below the G7 average of 10.8 tCO2/cap.[40]

39 Available at: [illegible]
40 Source: www.iea.org

Supportive policies, such as the ones listed below, set out trajectories to reduce GHG emissions and align the financial sector with those objectives:

- Loi relative a la Transition Energétique pour la Croissance Verte, or Energy Transition law (August 2015)[41] – This is a set of policies to provide a common framework for climate action in France. It sets long-term goals to reduce GHG emissions and energy consumption, improve buildings' energy efficiency and increase renewable energies. It also provides tools to track sectoral and regional contributions to the low carbon transition.
- Loi Energie et Climat (debated in Parliament as of September 2019)[42] – Adopt a new set of long-term goals to achieve carbon neutrality by 2050.

The French government has also been developing strategies to achieve more sustainable growth. It includes the protection of France's biodiversity,[43] the development of a circular economy[44] and the expansion of the Social Solidarity Economy Sector.[45] To support those transitions, the French government created an EUR 57 billion investment plan[46] to unlock investment opportunities that accelerate the low carbon transition, reinforce the attractiveness of France's workforce, strengthen innovation and develop digital services.

Since 2001, France has developed a policy framework on sustainable finance, focusing on developing the demand for sustainable investments, building on the initial involvement of government-affiliated institutional investors (Caisse des Dépôts et Consignations, FRR, Ircantec and ERAFP) and ensuring the reliability of sustainable investment offers.

- 2001: **Article 21 of the Loi sur la généralisation de l'épargne salariale** requires managers of occupational pension schemes, when asked, to disclose how environmental and social issues might have affected their decision making. The Loi sur les Nouvelles Régulations Economiques requires the disclosure of environmental and social data by French companies.
- 2010: **Article 225 of the Loi Grenelle II** requires corporate entities, including investment managers, to disclose audited information on the environmental and social impact of their business activities and on their CSR strategy.
- 2015: **Article 173 of the Loi relative a la Transition Energétique pour la croissance verte** requires French institutional investors and investment managers to disclose information on the integration of climate and ESG risks into their decision making.
- 2016: Establishment of two government-led labelling schemes, **Greenfin** and **ISR**, for sustainable financial products.
- 2017: **Loi relative au devoir de vigilance (Duty of Care)** requires large French companies to establish and disclose due diligence policies for environmental and social risks in their supply chain.
- 2018: **Roadmap for sustainable finance of the French Securities Market Authority (AMF)**, which sets the priorities for the supervision of the responsible investment market in France.
- 2019: **Loi Plan d'Action pour la Croissance et la Transformation des Entreprises**, which includes several provisions to clarify directors' duties, introduce new product-level ESG requirements for employee saving schemes and transpose the Shareholder Rights Directive.
- **Loi Energie et Climat** updates the 2015 Energy Transition law, including Article 173.

41 Available at: [illegible]
42 Available at: [illegible]
43 Loi pour la reconquête de la biodiversité, de la nature et des paysages, available at: [illegible]
44 Feuille de route de l'économie circulaire, available at: [illegible], et Projet de loi anti-gaspillage pour une économie circulaire, available at: [illegible]
45 Loi Economie sociale et solidaire, available at: [illegible]
46 Le Grand plan d'investissement 2018-2022, available at: [illegible]

The Fiduciary Duty roadmap for France[47]

Fiduciary duty per se is not a well-established concept in French law. However, many of the principles that underpin fiduciary duties – for example, the duties of loyalty and prudence, and requirements to act with care – are familiar to French investors. Therefore, the shift towards ESG integration came about through dedicated disclosure requirements, and the clarification of investor duties would require amending the existing legal framework to improve ESG integration practices and extend investors' ESG disclosure requirements.

The roadmap makes recommendations to strengthen France's role in the development of responsible investment, capitalising on progress. In addition to the clarification of investors' duties, it suggests the (i) encouragement of analysis and measurement of the impacts of investment activities, (ii) creation of an environment in which responsible investment can flourish, and (iii) strengthened collaboration between public and private actors.

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Regulatory action The French government should revisit the existing regulatory framework to clarify that all investors (asset owners and investment managers) should integrate ESG issues into their processes and decision making, ending the "comply or explain" approach.	The adoption of the EU Regulation on sustainability-related disclosures in the financial services sector[48] established an EU-wide disclosure framework for investors. Article 173 is being amended to incorporate this within the French regulatory framework. The amendment should ensure that the provisions that are not in the European framework (for instance the alignment with the Paris Agreement) will be safeguarded. The update of Article 173, currently discussed as part of the Energy and Climate bill,[49] extends the scope to investors not covered by the initial version of Article 173 (including the Banque de France, reinsurers and banks that are advising on or managing third parties' portfolios). It should be supplemented by the amendments to the delegated acts under the UCITS Directive, Solvency II, AIFM Directive, MiFID II and to the Insurance Distribution Directive currently prepared by the European Commission to clarify that sustainability must be considered in the interpretation of the prudent person principle, governance and risk management. Government authorities, in collaboration with industry associations, should create mechanisms to establish minimum standards for ESG integration. It would ensure investors' comparability and facilitate supervision. Government authorities, in collaboration with industry associations, should create mechanisms to develop shared methodologies to assess the alignment with long-term objectives like the Paris agreement.
Measuring impact The French government should integrate social and environmental outcomes into financial institutions' responsibilities.	The Loi PACTE, adopted in 2019,[50] clarified that companies, including most French asset owners such as insurance and mutual insurance companies, should take into account the social and environmental impacts of their activities. It also offers companies the opportunity to enshrine their broader responsibility towards society, or "raison d'être", in their legal status. While setting a broader definition of companies', including some investors', duties to include the environmental and social impacts on their broader stakeholders, the Loi PACTE does not include any provision regarding supervision or transparency on the integration of the environmental and social outcomes by companies. However, the adoption of the 'Regulation on sustainability-related disclosures for the financial services sector', which lays down transparency rules on the consideration of adverse sustainability impacts in investors' and financial advisors' processes, will further encourage investors to understand and mitigate the potential adverse impacts of their investments on society and the environment.

47 Available at: [illegible]
48 See the PRI's briefing on the EU Regulation on Sustainability-related disclosures in the financial services sector.
49 Available at: [illegible]
50 Available at: [illegible]

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Enabling environment The French government should make sustainable financial products more transparent and systematic.	The Loi PACTE includes a provision to increase the demand for sustainable investments within life insurance. As of 2020, when purchasing a life insurance product, clients should be offered either an SRI-labelled fund, a GreenFin-labelled fund or a social impact fund. Insurers have been the drivers of responsible investment growth in France in recent years. This provision should ensure that they keep driving demand for sustainable investment while ensuring that the end-investors' ESG preferences are met. The government should create similar requirements for employee savings schemes.
Stewardship The French Markets Securities Authority (AMF) should enhance the efficiency of the dialogue between investors and issuers.	The Loi PACTE includes a provision to transpose the requirements of the Shareholder Rights Directive. French investors are now required to have an engagement policy and to report annually on its implementation. The AMF should provide guidance on the content of the engagement policy, which would explicitly require investors to engage on sustainability-related issues. The AMF should work to improve shareholder democracy in Annual General Meetings, lowering the requirements to file a shareholder resolution and increasing the transparency in the (proxy) voting process.
Strengthen collaboration between public and private actors	The French regulators, AMF and ACPR, announced that they would reinforce their cooperation to supervise investors' sustainability disclosures and the implementation of investors' commitments on sustainable finance. The regulators will publish an annual report making recommendations to improve practices. The AMF is also setting up a Commission on Sustainable Finance and the Climate. Composed of experts, it should be a collaborative forum for financial market participants.

GERMANY

Germany in 2018	Population: 82.93 million
GDP: 3.997 trillion USD	Over 65 years: 21.66%
Per capita GDP: 48,196 USD	GINI coefficient: 0.29
Market cap: 1.75 trillion USD	CO_2 emissions: 732 Mt
PRI signatories: 95 (21 asset owners)	CO_2 emissions per capita: 8.9 t

"Supervisors in each jurisdiction need to explicitly clarify that ESG integration is fully in line with pension funds' fiduciary duties."

André Laboul, Secretary General, International Organisation of Pension Supervisors (IOPS)

Policy context

Germany has a tradition in introducing and fostering sustainable development mechanisms, policy frameworks and practices. For instance, the Renewable Energy Sources Act, introduced in 2000, has led to a share of around 40% renewable energy sources in electricity generation installed capacity. In parallel, Germany is phasing out nuclear power and recently has decided to also phase out coal-fired power generation. However, progress has slowed in recent years and there is a risk that Germany is likely to miss its greenhouse gas reduction targets.

Germany's economy is industry and manufacturing dominated, leading to a strong corporate sector. Compared to other markets, the German financial sector is relatively small. Finance activities are predominantly focused on corporate finance and banking and are less investment related. The public pension system is organised in a pay-as-you-go scheme, to a large extent without capital market investments. So far there are no encompassing legislative initiatives dedicated to sustainable finance and investment.

To better accompany its implementation of the EU Action Plan Financing Sustainable Growth, in March 2019 the German government set up an advisory committee on sustainable finance which is expected to publish a working programme in October 2019. The committee's work has been divided into the following work streams: sustainable finance strategy and communication, finance market stability and risk management, disclosure and end consumer/client (institutional and retail).

The Fiduciary Duty roadmap for Germany[51]

While fiduciary duty is not a clear legal term under German jurisdiction, duties to pursue the best interest of the end investor exist in the Capital Investment Code (Kapitalanlagegesetzbuch-KAGB) and the prudent person principle is embedded in the Pension Insurance Act (Versicherungsaufsichtsgesetz-VAG). The German roadmap outlines recommendations around government leadership in sustainable finance, pension fund and fund managers' regulatory clarification and ESG disclosure.

51 Available at: https://www.unpri.org/sustainable-markets/fiduciary-duty

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Government leadership The federal government should send strong signals highlighting the importance of sustainable finance. Government-related funds should also demonstrate leadership.	To better accompany the new and encompassing developments coming from the European Commission, namely the EU Action Plan Financing Sustainable Growth, in March 2019 the German government has set up an advisory committee on sustainable finance which is expected to publish a work programme in October 2019. This work programme should include dated and quantified objectives and commitments to implement the sustainable finance strategy.
Institutional investors Legal clarity and consistency: The prudent person principle embedded in the Pension Insurance Act (Versicherungsaufsichtsrecht – VAG) will be amended as part of the transposition of the revised EU Institutions for Occupational Retirement Provision (IORP II) Directive. As part of this transposition, the Ministry of Finance should propose an amendment to the Pension Insurance Act to clarify that all institutional investors should consider ESG issues financially material. Preparation for upcoming EU Directives: Tools, education and best practice case studies should be provided to German IORPs (Pensionfonds, Pensionkassen) to help them prepare for the ESG aspects of IORP II and the Shareholder Rights Directive. New defined contribution schemes should publicly commit to responsible investment, as well as consider and respond to the preferences of scheme members. **Fund managers** BaFin should issue guidance to fund managers clarifying that the Capital Investment Code (Kapitalanlagegesetzbuch – KAGB) requires consideration of material ESG issues.	The recommendation to provide legal clarity has been superseded by EU-wide developments. The EU has continued to prioritise the issue of fiduciary duties, in particular: • The new regulation on sustainability-related disclosures in the financial services sector requires investors to disclose details of their policies on the integration of financially material ESG risks. • In addition, the European Supervisory Authorities have provided advice to the European Commission on amendments to the delegated acts underpinning MIFID II, Solvency II, IDD, UCITS and AIFMD to clarify that ESG is a component of governance, risk management and disclosure. These rules are expected to come into force in due course.
Implementation of the CSR Directive The German Federal Ministry of Justice and Consumer Affairs (BMJV) should issue guidance to public interest entities complying with the new requirements, including that: • For financials, investments are in scope for their reporting. Where possible, this should be aligned with upcoming reporting requirements under IORP II and the Shareholder Rights Directive. • For non-financial corporations, investments such as pension schemes and contractual trust agreements are in scope for reporting. The German Parliament should monitor the implementation of amendments to the Handelsgesetzbuch (commercial law code) to ensure high-quality disclosure of ESG factors with clear links between ESG factors and a company's business model and risk factors; and to allow for investor comparability by industry, portfolio and across time-series.	The NFRD is likely to be revised under the new European Commission mandate (2019–2024).

JAPAN

Japan in 2018	Population: 126.53 million
GDP: 4.97 trillion USD	Over 65 years: 27.47%
Per capita GDP: 39,287 USD	GINI coefficient: 0.34
Market cap: 5.3 trillion USD	CO_2 emissions: 1,147 Mt
PRI signatories: 75 (20 asset owners)	CO_2 emissions per capita: 9 t

"As a universal owner, instead of trying to beat the market, our responsibility at GPIF is to make capital markets more sustainable"

Hiro Mizuno, CIO, GPIF

Policy context

In April 2019, at the fifth meeting on a Long-Term Strategy under the Paris Agreement as Growth Strategy, Prime Minister Shinzo Abe stated: "We need to produce disruptive innovation that is not a mere extension of existing technologies so as to stand firm against the global issue of climate change and realise the ultimate vision of a carbon-free society."

The government considers sustainable investment an opportunity for future growth in Japan and plans to publish guidelines on green investment for financial institutions, following the one for non-financial corporations. Keidanren, a major industry association, has set up an internal committee that focuses on SDG policies. The Japan Stock Exchange (JPX) published the Revised Japan Corporate Governance Code in June 2018 aiming to enhance board effectiveness. JPX also established a Sustainability Committee that directly reports to the group's CEO to promote ESG integration.

The Financial Services Agency (FSA) revised the Japan Stewardship Code in 2017 and also revised the Corporate Governance Code together with JPX in 2018. The new version of the Stewardship Code requires the following:

- Asset owners engage in stewardship activities as much as possible in order to secure the interests of the ultimate beneficiaries.
- Asset managers identify specific circumstances that may give rise to conflicts of interest which may significantly influence the exercise of voting rights and/or dialogue with companies, establish governance structures and strengthen governance mechanisms.
- Institutional investors disclose voting records for each investee company on an individual agenda item basis.

The revised Corporate Governance Code includes a definition of the role of corporate pension funds as asset owners. This principle highlights the link between corporate pension funds and their sponsors in ensuring that corporate pension funds have the knowledge to perform their duty of high-quality stewardship. Because the management of corporate pension funds impacts stable asset formation for employees' and companies' own financial standing, companies should implement and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring asset managers), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.

The Ministry of Economy, Trade and Industry (METI) published a report on SDG Management / ESG Investment in 2018 and a Guidance for Collaborative Value Creation in 2017 to encourage dialogue between investors and companies.

The Ministry of the Environment has also released a number of programmes and guidance on the topics of TCFD Scenario analysis, environmental reporting, environmental disclosure to improve ESG investment and green bonds.

The FSA, the METI and the Ministry of the Environment supported the establishment of an industry-led TCFD consortium. The consortium aims to facilitate constructive dialogue between investors and companies on climate-related financial disclosures recommended by the TCFD. Japan has the largest number of TCFD supporters globally and one-third of its supporters are non-financial corporations.

The Fiduciary Duty roadmap for Japan[52]

The Japan roadmap sets out recommendations in five categories: stewardship and engagement, corporate governance, ESG disclosure and guidance for pension schemes, corporate disclosure and asset owner leadership.

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Stewardship and engagement The FSA should provide enhanced oversight of the Stewardship Code. Japanese regulation should provide for mandatory disclosure of proxy voting records. Corporate plans should be encouraged to sign the Stewardship Code.	After the FSA revised the Stewardship Code in 2017, institutional investors are required to disclose the result of their voting rights for each investee companies. The FSA promotes the understanding of the stewardship code to corporate pension funds and encourages them to participate in stewardship activities.
Corporate governance The FSA should review the Corporate Governance Code on a triennial basis. It should seek improved disclosure of key ESG issues under the code (such as cross-shareholding) and continue pressure to enhance corporate governance expectations.	FSA and JPX revised the Corporate Governance Code in 2018. Asset owners including corporate pension funds will be required to adopt an oversight role in stewardship activities. The revised Corporate Governance Code recommends that investors and companies deepen their engagement on cross-shareholding (although these have decreased recently, the ratio of voting rights accounted for by cross-shareholding remains high). Companies need to assess cross-shareholding, and clearly disclose and explain the results of this assessment after specifically examining the purpose, benefits and risks of each holding. In 2019, FSA revised the corporate disclosure regulation to improve the disclosure of corporate governance-related information. The disclosure of cross-shareholding has been enhanced and the number of the disclosures of those engaged in cross-shareholding increased from 30 to 60.
ESG disclosure and guidance for pension schemes The Ministry of Health, Labour and Welfare (MHLW) should require pension schemes to disclose how they consider ESG issues in their investment processes and whether they are signatories to the Stewardship Code.	MHLW revised the guidelines on the roles and responsibilities of asset managers related to defined benefit corporate pensions in 2018 and added a language of consideration of ESG factors for the selection and appointment of asset managers and a preference for those who have adopted the stewardship code.
Corporate disclosure a) The Ministry of Economy, Trade and Industry (METI) and the FSA should review the quality and comparability of the corporate disclosure of material ESG information. b) JPX should issue ESG guidance for listed companies.	METI published the Ito Review 2.0 report and the Guidance for Collaborative Value Creation including its methodology on how to disclose ESG information. The advanced level corporations are expected to disclose ESG-related information in their integrated report.
Asset owner leadership GPIF, given its scale, size and influence, should lead in establishing market norms on stewardship, engagement and corporate governance.	GPIF revised their investment principles in 2017, incorporating ESG issues into the principles. Since 2018 they have issued an Annual Stewardship Activities Report.

52 Available at: https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-japan-roadmap/252.article

SOUTH AFRICA

South Africa in 2018	Population: 57.78 million
GDP: 366.3 billion USD	Over 65 years: 5.48%
Per capita GDP: 6,340 USD	GINI coefficient: 0.62
Market cap: 865.33 billion USD	CO2 emissions: 414 Mt (provisional data)
PRI signatories: 61 (9 asset owners)	CO2 emissions per capita: 7.4 t

"A failure to take into account risks associated with [ESG] factors such as climate change, which may be relevant to the likely long-term performance of a specific investment, or the fund's investments as a whole, is likely to amount to a breach of the duty of care and diligence".

"Board members must therefore take all reasonable steps to acquire the information in relation to the risks associated with climate change as they may require, in order to make informed decisions when taking such risks into account when exercising the fund's investment powers".

Fasken, 2019 Pension Fund legal opinion commissioned by Just Share and ClientEarth[53]

Policy context

The National Development Plan (NDP) aims to eliminate poverty and reduce inequality by 2030. Toward this goal, the NDP emphasises the importance of growing an inclusive economy, building capabilities, enhancing the capacity of the state and promoting leadership and partnerships throughout society. The NDP offers a long-term perspective on finance and investment priorities.

Recently, the UNDP conducted a study in which the SDGs were mapped against the objectives of the NDP. The mapping exercise concluded that 74% of the SDGs are reflected in South Africa's National Development Plan, while 26% of the SDGs are not. Interestingly, of the 26% not reflected in the NDP, 73% are reflected in other sectoral strategies which means that they are part of the national planning system. Only 27% of those not reflected in the NDP do not appear elsewhere, mainly because they are not relevant to South Africa.

The South African National Treasury is currently concluding a project carried out in conjunction with the IFC regarding the development of a sustainable national financial system. The paper, which is expected to outline national targets and policy objectives with respect to finance and investment priorities, an appropriate approach to the just transition and targeted action toward achieving localised targets with respect to the SDGs, is due for release in October 2019.

53 Available at: https://justshare.org.za/wp-content/uploads/2019/04/2019_Pension-fund-legal-opinion-by-Fasken.pdf

Currently in effect, Regulation 28 under the Pension Funds Act sets out a number of principles which must at all times be applied by a fund and its board. One of these principles is that, "before making an investment in and while invested in an asset, [the board must] consider any factor which may materially affect the sustainable long-term performance of the asset including, but not limited to, those of an environmental, social and governance character". This principle must also be adhered to by anyone to whom any investment-related powers and functions of the fund are delegated, for example asset managers and asset consultants.

The Financial Sector Conduct Authority (FSCA) recently published FSCA Communication 1 of 2019 (PFA) together with a Guidance Notice on Sustainability of Investments and Assets in the context of a retirement fund's investment policy statement. The Guidance Notice provides guidance on some of the essential aspects of sustainable investments that the FSCA expects a fund to include in its investment policy statement. The Guidance Notice also sets out the FSCA's expectations regarding certain disclosure and reporting requirements related to sustainability.

The field of integrated reporting in the country continues to grow and develop, with the King's Code of Corporate Governance incorporated into listing requirements for the JSE as far back as 2010, and additional integrated reporting requirements put in place by the regulator in recent years.

The Fiduciary Duty roadmap for South Africa[54]

Earlier in 2019, a shareholder activism organisation commissioned a legal opinion for South African pension funds regarding the role of trustees with respect to climate change. The opinion built on the work related to the modern interpretation of fiduciary duty and found unequivocally that failure to consider material financial risks arising from climate change would likely amount to a breach of duty by the board of a pension fund, under both the common law principles and Regulation 28 of the PFA. This interpretation aligns with the recommendations set out in the original Fiduciary Duty Roadmap for the country and reflects the growth and development of the market with respect to the role of trustees in responsible investment. Specific developments have been seen across all four areas of recommendation set out in the South African roadmap, namely: regulatory guidance, enhanced stewardship, investor education and corporate reporting.

54 Available at: https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-south-africa-roadmap/263.article

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Regulatory guidance a) The FSB should provide practical guidance to enhance the impact of Regulation 28 on the investment practice of South African pension schemes and actively monitor progress in scheme practice. b) The FSB should review investment manager mandates to ensure that they reflect the expectations for investment practice set out in Regulation 28. c) South African industry associations and the FSB should provide practical guidance for trustees interacting with investment consultants on ESG integration.	In June 2019, the Financial Sector Conduct Authority (FSCA) (formerly the FSB) released a Guidance Note on the Sustainability of Investments, along with a communication explaining how investors are expected to apply it. The regulator has noted that there would be a concerted effort put toward drastically decreasing the number of standalone funds in the market over the next few years – which also aligns to the roadmap recommendations. The Guidance Note reiterates the need for investors to produce appropriate investment policy statements, which must take into consideration all factors that may impact the sustainability of investments – including, but not limited to, ESG factors. The Guidance Note also provides investors with both a definition of sustainability as well as with examples of ESG issues. The Guidance Note is not mandatory, but instead sets out best practice guidelines and 'expectations' from the regulator. The idea is to nudge the market toward the application of best practice principles, rather than prescribe specific actions. There are discussions taking place between investors and the regulator regarding the potential value that a revision of mandates could generate with respect to the effective implementation of the best practice guidelines presented in the Guidance Note. The FSCA should propose specific timelines for the implementation of the best practice principles outlined in the Guidance Note, with a deadline by which investors must be able to show substantial progress in this regard. This will allow for assessment of the ability of the market to self-regulate in this regard (i.e. test whether the 'nudge' has worked) and give FSCA a clear time at which further action can be taken if necessary (for example, converting the Guidance Note into a Directive, which is legally binding). The FSCA should revise investment mandate templates to incorporate ESG considerations, which will enable the more effective implementation of the recommendations presented in the Guidance Note. The FSCA should clarify the role of investment consultants in fulfilling the requirements of the Guidance Note.
Stewardship The Code for Responsible Investment in South Africa (CRISA) should be supported with more resourcing and a permanent secretariat to enable its work on stewardship and responsible investment in South Africa.	The ASISA Responsible Investment Committee has commissioned a review of CRISA, which is currently underway. It is expected that the review will result in the recommendation to establish a new entity (provisionally called the Centre for Responsible Investment in South Africa) which will act as the custodian of ESG and RI-related activities within the country and eventually the region. This entity will be resourced and dedicated to enforcement of CRISA commitments by investors. The Code itself is being expanded to include all asset classes. The 'new and improved' CRISA is expected to be ready for 'launch' in Q1 of 2020. CRISA should continue to work closely with ASISA and the IoDSA to ensure that it becomes and remains an effective hub for responsible investment activity in the country.
Investor education ESG issues should be a core competency in the National Qualification Framework for trustee training. Training and accreditation groups and industry organisations, such as Batseta and ASISA, should collaborate to provide training and raise market awareness of ESG investment approaches.	Batseta and ASISA offer ESG integration and RI training to trustees. The training is locally accredited. While Batseta and ASISA do offer RI training to trustees, there is definitely the scope to increase the availability of this instruction. PRI is currently working with these organisations to identify areas of potential collaboration. Batseta and ASISA should bolster their RI education offerings and promote trainings (i.e. marketing this training as core to fiduciary duty, to modify the perception of ESG as a 'nice to have').
Corporate reporting South African stakeholders, including the FSB and the Johannesburg Stock Exchange (JSE), should review the quality of the reporting of material ESG factors following the report of the International Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).	Efforts in IR are ongoing, and the market has seen strides, especially with respect to the incorporation of Stewardship Codes into reporting requirements and the addition of non-financial reporting requirements to be listed on the JSE. Regulators and the JSE should consider incorporating TCFD into reporting requirements.

UNITED KINGDOM

United Kingdom in 2018	Population: 66.49 million
GDP: 2.825 trillion USD	Over 65 years: 18.65%
Per capita GDP: 42,491 USD	GINI coefficient: 0.35
Market cap: 3.64 trillion USD	CO_2 emissions: 371 Mt
PRI signatories: 386 (55 asset owners)	CO_2 emissions per capita: 5.7 t

"New regulations commit UK occupational pension schemes for the first time to clearly and openly explain how they take account of Environmental, Social and Governance considerations, including climate change."

Guy Opperman, Pensions Minister

Policy context

While the UK is one of the largest historical contributors to climate change, it has also been a leader on climate action. The UK has reduced emissions by over 40% since 1990 while experiencing GDP growth of 70% over the same period. It became the first country to introduce long-term legally binding commitments to reduce emissions via the Climate Change Act of 2008.

Climate change continues to be an area of focus for the UK government and is embedded in a number of goals and strategies:

- Net zero (June 2019)[55] – Following the advice of the Advisory Committee on Climate Change, the UK government committed to reduce its greenhouse gas emissions to net zero by 2050.
- Clean Growth Strategy (October 2017)[56] – This is a set of policies and proposals that aim to deliver increased economic growth while cutting emissions. Key objectives under this strategy include developing world-renowned green finance capabilities, demonstrating international leadership in carbon capture usage and storage through investment and collaboration, improving the route to the market for renewable technologies and targeting total carbon prices in the power sector.
- UK Industrial Strategy (November 2017)[57] – One of the five core components of the industrial strategy involves boosting infrastructure investment, focusing on transport, housing and digital infrastructure.

55 Available at: https://www.gov.uk/government/news/uk-becomes-first-major-economy-to-pass-net-zero-emissions-law
56 Available at: https://www.gov.uk/government/publications/clean-growth-strategy
57 Available at: https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future

In July 2019 the UK set out its Green Finance Strategy, which aims to align private sector financial flows with clean, environmental sustainability and resilient growth while strengthening the UK financial services sector's competitiveness. It has three components:

Greening finance – Mainstreaming climate and environmental factors as a financial and strategic imperative:

- Establishing a shared understanding.
- Clarifying roles and responsibilities.
- Fostering transparency and embedding a long-term approach.
- Building robust and consistent green financial market frameworks.

Financing green – Mobilising private finance for clean and resilient growth:

- Establishing robust long-term policy frameworks.
- Improving access to finance for green investment.
- Addressing market barriers and building capability.
- Developing innovative approaches and new ways of working.

Capturing the opportunity – Cementing UK leadership in green finance:

- Consolidating the UK's position as a global hub for green finance.
- Positioning the UK at the forefront of green financial innovation and data and analytics.
- Building skills and capabilities on green finance.

The Fiduciary Duty roadmap for the UK[58]

Fiduciary duty requires investors to consider long-term value drivers in investment processes. ESG factors are a core part of such an assessment. This understanding of fiduciary duty reflects the findings of the Law Commission in its report Fiduciary Duties of Investment Intermediaries,[59] which stated that "there is no impediment to trustees taking account of environmental, social or governance factors where they are, or may be, financially material". It is not the origin of the factor, but rather its financial materiality, which is of relevance.

The Law Commission guidance draws a distinction between ESG integration and social investment strategies. The primary purpose in ESG integration is the delivery of a financial return. Social investment strategies also seek to achieve purposes which are not always related to the delivery of a financial return. Such strategies often involve a narrowing of the available investment universe through the screening of sectors or stocks on ethical grounds. As such, they can be distinguished from ESG integration.

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Investment regulations The Department for Work and Pensions (DWP) should revisit the Investment Regulations to clarify that the consideration of ESG factors is a core part of prudent investment decision making.	In September 2018 the DWP published amendments to the Investment Regulations requiring pension schemes' Statements of Investment Principles (SIPs) to state how the scheme accounts for ESG factors. These regulations are effective from October 2019. The requirements apply to trust-based schemes with at least 100 members. An original proposal that "non-financial matters", such as member views and real economy impacts, must also be included has been replaced with an optional policy on how these matters are addressed. TPR and the DWP should monitor compliance to ensure that changes to pension schemes' SIPs are accompanied by behaviour changes and the effective incorporation of ESG issues into investment decision making. The DWP should, together with the FCA, produce guidelines on how schemes can integrate member views and preferences into their investment strategy.
Stewardship and engagement a) Regulation and guidance should provide for a Stewardship Duty to clarify that shareholder rights are assets to be used in the best interests of beneficiaries. b) The Financial Reporting Council should extend the Stewardship Code to explicitly incorporate ESG factors and continue to monitor and publicly disclose the quality of reporting by signatories against the Code.	The revised Investment Regulations require pension schemes to state their policy (if any) on stewardship. Furthermore, the UK implemented the revised Shareholder Rights Directive in June 2019, which requires asset managers and asset owners to disclose, on a comply or explain basis, an engagement policy which includes its approaches to ESG and voting. The FRC is expected to publish an updated Stewardship Code in November 2019. The revised version is expected to explicitly incorporate material ESG factors across all asset classes. While the Investment Regulations and the revised Shareholder Rights Directive increase the expectations for investors to disclose their stewardship policies and activities, they do not face an explicit requirement to engage in stewardship. The FRC should ensure that the reporting framework under the revised code is focused on stewardship outcomes, as well as processes and activities. The FRC should further ensure that the tiering of signatories under the revised code is based upon the quality of underlying stewardship activities rather than the quality of disclosures.

58 Available at: https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-uk-roadmap/264.article
59 Available at: https://www.lawcom.gov.uk/project/fiduciary-duties-of-investment-intermediaries/

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Investment consultants a) The Financial Conduct Authority (FCA) should expand its oversight of investment advice to include that provided by investment consultants in relation to ESG factors. b) The Pensions Regulator (TPR) should provide guidance on the interaction of trustees with investment consultants to help trustees review advice and performance.	In February 2019 the FCA requested an expanded regulatory remit from HM Treasury to include all of the main activities of investment consultants, which would include ESG-related services, following an investigation into competition issues within the industry. In June 2019 the Competition and Markets Authority (CMA) introduced a rule requiring trustees to set objectives for their investment consultants. In July 2019 TPR published a draft guide for trustees on how to set such objectives. These changes follow a CMA investigation into competition issues within the investment consultancy and fiduciary management industry. The CMA recommended the extension of FCA's regulatory perimeter to include all the main activities of investment consultants, including ESG issues, though this was not considered part of the investigation. The CMA also recommended that TPR develop guidance to support pension scheme trustees in seeking and using enhanced information. HM Treasury should approve the expansion of the FCA's regulatory perimeter. The FCA's oversight should explicitly include service provision relating to ESG issues and climate change in particular, given existing shortcomings[60] and the increasing expectations[61] on asset owners in this area. ESG issues should be included in core service provision as part of investment consultant fee disclosures.
Corporate reporting Through the implementation of the Non-Financial Reporting Directive, the development of standardised and comparable approaches for reporting on material ESG factors relevant to investors.	The UK has implemented the NFRD and issued guidance on how companies can meet these and other ESG reporting requirements under the Companies Act. The UK's Green Finance Strategy also contains an expectation that all listed companies and large asset owners will disclose in line with TCFD by 2022. FRC guidance published in July 2018 informs companies of how they can ensure their Strategic Report and Director's Report comply with the Companies Act and NFRD. The Green Finance Strategy, published in July 2019, states that an interim report will be published in 2020 on the progress of TCFD implementation, and a joint taskforce of UK regulators will explore the mandating of TCFD reporting. Regulators should continue to monitor levels of TCFD reporting and ensure that various efforts to produce TCFD guidance documents remain aligned. The new Impact Investing Institute should work with existing organisations such as the PRI, the Impact Management Project and the Green Finance Institute to develop guidelines for impact reporting for companies and investors. This should also inform reporting under the revised Stewardship Code.
Scheme Governance a) The governance arrangements for defined-contribution (DC) schemes should be strengthened and provide for enhanced consideration of ESG factors. b) Schemes should be required to reflect on the impact of their scale on governance quality and, where necessary, consider consolidation.	In April 2019 the FCA published a consultation on extending the remit of Independent Governance Committees to include oversight of ESG and other material issues, stewardship and member preferences. The FCA's proposed changes to the remit of IGCs attempts to bring contract-based pensions in line with the DWP's revised Investment Regulations for trust-based pensions. However, given structural differences between the two schemes, there are questions whether these changes go far enough. Alongside broadening the remit of IGCs as proposed in the consultation, the FCA should address issues[62] with the independence, accountability, reporting and skills of IGCs as part of its review of the effectiveness of IGCs during the 2019/20 business year. In February 2019 the DWP published a consultation on introducing a requirement for small schemes to carry out a triennial assessment on whether they should consolidate into a larger scheme. In July 2019 TPR published a further consultation on removing the barriers to consolidation among small schemes. The DWP's efforts to encourage consolidation among pension schemes is linked in part to the government's Patient Capital Review, which noted that UK pension funds were heavily invested in listed equities and bonds with little investment in alternatives. The proposals to encourage consolidation were accompanied by other measures to boost pension fund allocation to illiquid investments such as infrastructure. The DWP should introduce the proposed requirement for schemes to carry out a triennial assessment on the benefits of consolidation. This requirement should go beyond the proposed threshold of schemes with GBP 10 million in assets to also include medium-sized and larger schemes that can also benefit from consolidation. The DWP should revisit this policy in the event that this does not lead to an increase in consolidation.

60 Available at: [illegible]
61 For example, the amended Investment Regulations and the Green Finance Strategy's expectation that large asset owners will disclose in line with the TCFD recommendations by 2022.
62 Available at: [illegible]

UNITED STATES

United States in 2018	Population: 327.17 million
GDP: 20.49 trillion USD	Over 65 years: 15.8%
Per capita GDP: 62,641 USD	GINI coefficient: 0.39
Market cap: 30.44 trillion USD	CO_2 emissions: 4,833 Mt
PRI signatories: 474 (47 asset owners)	CO_2 emissions per capita: 15 t

> "Fundamentally, the history of securities law shows that we will need mandatory rules to address ESG issues. Voluntary disclosures on a case-by-case basis produce a selection effect where only the least problematic companies will change, which is why mandatory disclosure is the basic bargain of participating in our markets. One-off disclosures produce information investors cannot compare across companies and industries, making it harder to hold corporate managers accountable. It is vital that we bring more transparency to these crucial sustainability issues in time to do something meaningful about them."
>
> *US SEC Commissioner Robert Jackson*

Policy context

In the US, the conversation around climate change and the role of the capital markets in helping to support broader societal and economic change is polarised. Because of this, political shifts have a dramatic impact on both federal and state policies. In November 2018, there was a shift in leadership in the House of Representatives that provided new opportunities to advance policies that support sustainable investment. Leaders in the House have taken advantage of those opportunities to introduce, debate and cast votes on positive legislation.

Legislative change in the US, however, requires consensus among the House, Senate and President. This is unlikely unless and until the leadership of all three bodies embraces the need for action to mandate that fiduciaries integrate ESG factors into investment decisions. Due to political polarisation, this will likely happen either because of a change in the political party of the leadership or because we reach a tipping point at which society, at large, demands clear policy responses to crises such as climate change or inequality.

The public debate in the US has begun to shift with respect to the role that the public expects businesses and financial entities to play in society. The business community has begun to recognise and respond to this shift. For example, in August 2019 the Business Roundtable, a lobbying organisation whose members are CEOs of the largest companies in the United States, issued a statement signed by 181 corporate CEOs which expressed a commitment to consider the interests of stakeholders beyond shareholders, including employees and communities, into their business decisions. It is possible that this marks a shift that will create opportunities for more proactive collaboration with business interests to promote positive policy changes in fiduciary duty and ESG integration more broadly.

US regulators, including the Securities and Exchange Commission (SEC) and Department of Labor (DOL), interpret, implement and enforce the laws within their jurisdiction. The DOL, among other responsibilities, oversees fiduciaries for private sector retirement plans (ERISA fiduciaries), and enforces the laws that define their obligations in advising clients on retirement. The SEC has broad authority over the laws applicable to capital markets' activity and investor protections.

The DOL periodically releases policy pronouncements related to the obligations of ERISA fiduciaries that have caused confusion among those responsible for overseeing private sector retirement plans. The most recent, a Field Assistance Bulletin (FAB) from 2018, reiterated the DOL's longstanding position that fiduciaries are obliged to consider ESG factors as part of investment decisions "[t]o the extent ESG factors, in fact, involve business risks or opportunities that are properly treated as economic considerations themselves". At the same time, the DOL stated that fiduciaries "must avoid too readily treating ESG issues as being economically relevant to any particular investment choice". While the FAB did not reflect a substantive change to the DOL's position that material economic factors, including material ESG factors, are to be considered by investment fiduciaries, the explanatory language in the Bulletin created uncertainty for fiduciaries of private pension plans.

As the capital markets regulator, the SEC is responsible for implementing statutory requirements related to corporate disclosure. Fiduciaries' ability to effectively integrate ESG factors into investment decisions depends upon access to consistent, comparable ESG data. To date, the Commission has ignored calls from investors to implement a comprehensive ESG disclosure mandate applicable to public companies. In August of 2019, the Commission issued a rule proposal that, if finalised as proposed, will change the rules related to corporate disclosures by giving public companies substantially more discretion as to the nature of their risk disclosures. The rule proposal would establish a principles-based disclosure regime for human capital matters, though it fails to address climate change.

Fiduciary duty roadmap for the US[63]

The United States is the world's largest economy and the PRI's largest market. US investors are increasingly acknowledging the long-term value of incorporating ESG factors. Investment managers and asset owners see the long-term opportunities of ESG, but there are significant barriers to enacting policies that support the growth of ESG integration and clarity around fiduciary duty.

Priority recommendations and regulatory developments

Roadmap recommendation	Progress made and next steps
Investor education Trustee boards should ensure capacity and competence on ESG issues. This should be industry led.	The PRI Academy launched an online trustee course at the end of 2017 and has trained 338 trustees, pension fund staff and investment consultants thus far. In addition, the PRI recently launched and is piloting the RI Review Tool, intended for use by asset owner trustees and boards to review their responsible investment strategy, ambitions and implementation. The RI Review Tool is part of the Sustainable Financial System programme, as it was identified that there was a significant gap between the commitments made by asset owners and their implementation (as reported to the PRI). Asset owner trustees and boards should use the RI Review Tool and PRI Academy courses to increase education and competence of ESG issues in their organisations.
Corporate Reporting The Securities and Exchange Commission (SEC) should update Regulation S-K to ensure the high-quality disclosure of ESG factors.	A petition was submitted to the SEC in October 2018 calling on the Commission to require ESG disclosure by issuers in Regulation S-K. The SEC has taken no actions in response to this petition. Concerns over recently proposed changes to Regulation S-K include its use of a principle-based approach (instead of line-item disclosures) and a lack of climate risk disclosure. This leaves investors with inconsistent information and a lack of transparency. The Climate Risk Disclosure Act of 2019, which would require public companies to disclose information on their climate-related risks, passed the House Financial Services Committee. Similar legislation was introduced in the Senate. It is unlikely this bill will advance in the near-term. Many presidential candidates are co-sponsors of this legislation and are taking up climate risk disclosure in their campaigns. Congress should mandate that the SEC take action to require the disclosure of ESG factors in public companies' Regulation S-K filings.
Investment consultants Industry stakeholders should build on existing guidance to plan fiduciaries and trustees on the integration of ESG factors into investment consultant services.	The PRI surveyed asset owners and investment consultants in 2017, finding most were failing to consider ESG issues in their investment practices. The PRI recently published "Investment consultants and ESG: An asset owner guide".[64] Investment consultants should, in fulfilling their obligations to clients, integrate material ESG factors in their services to maximise investment opportunities.
Stewardship and engagement The Securities and Exchange Commission (SEC) has considered changes to the proxy process since 2017.	The SEC recently passed guidance related to proxy voting. The PRI's view is that this guidance is harmful to investors as it could create additional costs for fiduciaries in fulfilling their proxy voting obligations and creates additional litigation risk for proxy advisors. The Commission also indicated plans for further reforms to proxy voting regulations that will impact which proposals are admitted for inclusion on company's proxies and could impose further burdens on proxy advisers. The SEC should retain current regulations and staff-level interpretations related to proxy voting.

63 Available at: https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-us-roadmap/265.article
64 Available at: https://www.unpri.org/asset-owners/investment-consultants-and-esg-an-asset-owner-guide

FIDUCIARY DUTY IN THE 21ST CENTURY PROGRAMME

In January 2016, the PRI and UNEP FI, with the generous financial support of The Generation Foundation, launched a four-year project to end the debate on whether fiduciary duty is a legitimate barrier to the integration of environmental, social and governance issues in investment practices and decision making.

This followed the original publication in September 2015 of Fiduciary Duty in the 21st Century by the PRI, UNEP FI, UNEP Inquiry and UN Global Compact. The 2015 report concluded that "Failing to consider all long-term investment value drivers, including ESG issues, is a failure of fiduciary duty". It also acknowledged that despite significant progress, many investors had yet to fully integrate ESG issues into their investment decision-making processes.

Accordingly, the project had three main components:

- Working with investors, governments and intergovernmental organisations, to develop and publish an international statement on fiduciary duty, which includes the requirement to integrate ESG issues into investment processes and practices.
- Publishing and implementing roadmaps on the policy changes required to achieve the full integration of ESG issues in investment processes and practices across eight countries.
- Extending the research into fiduciary duties – and, more broadly, investor duties – to six Asian markets: China, Hong Kong SAR, India, Korea, Malaysia and Singapore.

Between 2016 to 2019, the project has[65]:

- Engaged with over 400 policy makers and investors to raise awareness of the importance of ESG-issues to the fiduciary duties of investors.
- Published the Global Statement on Investor Obligations and Duties, which has now been signed by 124 signatories from 22 countries.[66]
- Published and started to implement roadmaps on the policy changes required to achieve full integration of ESG issues into investment processes and practices across 11 countries (Australia, Brazil, Canada, China, France, Germany, Ireland, Japan, South Africa, UK and US).
- Extended the research into fiduciary duties – and, more broadly, investor duties – to six Asian markets: China, Hong Kong SAR, India, Korea, Malaysia and Singapore
- Published ten related reports.
- Engaged with the European Commission and the HLEG (European Commission High Level Expert Group on Sustainable Finance[67]) to help formulate recommendations on the clarification of investor duties throughout the European Union.
- Hosted over 20 workshops and conferences with investors and regulators in 15 countries to discuss regulatory clarification and investor practice on ESG integration as part of their fiduciary duty.

In November 2017, the project was recognised by Investments and Pensions Europe with a gold award for Outstanding Industry Contribution.

65 See further: https://www.fiduciaryduty21.org/
66 Available at: https://www.fiduciaryduty21.org/investor-statement.html. For signatories, see https://www.fiduciaryduty21.org/signatories.html
67 Available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

Country Roadmaps

1. Australia
2. Brazil (English) (Portuguese)
3. Canada (English) (French)
   - Alberta
4. China (English) (Chinese)
5. France (English) (French)
6. Ireland
7. Germany (English) (German)
8. Japan (English) (Japanese)
9. South Africa
10. United Kingdom
11. United States
    - Ohio

Additional jurisdiction analysis:

- Investor Obligations and Duties in Six Asian Markets (English) (Chinese)

Additional Project Related Publications

1. ESG Data in China (English) (Mandarin)
2. Aligning investors with sustainable finance: a focus on the OECD
3. Untangling Stakeholders for Broader Impact: ERISA Plans and ESG Incorporation
4. Financial Performance of ESG Integration in US Investing
5. Working towards a sustainable financial system: investment consultant services review
6. Aligning values: why corporate pension plans should mirror their sponsors (English) (Portuguese) (Japanese)
7. Fiduciary Duty in the 21st Century Progress Report 2017
8. Addressing ESG factors under ERISA
9. Fiduciary Duty in the 21st Century (2015)

EVOLUTION OF FIDUCIARY DUTY:

FROM A LEGAL CASE TO REGULATORY CLARIFICATION

As depicted below, the rate of regulatory action on fiduciary duty and ESG issues has accelerated markedly in recent years.

2005

UNEP Finance Initiative publishes A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment (the Freshfields report). The report concludes that ESG integration is clearly permissible and arguably required.

2006

The Principles for Responsible Investment launches.

2009

UNEP Finance Initiative publishes Fiduciary Responsibility: Legal and Practical Aspects of Integrating Environmental, Social and Governance Issues into Institutional Investment.

2014

July
The UK Law Commission publishes Fiduciary Duties of Investment Intermediaries. The report concludes that: "There is no impediment to trustees taking account of ESG issues where they are, or may be, financially material".

September
Fiduciary Duty in the 21st Century report launches. Concluding that: "Failing to integrate ESG factors is a failure of fiduciary duty", it makes recommendations to policy makers, investors and service providers.

2015

October
The US Department of Labor releases Interpretive Bulletin (IB 2015-01), which states "ESG factors may have a direct relationship to the economic and financial value of an investment, and when they do these factors are proper components of the fiduciary's analysis".

2016

January
PRI and UNEP Finance Initiative launch the Fiduciary Duty in the 21st Century programme[67] – a three-year project to clarify investors' duties and obligations on ESG integration in legislation and policy.

June
The Global Statement on Investor Obligations and Duties[68] launches to clarify that investor obligations and duties require the consideration of ESG issues in investment decisions and processes.

August
The People's Bank of China, along with six other government agencies, issues the "Guidelines for Establishing the Green Financial System".

September
Investor Duties and Obligations in 6 Asian Markets report launch.

October
UK Roadmap launch.
US Roadmap launch.

December
Australia Roadmap launch.

2017

January
Canada Roadmap launch.

February
Brazil Roadmap launch.

April
South Africa Roadmap launch.

May
Japan Roadmap launch.

July
Germany Roadmap launch.
The European Commission's High-Level Expert Group on Sustainable Finance publishes its interim report recommending EU-wide clarification of fiduciary duties.
The OECD's report Investment Governance and the Integration of Environmental, Social and Governance Factors makes similar recommendations.

2018

March
China Roadmap launch.

May
CMN, the Brazil National Monetary Council, replaces Resolution CMN 3792 with Resolution CMN 4661 requiring closed pension funds, supervised by Previc, to analyse ESG risks in their investment decisions.

June
Ireland Roadmap launch.
Ohio state Roadmap launch.

September
The UK DWP publishes amendments to the Investment Regulations requiring pension schemes' Statements of Investment Principles (SIPs) to state how the scheme takes account of ESG factors, to be effective from October 2019.

November
France Roadmap launch.

December
OECD Roadmap launch.

2019

January
The European Union High Level Expert Group on Sustainable Finance (HLEG) releases its final report.

March
The three EU law-making institutions, the European Parliament, the Council of the EU and the European Commission achieve political agreement on requiring ESG integration by financial market participants.

April
Abrapp, the Brazil pension funds association, launches their Self-regulation Code of Corporate Governance, which requires that "pension funds always consider the balance between social and environmental responsibility and the return on investments"."
The Australian Prudential Regulation Authority (APRA) announces that it plans to update the investment governance standard (SPS530) and guidance to provide clarity on the obligations of RSE licensees to take into account ESG factors when setting their investment strategies.

June
The Canada Expert Panel on Sustainable Finance releases its final report.
The EU Technical Expert Subcommittee for the Taxonomy publishes its report on mitigation and adaptation.
The South Africa Financial Sector Conduct Authority (FSCA) (formerly the FSB) releases a Guidance Note on the Sustainability of Investments, which reiterates the need for investors to produce appropriate investment policy statements, which must take into consideration all factors that may impact the sustainability of investments – including, but not limited to, ESG factors.

October
The UK FRC is expected to publish an updated Stewardship Code, which explicitly incorporates material ESG factors across all asset classes.

67 Available at: https://www.fiduciaryduty21.org/
68 Available at: http://www.fiduciaryduty21.org/investor-statement.html

GLOSSARY

ABRAPP	Brazil Pension Funds Association
ACPR	French Prudential Supervision and Resolution Authority
ACSI	Australian Council of Superannuation Investors
AMAC	Asset Management Association of China
AMEC	Brazil Association of Capital Market Investors
AMF	French Securities Market Authority
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASISA	Association for Savings and Investment South Africa
ASX	Australian Securities Exchange
CMN	Brazil National Monetary Council
CRISA	Code for Responsible Investment in South Africa
CSA	Canadian Standards Association
CSRC	China Securities Regulatory Commission
CVM	Brazil Securities Exchange Commission
DOL	US Department of Labor
DWP	UK Department for Work and Pensions
ERAFP	French Public Service Additional Pension Scheme
ERISA	US Employee Retirement Income Security Act of 1974
FCA	UK Financial Conduct Authority
FSA	Japan Financial Services Agency
FSCA/FSB	South Africa Financial Sector Conduct Authority (formerly the Financial Services Board)
FRC	UK Financial Reporting Council
FRR	French Public Pension Fund
GEGFS	Guidelines for Establishing a Green Financial system
GHG	Greenhouse gas
GPIF	Government Pension Investment Fund, Japan
HLEG	High-Level Expert Group on Sustainable Finance
IGC	Independent Governance Committees
IoDSA	Institute of Directors in South Africa
IOPS	International Organisation of Pension Supervisors
IORP	Institutions for Occupational Retirement Provision
IOSCO	International Organization of Securities Commissions
JSE	Johannesburg Stock Exchange
JPX	Japan Stock Exchange
METI	Japan Ministry of Economy, Trade and Industry
MHLW	Japan Ministry of Health, Labour and Welfare
MiFID	Markets in Financial Instruments Directive
NFRD	Non-Financial Reporting Directive
PREVIC	Brazil Pension Funds Supervisor
RSE	Registrable Superannuation Entity (Australia)
SEC	US Securities and Exchange Commission
SFAC	Canadian Sustainable Finance Action Council
SIP	Statements of Investment Principles
SIPP	Statement of Investment Policies and Procedures
SUSEP	Brazil Superintendence of Private Insurance
TCFD	Task Force on Climate-Related Financial Disclosures
TPR	The Pensions Regulator (UK)
TSX	Toronto Stock Exchange
UCITS	Undertakings for the Collective Investment in Transferable Securities

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ABOUT THE PROJECT PARTNERS

About the PRI

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions. The six Principles were developed by investors and are supported by the UN. They have more than 2,300 signatories from over 50 countries representing more than USD 85 trillion of assets. They are voluntary and aspirational, offering a menu of possible actions for incorporating ESG issues into investment practices. In implementing the Principles, signatories contribute to developing a more sustainable global financial system.

For more information, see www.unpri.org.

About UNEP FI – United Nations Environment Programme – Finance Initiative

UNEP FI is a partnership between United Nations Environment and the global financial sector created in the wake of the 1992 Earth Summit with a mission to promote sustainable finance. More than 250 financial institutions, including banks, insurers and investors, work with UN Environment to understand today's environmental, social and governance challenges, why they matter to finance and how to actively participate in addressing them.

For more information, see www.unepfi.org

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generation foundation

The Generation Foundation (the 'Foundation') was part of the original vision of Generation Investment Management LLP ('Generation') since the firm was founded in 2004. The Foundation was established alongside Generation in order to strengthen the case for Sustainable Capitalism. Our strategy in pursuit of this vision is to mobilise asset owners, asset managers, companies and other key participants in financial markets in support of the business case for Sustainable Capitalism. In our effort to accelerate the transition to a more sustainable form of capitalism, we primarily use a partnership model to collaborate with individuals, organisations and institutions across sectors and geographies and provide catalytic capital when appropriate. In addition, the Foundation publishes in-house research, gives select grants related to the field of Sustainable Capitalism, engages with our local communities and supports a gift matching programme for the employees of Generation. All of the activities of the Foundation, a not-for-profit entity, are funded by a distribution of Generation's annual profitability. While Generation Foundation is a financial supporter of this project, this report is published by PRI and UNEP FI and the discussion and recommendations in this report do not necessarily represent the views of the Generation Foundation, unless expressly stated otherwise.

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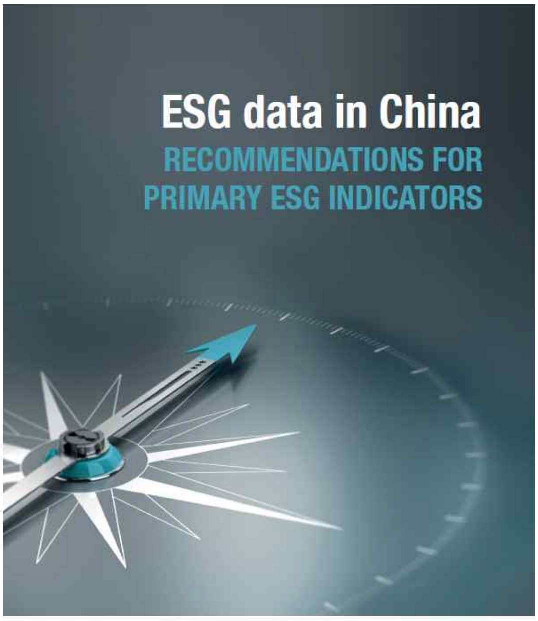


FINANCE UNEP INITIATIVE · PRI Principles for Responsible Investment · SynTao Green Finance · CHINA UK PACT

This technical report is a follow-up from the joint programme 'Fiduciary Duty in the 21st Century' by the PRI, UNEP FI and The Generation Foundation, and the recommendations of the report 'Investor Duties and ESG Integration in China'.

The research on ESG data disclosure in China is supported by the UK PACT.

EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

This report aims to provide recommendations for China's future, mandatory environmental, social and governance (ESG) disclosure framework, prepared by its financial regulators. These recommendations, supported by discussions with Chinese and international stakeholders, intend to inform the China Securities Regulatory Commission (CSRC), the China Institute of Finance and Capital Markets (CIFCM) and its domestic stock exchanges on the following questions:

- What are international investors' expectations on China's ESG disclosure framework?
- Are international ESG disclosure standards compatible with China's corporate and investment landscape?
- What indicators should be part of China's ESG disclosure framework?

To answer these questions, the research team has analysed investors' needs regarding ESG data on Chinese domestic-listed companies and carried out a mapping exercise on existing disclosure practices in China and overseas.

Our research shows that both international and Chinese corporate ESG data disclosure practices lead to reporting based on a similar set of ESG indicators. However, the ESG data disclosed by companies is not standardised and not readily comparable across markets, industries and portfolios.

Work being undertaken by the CSRC is seeking to resolve this challenge.

Our main conclusion is as follows:

In order to provide usable and comparable ESG data to investors, **companies should be required to report on a standardised set of primary ESG disclosure indicators.** Primary ESG indicators correspond to key data points illustrating performance on the most common ESG topics. Making disclosure of basic ESG indicators mandatory for all listed companies will support:

- building a reliable ESG data series, which can be supplemented by other indicators over time;
- the provision of useful information to both Chinese and international investors to make investment decisions by integrating standard ESG data;
- enhanced management and board oversight of performance on key ESG issues within listed companies;
- and increasing investment in green and sustainable assets.

Setting a mandatory ESG data disclosure framework will contribute positively to the ongoing ESG disclosure standardisation process on an international level, including through the Corporate Reporting Dialogue. China can play a key role in terms of bringing ESG data standardisation to the global stage.

Our key recommendation is that the CSRC should introduce regulation, clarifying that ESG factors are financially material. Moreover, making it mandatory for all Chinese listed companies to disclose information on a standardised set of ESG indicators, could give the Chinese market long-term motivation for enhanced and high quality reporting on key ESG issues.

ESG data in China: Recommendations for primary ESG indicators – 1

This regulation should include the following features[1]:

- a set of primary standardised indicators that are reported both in China and in international/national disclosure frameworks, that allow for comparability across industry sectors, portfolios and time-series;[2]
- a reporting methodology that specifies the scope, methods of calculation, minimum reporting thresholds, board oversight, monitoring and enforcement mechanisms, as well as guidance on how to assure the quality of reporting by third party auditors;
- publication of ESG data alongside financial indicators, based on the same reporting scope. Such data should be published in corporate annual reports, under the supervision of the board and should be linked to companies' business models, their corporate strategy (including financial and sustainability objectives and thresholds) and risk factors. Finally, ESG data should be analysed and explained in comparison to sectoral averages and historical performance;
- publication of all reported ESG data is made accessible to all investors (available free of charge, accessible online and available in a timely manner).

This research focuses on primary ESG indicators as the basic building blocks for the processes of ESG reporting and ESG integration.

We recommend a set of ESG indicators, which are widely reported by both international companies and Chinese companies, based on analysis of the most commonly reported ESG indicators by CSI300 companies. We also recommend that these quantitative metrics are complemented by related information on governance, strategy and risk management to explain quantitative performance, in order to make these metrics useful to investors.

Fig.1: Recommended indicators for China's mandatory ESG disclosure framework, mapped to SDGs, existing regulations and market practices

ESG TOPIC	PRIMARY INDICATORS	RELEVANT SDG[3]	RELEVANT REGULATIONS OR REPORTING PRACTICES
GHG emissions	Total GHG emissions (scope 1,2,3) in tonnes[4]	SDG 13 – Climate Action SDG 9 – Industry, Innovation and Infrastructure	Paris Agreement The 13th Five-year Plan for Controlling GHG Emissions[5]
Air pollutants	Air emissions of NOx, SOx, POP, VOC, HAP, PM in kg[6]	SDG 3 – Good Health and Well-being SDG 11– Sustainable Cities and Communities	Environment Law (2015)
Water	Total water withdrawal (m^3) % of water recycled	SDG 3 – Good Health and Well-being SDG 6 – Clean Water and Sanitation SDG 11– Sustainable Cities and Communities SDG 12 – Responsible Consumption and Production	Environment Law (2015)
Energy	Total energy consumed (GWh) % of renewable energy	SDG 7 – Affordable and Clean Energy	Environment Law (2015)
Waste (water, solid, hazardous)	Total waste from operations (tonnes) % of hazardous waste % of waste recycled Water emissions of Nitrogen, Phosphorus, Persistent Organic Pollutants, and Oxygen Demand (kg)	SDG 6 – Clean Water and Sanitation SDG 12 – Responsible Consumption and Production SDG 14 – Life below Water SDG 15 – Life on Land	Environment Law (2015)

1 This report will be followed by a short policy paper on best practice on ESG disclosure, expected in 2019.
2 The PRI has developed guidance with other investor groups on quality of reporting: https://www.unpri.org/news-and-press/pri-icgn-launch-discussion-paper-on-corporate-esg-reporting/3753.article.
3 This can be complemented with SDG indicator-level mapping: https://unstats.un.org/sdgs/indicators/indicators-list/
4 The reporting boundary of GHG emissions should also be disclosed (whether its Financial Control, Operational Control or Equity Share)
5 The plan issued by the State Council in 2016 put forward the establishment of GHG emission information disclosure system and encouraged companies to disclose GHG emissions information voluntarily, based on which, provincial-level regulations were issued such as http://www.sndrc.gov.cn/newstyle/pub_newsshow.asp?id=1027911&chid=100405 and http://fgw.sc.gov.cn/sfgw/ydqhbh/2018-03/01/content_69c8da3feee94dd49e373b5f89d449fc.shtml
6 For definitions see https://www.globalreporting.org/standards/gri-standards-download-center/gri-305-emissions-2016/

2 – ESG data in China: Recommendations for primary ESG indicators

ESG TOPIC	PRIMARY INDICATORS	RELEVANT SDG	RELEVANT REGULATIONS OR REPORTING PRACTICES
Workforce	Workforce composition by gender Training hours per employee *Wages paid*[7]	SDG 1 – No Poverty SDG 5 – Gender Equality SDG 4 – Quality Education SDG 10 – Reduced Inequalities	Voluntary reporting by listed companies
Health and safety	Injury rate (TRIR) Fatality rate (for direct and contract employees)	SDG 8 – Decent Work and Economic Growth SDG 3 – Good Health and Well-being	COSHA (China occupational safety and health association) Member Convention
Governance quantitative indicators	% of women on the Board Decentralization of authority President/CEO CEO pay ratio	SDG 16 – Peace, Justice and Strong Institutions	Corporate Governance Code (2018)

Our research shows that **there is already expertise and competency on ESG disclosure in China**, with leading companies voluntarily reporting key ESG datapoints. Standardised ESG indicators, as part of a comprehensive ESG disclosure framework, will support the allocation of more capital to sustainable economic development.

Evidence demonstrates that mandatory disclosure regulations are more impactful than voluntary guidelines and can also create market efficiencies, as today companies are responding to multiple voluntary frameworks. Mandatory regulation will not only help to codify terminology (for greater consistency), it will also level the playing field on existing best disclosure practices rewarding first movers and the best social and environmental performers. To expand market uptake, the CSRC should support capacity building, investor education and encourage peer exchange on ESG reporting.

Standardised ESG data will act as a bridge to facilitate the two-way opening of China's investment market and allow the implementation of the Guidelines for Establishing a Green Financial System. The proposed indicators are relevant both for Chinese companies (based on data already required or voluntarily reported) and international investors, as they are also widely reported internationally and are mapped to international frameworks.

In addition to the primary indicators proposed in this report, we recommend the CSRC consider developing:

- industry-specific and activity-based disclosures including sector and activity-relevant material ESG issues;
- corporate accountability on general economic contribution (including taxes, wages, local development and investment);
- context-based performance assessment of ESG disclosure and targets to show how Chinese companies are aligning their strategies with globally agreed sustainability goals;
- forward-looking and scenario-based ESG disclosures, in alignment with the TCFD framework.[8]

7 This indicator has been included to ensure full coverage of SDGs, including SDG1 and 10.
8 These proposals are being discussed at other workstreams such as the UK-China TCFD working group and can be further developed with regards to ESG indicators and disclosure in subsequent research.

ESG INDICATORS, DISCLOSURE FRAMEWORKS AND INTEGRATION: DEFINITIONS

The following section provides definitions on ESG topics and ESG indicators. It discusses how ESG indicators fit into ESG disclosure frameworks and how such information is being used by investors to make informed investment decisions, taking into account all value drivers, including ESG factors.

Defining ESG indicators

Evidence shows that there is a clear business case for ESG reporting for investors and companies.[9] While multiple ESG reporting solutions and frameworks exist and continue to be developed, aligning key ESG indicators will benefit both companies and investors by reducing reporting misalignment, facilitating data comparability, and promoting the wider adoption of ESG integration.

ESG topics, or factors, are defined as specific environmental, social or governance topics or issues that can affect corporate and investment performance. They are numerous and ever-changing and include, for example: climate change, waste and pollution, health and safety, bribery and corruption.[10]

An *ESG indicator*, as discussed in this report, is specifically defined. It can be either quantitative or qualitative, but in both cases returns a specific value which, when reported by different entities, can be compared across time, industry sectors and portfolios.

Box 1 presents different ESG indicators that relate to the topic of water.

What we refer to as a *primary ESG indicator* is a datapoint that represents the key performance on a given ESG topic. Additional, specific ESG indicators can be derived from this primary ESG indicator. In the example given in Box 1, the primary ESG indicator is total water withdrawal.[11] ESG data comparability is hindered when companies choose to report on different indicators for the same ESG topic.

9 Investor agenda for corporate ESG reporting, PRI, 2018 https://www.unpri.org/news-and-press/pri-icgn-launch-discussion-paper-on-corporate-esg-reporting/3753.article
10 See https://www.unpri.org/pri/what-is-responsible-investment
11 A unique primary ESG indicator may not provide the level of detail needed to assess certain aspects of corporate performance (ex. in the case of water, knowing the total withdrawal does not inform on how much water is consumed, discharged, recycled, or how much of it is withdrawn in water stress areas). However, when a primary indicator is precisely defined, required and reported by companies, it provides a first key set of ESG data that can be effectively used by investors, and offer direct comparability across industries, portfolios and markets. Additional, more specific indicators can either be calculated (ex. water intensity) or further required for disclosure based on this data point (% of water discharged and recycled).

Box 1: Defining an ESG topic and indicators. The example of water in the GRI Standards[12]:

The GRI reporting standard "Water and Effluents" sets out disclosure requirements on the **topic of water**. This standard includes disclosures on the related management approach and topic-specific, quantitative disclosures:

- Management approach disclosures
  - Interactions with water as a shared resource
  - Management of water discharge-related impacts
- Topic-specific disclosures
  - Water withdrawal
  - Water discharge
  - Water consumption

Topic-specific disclosures ask for **specifically defined quantitative information**. For example, on water withdrawal, the following indicators are required:

a. Total water withdrawal from all areas in megaliters, and a breakdown of this total by the following sources, if applicable:

i. Surface water;
ii. Groundwater;
iii. Seawater;
iv. Produced water;
v. Third-party water.

b. Total water withdrawal from all areas with water stress in megaliters, and a breakdown of this total by the following sources, if applicable:

i. Surface water;
ii. Groundwater;
iii. Seawater;
iv. Produced water;
v. Third-party water, and a breakdown of this total by the withdrawal sources listed in i-iv.

c. A breakdown of total water withdrawal from each of the sources listed in Disclosures 303-3-a and 303-3-b in megaliters by the following categories:

i. Freshwater (≤1,000 mg/L Total Dissolved Solids);
ii. Other water (>1,000 mg/L Total Dissolved Solids).

d. Any contextual information necessary to understand how the data have been compiled, such as any standards, methodologies, and assumptions used.

Source: GRI

12 See https://www.globalreporting.org/standards/gri-standards-download-center/

ESG disclosure frameworks

In order for ESG data to be 'meaningful' – and to avoid companies treating ESG disclosure reporting as a box ticking exercise – such reporting has to be integrated within corporate processes and performance assessments. Moreover, it will play a role in measuring and understanding overall corporate performance, business risks and opportunities; both by companies and investors.

The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) defined four components that companies should consider when reporting on climate-related performance:

1. governance
2. strategy
3. risk management
4. metrics and targets

While the TCFD framework has been designed specifically for financial climate-related disclosures, the disclosure structure based on those four components is common to most reporting frameworks.

Primary ESG indicators, as metrics, are therefore only one aspect of the corporate reporting process.

In order to provide meaningful information, ESG metrics need to be associated with targets, or thresholds. Although these are basic data points, primary indicators are needed to build more complex analyses, including investment strategies, corporate performance analysis etc., and are essential for sustainable investments.

What are the uses of ESG data by investors?

In the *ESG Integration Framework*[13], the PRI defines three levels of integration of ESG data and analysis by investors. These are:

- Research, including analysis and engagement
- Security valuation
- Portfolio management, construction and asset allocation

There is no singular ESG integration technique. Each investment firm defines its own unique approach and methodology. However, all ESG integration techniques do use some type of ESG information, including quantitative ESG metrics. For example, primary indicators are fed into research processes where analysts compare traditional financial data with ESG data; forecasting financials, adjusted for ESG information, during equity valuations, in addition to calculating the ESG profile of a portfolio (i.e., quantifying the water or carbon footprint of an individual company).

If the primary ESG metrics that feed into these analyses are not standardised or comparable, a fundamental input in the ESG integration process is flawed. Although there are techniques to estimate some types of missing or untrustworthy data (for example, CO_2 emissions can be estimated with average industry and CO_2 country data), the lack of reliable ESG metrics published by companies weakens the ESG integration process, thereby negatively impacting the potential to develop a sustainable financial market.

13 See https://www.unpri.org/the-esg-integration-framework/3722.article

INVESTOR NEEDS, IN TERMS OF ESG DISCLOSURE FROM LISTED COMPANIES

ESG reporting informs investors about corporate performance. Investors look for information on corporate strategy and objectives, execution process, major risks, key performance metrics and progress over time.[14] To ensure an efficient ESG integration process, ESG data needs to be standardised. It also needs to be comparable across industry sectors, time and portfolios, using internationally recognised disclosure frameworks and utilise the same segmentation principles as those used in financial statements.[15]

Investor expectations for an ESG disclosure framework

Investors have common expectations on ESG reporting in most markets, although depending on the type of investor the use of ESG data may vary.[16] Both in China and globally, investors increasingly believe that ESG factors will affect share prices in the long term. According to the 2017/18 CFA-PRI survey, 65% of global analysts (61% in China) believe that governance issues will affect share prices by 2022. Environmental and social issues accounted for 52% and 46% of analyst responses (53% and 47% respectively in China).[17]

Discussions held within China to understand what investors expect to be the most important features of the country's upcoming ESG disclosure framework found overall consensus on the key characteristics, as follows:

- **Data comparability and standardisation**: companies should use standard indicators and refer to existing international and regional frameworks. Comparability with the Hong Kong Listing Rule requirements (appendix 27) was quoted;
- **Clear scope of reporting and transparent methodology**: applicable to all indicators of the disclosure framework and aligned with existing methodologies to ensure consistency over time;
- **Data stability over time**: companies should use the same scope and methodologies to build coherent time series so that investors can compare an individual company's data to its historical performance;
- **Integration of pre-existing ESG data**: this should include alignment with existing requirements at stock exchanges;
- **Data accessibility**: analysts should be able to access all published data and have access to that data in raw format, including data already reported through existing channels, such as government data repositories;
- **Strategic approach**: material ESG indicators need to be anchored in corporate strategy. Companies need to understand why they have to monitor and report on these issues and respect the fact that ESG data needs to be explained in the context of corporate performance. Investors want to avoid a box-ticking and compliance-only-driven approach;
- **Oversight by senior management**: in addition to management of ESG reporting by dedicated staff, senior management should also be accountable for the report. This is to ensure good quality control and to demonstrate the company has a sound understanding of ESG issues and how they relate to its corporate strategy (including data analysis and explanation of quantitative metrics compared to sector averages and historical performance);
- **Strong enforcement**: consider penalties for misreporting;
- **Verified through basic assurance standards**.

While the list of ESG issues and uses of ESG information varies among investors, data comparability, standardisation and stability over time are deemed to be key features; even if the reporting framework includes only a limited number of indicators.

14 R.Sullivan, *Valuing corporate Responsibility. How do investors really use corporate responsibility information?* (2011)
15 Investor Agenda for Corporate ESG Reporting, PRI and ICGN, 2018
16 See https://docs.wbcsd.org/2018/10/The_ESG_disclosure_judgement_handbook.pdf
17 See https://www.unpri.org/investor-tools/the-cfa-institutes-esg-survey/2739.article . See also 2019 PRI/CFA report on APAC region https://www.unpri.org/investor-tools/ESG-integration-in-asia-pacific-markets-practices-and-data-/4344.article

Challenges with non-standardised ESG data

A lack of standardisation with ESG data makes it difficult for investors to integrate ESG information in their investment decision-making. Low quality ESG data is deemed as the main barrier to ESG integration in financial analysis.[18] According to the PRI/CFA survey, the main factors limiting investors' ability to use ESG data are:[19]

- Lack of appropriate quantitative information (55%)
- Lack of comparability across firms (50%)
- Low data quality and lack of assurance (45%)

In the case of China, non-standardised voluntary ESG data disclosure leads to the following issues:[20]

- ESG data is mostly policy-based, not quantitative;
- Data sets are varied in scope and material issues across companies;
- Non-standardised data cannot be aggregated;
- Lack of quantitative data impedes stress-testing in climate risk assessment scenario work, such as that led by the TCFD pilot in China;
- Voluntary or comply-or-explain frameworks can lead to cherry-picking and data manipulation. Companies tend to report data based on what is already available and omit material non-public information in their disclosures;
- Reporting is inconsistent, with no explanation on how ESG data changes over time;
- Potential legal barriers in disclosing ESG data without clear regulatory guidance.

While both Chinese and international investors believe ESG issues affect corporate performance, in China, fewer investors integrate ESG issues in equity analysis. Globally, governance issues are 'often/always' integrated into equity investment analysis by 56% of investors; this compares to 37% for environmental issues and 35% for social issues. By contrast, in China 33% of investors 'often/always' integrate G issues, while only 7% integrate E and S issues.[21]

Mandatory versus voluntary?

Evidence demonstrates that mandatory disclosure regulations are more impactful than voluntary guidelines. A 2016 PRI study on the 50 largest economies found that government-led mandatory ESG reporting improves corporate risk management.[22] As analysed by the WBCSD, "information a company is obliged to report in conformance with mandatory requirements is more likely to be prepared according to a recognized standard and to support assurance activities"[23].

A mandatory reporting framework requiring disclosure of standardised primary ESG indicators, and responding to the investor expectations quoted above, will support ESG integration in investment decision making on a broader scale in China.

18 Beyond the Balance Sheet, IFC, 2018
19 CFA/PRI Survey, 2017/18 https://www.cfainstitute.org/-/media/documents/survey/esg-survey-report-2017.ashx
20 Based on feedback collected by the project team among investors in China in 2018, related disclosure work at PRI, and KPMG assessment in The ESG Journey begins, 2018
21 See https://www.unpri.org/investor-tools/the-cfa-institutes-esg-survey/2739.article
22 See PRI's Global Guide to Responsible Investment Regulation https://www.unpri.org/download?ac=325
23 See https://docs.wbcsd.org/2018/10/The_ESG_disclosure_judgement_handbook.pdf

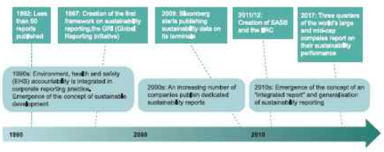
OVERVIEW OF INTERNATIONAL ESG DISCLOSURE FRAMEWORKS AND COMMONLY REPORTED ESG INDICATORS

This section provides a brief history of ESG disclosure and the converging market practice around commonly reported primary ESG indicators.

ESG disclosure to account for externalities and sustainable development

International ESG reporting frameworks have been developed since the 1990s, including the Global Reporting Initiative created in 1997, the CDP and the UN Global Compact in 2000, the International Integrated Reporting Council (IIRC) in 2011 and the Sustainability Accounting Standards Board (SASB), which launched in 2012.

Fig.2: History of ESG reporting practice and frameworks



Source: GRI, KPMG.

These frameworks have all been developed based on the increasing consensus that:

- ESG issues affect corporate performance;
- companies need to account for externalities to their stakeholders, and
- economic development needs to be aligned with broader social and environmental goals.

In China, a similar vision drives the development of a mandatory environmental framework: building an ecological civilisation and a green financial system will require accounting for negative externalities and promoting an environmentally friendly economy.

Existing frameworks: from financial materiality to societal impact

More than 1,000 reporting requirements, guidance and supporting materials have been developed by different national and supranational bodies over the past 25 years, according to CDSB.[24] Different expectations have shaped the most prominent disclosure frameworks:

- Investors have increasingly considered material ESG issues to play a part in corporate performance, and some reporting frameworks, such as SASB, have been designed with financial materiality in mind. SASB provides a limited number of indicators for each industry, on the basis that they are related directly to corporate financial performance.[25]
- Other frameworks, such as the GRI Standards, account for a broader set of issues and allow for reporting to a broader set of stakeholders (including governments, employees, customers etc.).
- Adoption of the UN Sustainable Development Goals in 2015 has provided a globally agreed list of the world's most pressing environmental, social and economic issues, focusing on business external impacts and risks to people and the environment that affect not only investor portfolios but also value chains and the broader objectives of society.[26]

The convergence of ESG metrics

The current trend is towards shared standards at the international level. The Corporate Reporting Dialogue aims to establish a common ground between different reporting frameworks, stretching from financial materiality to broader societal impact.[27] One of the key takeaways of the Global Investor Organisations Committee is for companies to disclose standardised ESG information at a basic level, based on current ESG frameworks and indicators.[28]

For large asset owners (universal owners), corporate performance and the global Sustainable Development Goals are connected:[29]

- The costs from environmental or climate-related events that have been identified as universal concerns will come back into investors' portfolios as risk premia, taxes, inflated input prices and physical costs associated with disasters.
- Social concerns, such as poverty and inequality, can lead to societal and political unrest and instability. This can also create business risks that could reduce future cash flows and dividends.
- Macro financial or even systemic risks that may materialise from the failure of corporations to achieve the SDGs could have major negative consequences for financial returns.[30]

The increased practice of ESG integration among investors and the widespread practice of ESG reporting among corporations have led to the adoption of similar metrics across markets. According to the IFC, eight environmental and social topics are reported through similar indicators across ESG reporting frameworks, financial analysis frameworks, information providers, regulatory and investor reporting initiatives.[31] This analysis is confirmed by the World Business Council for Sustainable Development and the Reporting Exchange database[32], analysing national and stock exchange-led reporting requirements. The most common primary indicators are presented below in Fig.3.

24 In addition, 900 resources, methodologies, tools and guidance documents that are influencing companies approaches to ESG disclosure. Sources: CDSB, WBCSD.
25 In total, however, SASB has over 1000 indicators for 77 sector standards.
26 *The SDG Investment Case*, PRI, 2017 https://www.unpri.org/sdgs/the-sdg-investment-case/303.article
27 See https://corporatereportingdialogue.com/
28 Investor Agenda for Corporate ESG Reporting, PRI and ICGN, 2018 https://www.unpri.org/news-and-press/pri-icgn-launch-discussion-paper-on-corporate-esg-reporting/3753.article
29 Addressing Investor Needs on SDG reporting, PRI, 2018 https://www.unpri.org/news-and-press/the-sdgs-in-corporate-reporting-what-matters-to-investors-ten-recommendations-to-meet-investor-needs-on-sdg-reporting/3433.article
30 Although primary ESG indicators provide a basic performance assessment on such topics, forward-looking scenario-based analysis is needed to fully capture such risks.
31 Beyond the Balance Sheet, IFC 2018
32 See www.reportingexchange.com

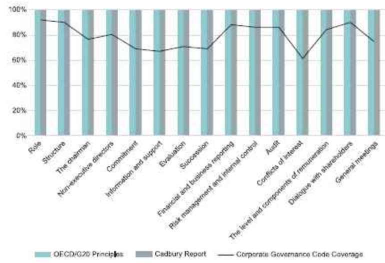
Fig.3: Most common primary environmental and social indicators

ESG TOPIC	RELATED INDICATORS	FREQUENCY OF USE IN MARKETS	FREQUENCY OF REPORTING REQUIREMENTS
GHG emissions	GHG emissions (scope 1,2) in tonnes GHG intensity (GHG/sales)	92%	68%
Water use	Water used (m^3) % of water recycled % of water used in water stress areas Water intensity (water use/sales)	92%	63%
Energy efficiency and mix	Energy consumed (GW) % of renewables Energy intensity (energy consumed / sales)	85%	64%
Waste (water, solid, hazardous)	Waste from operations (tonnes) % of hazardous waste % of waste recycled Waste intensity (waste / sales)	77%	87%
Workforce composition and diversity	Workforce composition by gender	69%	40%
Employee health and safety	Injury rate (TRIR) and fatality rate for direct and contract employees	100%	84%
Recruitment / Turnover	Voluntary and involuntary employee turnover rate by major employee category	62%	24%
Collective bargaining agreements	% of active workforce covered under collective bargaining agreements	62%	30%

Frequency of use represents a selection of E & S metrics with high reporting frequency (IFC, *Beyond the Balance Sheet*, 2018). The reporting requirements column shows the percentage of countries out of 70 included in the Reporting Exchange database with reporting requirements on the subject matter, including national frameworks (WBCSD, The Reporting Exchange, data as of 02.05.2019 https://www.reportingexchange.com/).

There is a similar convergence on corporate governance topics. Research by the WBCSD on 52 national corporate governance codes found that most corporate governance codes reference 70% or more of governance subject topics and are aligned with international codes; such as the G20/OECD Corporate Governance Principles and the ICGN's Global Governance Principles, as shown in Fig.4.[33]

Fig.4: Most reported governance topics



Research based on 52 national corporate governance codes. Source: WBCSD, The Reporting Exchange, data as of Q1 2018. https://docs.wbcsd.org/2018/03/CDSB_Report_to_Corp_Governance.pdf

33 See https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange/Resources/Corporate-governance-and-harmonization

Analysis on three specific examples of ESG disclosure requirements, two backed by stock exchanges (Hong Kong and Malaysia) and one government-led (France) shows a convergence around the same common metrics. Fig.5 details common environmental and social metrics in those frameworks, regrouped by GRI Standards.

Fig.5: Common E&S indicators between three ESG disclosure frameworks and GRI Standards

HONG KONG	MALAYSIA	FRANCE
	Energy	
KPI A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility) KPI A2.3 Description of energy use efficiency initiatives and results achieved	Total energy consumed (kWh/MWh). Use of renewable energy (kWh/MWh Energy intensity – kWh/MWh per employee / man-hours / square meter Amount of reduction in energy consumption achieved as a result of conservation and efficiency initiatives	Sustainable use of resources: energy consumption, measures taken to improve energy efficiency and the use of renewable energies
	Water	
KPI A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Percentage of water recycled and reused Total volume of water used	Sustainable use of resources: water consumption and water supply in accordance with local constraints
	Emissions	
KPI A1.1 The types of emissions and respective emission data KPI A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Scope 1, 2 and 3 emissions in tonnes of CO_2 equivalent NOX emissions in g/Nm^3 per product or operating hour SOX emissions in g/Nm^3 per product or operating hour Particulate emissions (mg) per operating hour (from measurement)	Climate change: greenhouse gas emissions Pollution and waste management: measures to prevent, reduce or repair discharges into the air, water and soil seriously affecting the environment;
	Waste	
KPI A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). KPI A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). KPI A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Total weight or volume of hazardous waste generated Total weight or volume of non-hazardous waste generated Total weight or volume of waste sent to landfill for disposal Ratio of waste to production Ratio of waste (e.g. empty fruit bunches; kernels) repurposed and disposed Amount of drilling waste and strategies for treatment and disposal Oil spills	Pollution and waste management: measures to prevent, reduce or repair discharges into the air, water and soil seriously affecting the environment;
	Occupational Health and Safety	
KPI B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored KPI B2.1 Number and rate of work-related fatalities KPI B2.2 Lost Days due to work injury	Number of work-related injuries per annum Rate of work-related injuries per annum Number of work-related fatalities (includes employees and contractors) Accident frequency rate Severity rate	Health and safety: the balance sheet of the agreements signed with the trade unions or the representatives of the personnel with regard to health and safety at work Health and safety: accidents at work, in particular their frequency and seriousness, as well as occupational diseases

OVERVIEW OF ESG DISCLOSURE IN CHINA

ESG disclosure in China is structured by mandatory disclosure requirements on pollutants, voluntary guidance by stock exchanges and voluntary ESG disclosure by listed companies through annual financial and sustainability reports. Although the mandatory part is limited to air, water and solid pollutants, overall ESG data reported is comparable to what companies report internationally. However, the lack of standards and limited access to mandatory data impede the quality of ESG data in China.

Policy requirements on ESG disclosure

Policies of environmental regulatory authorities

In the past decade, China's environmental regulatory authorities have successively issued several policy documents, which propose specific requirements on environmental information disclosure of listed companies:

- *Measures for the Disclosure of Environmental Information* (2007) requires enterprises who generate over-discharge of pollutants to publicly disclose environmental information.
- *Guidance on Strengthening Environmental Protection Supervision and Administration of Listed Companies* (2008) proposes that listed companies actively explore how to put in place a process to disclose environmental information.
- *Measures for the Disclosure of Environmental Information of Enterprises and Public Institutions* (2014) requires key polluters to disclose environmental information.

The amended *Environmental Protection Law* implemented in 2015 clarified the responsibility in environmental information disclosure on 'key pollutant discharging units'. According to article 55, key pollutant discharging units shall disclose the following to the public 'in an honest way for social supervision':

- the name of its main pollutants;
- discharge pattern;
- discharge concentration and total amount;
- over-discharge conditions and
- construction & operation of pollution control facilities.

As prescribed in article 62, if key pollutant discharging units contravene the provisions of the law by failing to disclose the environmental information, or disclosing said information dishonestly, the competent environmental protection department of the local people's government, at or above county level, shall order them to make this information public and impose a fine.

In December 2017, *Provisions on Managing the Lists of Key Pollutant Discharging Units* ("Provisions") was issued by the Ministry of Environmental Protection. It establishes five categories of key pollutant discharging units: water, atmosphere, soil, acoustic environment and other key pollutant discharging units.

The same company may belong to different categories of key pollutant discharging units for different kinds of discharged pollutants. Based on the Provisions, each year municipal environmental protection departments shall select companies and public institutions that discharge large amounts of pollutants - including toxic and harmful pollutants and other pollutants with high environmental risks - and determine the list of key pollutant discharging units in their respective administrative region for the next year.

Policies of financial supervision authorities

In 2016, seven ministries and commissions including The People's Bank of China published the *Guidelines for Establishing the Green Financial System*, which points out that a mandatory system for disclosing environmental information by listed companies shall be established.

The schedule outlined a phased roll out of work: firstly, those listed companies who belong to different categories of key pollutant discharging units listed by the former Ministry of Environmental Protection are mandated to disclose environmental information from 2017 onwards; secondly, "semi-compulsory" environmental information disclosure will be implemented in 2018, and enterprises failing to disclose relevant information must explain the reason(s) thereof; thirdly, all listed companies must disclose environmental information by 2020.

In 2016, the China Securities Regulatory Commission ("CSRC"), amended standards for the content and format of annual reports and semi-annual reports published by Chinese listed companies. Key pollutant discharging companies and the subsidiaries thereof, as published by environmental regulatory authorities, must disclose relevant environment information.

In December 2017, the CSRC issued *Standards for the Content and Formats of Information Disclosure of Companies*

Publicly Issuing Securities No.2 - Content and Formats of Annual Reports (Revised in 2017). This prescribes that if listed companies disclose environmental information in the form of interim reports during the annual reporting period, any subsequent progress or changes should be illustrated. Companies that do not belong to one of the five categories of key pollutant discharging units may disclose their environmental information by referring to the above requirements, and are required to fully explain the reason(s) if they fail to do so. Companies are also encouraged to voluntarily disclose any relevant information which is conducive to the protection of ecology, prevention of pollution and/or the performance of its environmental responsibilities.

In September 2018, the CSRC issued the amended *Code of Corporate Governance for Listed Companies in China* ("Code"). As per article 86, "*While maintaining the listed company's development and maximizing the benefits of shareholders, the company shall be concerned with the welfare, environmental protection and public interests of the community in which it resides and shall pay attention to the company's social responsibilities.*"

According to article 87, "*A listed company shall truthfully, accurately, completely and timely disclose information as required by laws, regulations and the company's article of association.*"

Policies of stock exchanges

In 2006, the Shenzhen Stock Exchange issued *Guidelines on Listed Companies' Social Responsibility*, requiring listed companies to actively fulfil their social responsibilities, assess the performance of their corporate social responsibilities on a regular basis and voluntarily disclose corporate social responsibility reports. In 2010, the *Guidelines on Standard Operating of Listed Companies* provided further guidance and standards for listed companies to disclose information on social responsibilities.

In 2015, the Shenzhen Stock Exchange issued *Guidelines on Standard Operations of Small and Medium-Sized Boards of Listed Companies*, which stipulates that when a listed company suffers a major environmental pollution problem, it shall, in a timely manner, disclose the cause of environmental pollution, the impact on the company's performance, the impact of environmental pollution and measures taken by the company to rectify the situation.

In 2008, the Shanghai Stock Exchange issued the *Notice on Strengthening the Social Responsibilities of Listed Companies* and the *Guidelines for the Environmental Information Disclosure of Listed Companies*.

Under these guidelines, listed companies are required to strengthen the fulfilment of social responsibilities and disclose their practices and achievements while fulfilling social responsibilities, in terms of employee safety, product liability, environmental protection, etc. It also proposes specific requirements for listed companies while disclosing environmental information.

At the end of 2008, the Shanghai Stock Exchange issued the *Guidelines for the Preparation of the Report on Performance of Corporate Social Responsibility*, which points out that listed companies shall disclose their work on facilitating environmental and ecological sustainability, such as how to prevent and reduce pollution, how to preserve water resources and energy, how to ensure sustainability and how to protect and improve the biodiversity of the region in which they reside and operate from.

ESG disclosure in China is therefore defined by three different sets of policies and guidance:

- The Environmental Protection Law has clarified the responsibility in environmental information disclosure of key polluting companies;
- The CSRC has issued policies regulating standards, content and formats for information disclosure of listed companies;
- The Shanghai Stock Exchange and Shenzhen Stock Exchange have successively issued guidelines on environmental and social information disclosure of listed companies, which further regulate aspects of environmental protection and pollution reduction disclosed by listed companies.

Voluntary ESG disclosure by listed companies

Overview

In August 2017, the former Ministry of Environmental Protection (currently the Ministry of Ecology and Environment)[34] announced that over 90% of state-owned listed companies[35] have disclosed environmental information. However, some companies still fail to partially disclose or fully disclose management information as per the regulations, or, if they do, their disclosures are either not standardized or focus only the positives and not the negatives.

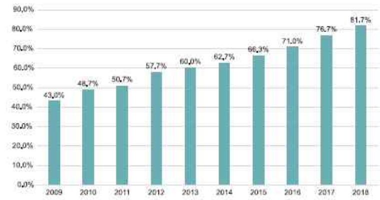
According to Shanghai Stock Exchange data, among 1,420 listed companies disclosing an annual report for 2017, 855 (over 60%) disclosed some environmental information; an increase of 235% on the previous year. Among them, 386 were categorised as key pollutant discharging units and 439 disclosed voluntarily.

In 2018, according to the Shenzhen Stock Exchange, 666 companies (32%) disclosed environmental information in their semi-annual report; a 40% increase on 2017. Some 215 listed companies voluntarily disclosed more environmental information in their semi-annual reports in 2018, including the establishment and implementation of environmental responsibility systems, investment in to environmental protection, the acquisition of environmental management system certificates and clean production verification.

Analysis of CSI300 voluntary ESG data disclosure

The following analysis focuses on the CSI300, the stock market index based on the top 300 companies listed on the Shanghai and Shenzhen stock exchanges, and voluntary ESG data disclosure practices through the medium of annual sustainability reports. By end of September 2018, 82% of CSI300 index constituent stock companies had published some ESG data and analysis on their 2017 performance.

Fig.6: Growth of voluntary ESG disclosure through sustainability reports of CSI300 companies



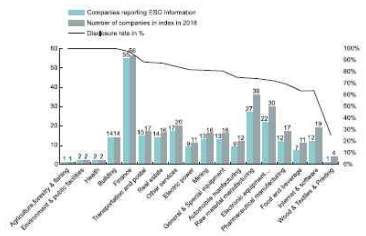
Source: SynTao Green Finance, SynTao's MQI Database

34 Ministry of Environmental Protection and CSRC jointly regulate the disclosure of environmental information, Shanghai Securities News, Aug. 22, 2017. http://news.cnstock.com/news,bwkx-201708-4119159.htm

35 Environmental regulatory authorities at all levels will regularly determine national key monitored pollutant discharging units ("national-controlled units") and provincial key monitored pollutant discharging units ("provincial-controlled units"), etc; in *Environmental Protection Law*, key pollutant discharging units are required to disclose information, which will be determined by local government and publicised as per the relevant regulations. National-controlled units, provincial-controlled units and key pollutant discharging units are similar but different concepts, they have something in common, but they are not quite the same. National-controlled units, provincial-controlled units, key pollutant discharging units and listed companies also have something in common, but the affiliation is more intricate, which pose more challenges for environmental regulatory authorities and financial supervision authorities to conduct synergy regulation of environmental information disclosure of listed companies. According to the statistics, in 2017, over 160 listed companies belong to national-controlled units.

Among CSI300 index constituent stock companies, those in the manufacturing industry (including pharmaceuticals, technical hardware and equipment manufacturing, automobile production, etc.) were found to have issued the most CSR reports, accounting for 43% of the total. This was followed by the financial industry, which accounted for 19% of CSR reports issued. Between them, these two sectors accounted for more than half of CSR reports. In China, CSR reports have been the main repository of ESG information.

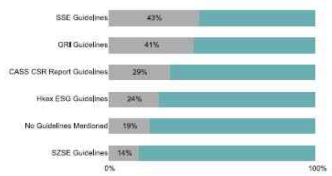
Fig.7: Statistics of ESG disclosure of CSI300 index constituent stocks by industry (2018)



Source: SynTao Green Finance, SynTao's MQI Database

The majority of published CSR reports are based on the guidelines of the Shanghai Stock Exchange, i.e. *Guidelines for the Preparation of the Report on Performance of Corporate Social Responsibility*. GRI Standards come second, with 41% of reports based on international standards.

Fig.8: Statistics of CSR report guidelines of CSI300 index constituent stocks (2018)



Source: SynTao Green Finance, SynTao's MQI Database

Commonly Disclosed ESG Indicators

Companies disclose governance indicators most frequently, with an average disclosure rate of 66.3%, followed by environmental indicators (40.4%), and social indicators (28.9%). The indicators reported above average for E, S and G topics disclosure are shown in the table below.

Fig.9: Most reported ESG topics by CSI300 companies (2018)

TYPE	TOPIC	FREQUENCY OF USE	CORRESPONDING GRI STANDARD
Environmental management: Average disclosure rate 44.6%	Environment management system certification	49%	GRI 103-2 Management policy
	Environmental management objective	81.6%	
	Policies on energy conservation and renewable energy application	77.7%	GRI 302-5 Reduce energy demand of product and service
Environmental data: Average disclosure rate 35.2%	Energy consumption and conservation	39.4%	GRI 302 Energy
	Tailpipe emission and reduction	38.9%	GRI 305 Emissions (GHG&waste gas)
	Wastewater discharge and reduction	46.4%	GRI 306 Waste(waste water&solid waste)
	Hazardous waste discharge and reduction	36.3%	
	Waste recycling	39.9%	
Social: Average disclosure rate 28.9%	Number of employees receiving vocational training each year and duration	66.1%	GRI 404 Training
	Donation	88.7%	-
	Prohibition of forced labour	32.6%	GRI 409 Forced labour
	Prohibition of child labour	32.3%	GRI 408 Child labour
	Anti-discrimination	41.7%	GRI 406 Anti-discrimination
	Number of female employees	35.5%	GRI 401 Employment
	Occupational health and safety	85.4%	GRI 403 Health and safety
	Fatality rate	54.7%	
	Lost time rate in accidents	38%	
Governance: Average disclosure rate 66.3%	Compensation of directors	97.4%	GRI 102-35 36 Compensation policy and compensation decision process
	Ratio of average compensation of employees and CEO compensation[36]	97.7%	
	Separation of President and CEO	97.6%	GRI 102-22 Top management unit and composition of its comittees
	Diversity of board of directors	75.8%	
	Independence of board of directors	97.2%	
	Independent remuneration panel	82.9%	
	Independent audit committee	88.4%	
	Independent nominating committee	86.4%	
	Thematic committees[37]	80.5%	
	Unqualified audit report	95.2%	GRI 102-56 External audit

Source: SynTao Green Finance

36 Ratio of average compensation of employees and CEO compensation are calculated as per two data disclosed by listed companies.

37 Listed companies are required to set up strategy committees, audit committees, nomination committees and compensation and appraisal committees in accordance with the code of governance for listed companies. This indicator examines the establishment of these committees.

The majority of highest disclosed indicators are related to governance. This is due to environmental and social indicators mostly being disclosed voluntarily by companies, whereas the disclosure of corporate governance indicators is mostly mandatory.[38]

The average disclosure rate of environmental indicators for CSI300 constituent stocks industries is 40.4%, among which the disclosure rate of environmental management indicators is 44.6%, while the disclosure rate of environmental data is 35.2%. This indicates that the qualitative disclosure rate is higher than it is for quantitative disclosures.

Fig.10 below shows the average disclosure rate by indicator and highlights which metrics reported above average.

Fig.10: Disclosure rate of environmental indexes of CSI300 constituent stock companies

TYPE OF CONTENT	INDICATOR / TOPIC	DISCLOSURE RATE
Environmental management Average disclosure rate 44.6%	Environment management system certification	49.0%
	Environmental management organization and HR allocation	37.1%
	Environmental management objective	81.6%
	Environmental protection training for employees	33.2%
	Internal and external communication on environmental issues	24.8%
	Policies on energy conservation and renewable energy application	77.7%
	Water conservation objective	37.4%
	Greenhouse gas emission management system	25.2%
	Green purchasing policy	35.5%
Environmental data Average disclosure rate 35.2%	Energy consumption and conservation	39.4%
	Energy intensity (energy consumption per unit of output value)	27.1%
	Total water consumption and conservation	31.6%
	Greenhouse gas emission and reduction	26.1%
	Wastewater discharge and reduction	46.4%
	Tailpipe emission and reduction	38.9%
	Hazardous waste discharge and reduction	36.3%
	Waste recycling)	39.9%
	Solid waste discharge and reduction	30.8%

Source: SynTao Green Finance

38 As per *Administrative Measures for the Disclosure of Information of Listed Companies* issued by CSRC in 2007, listed companies shall disclose the following in the periodic reports: major events occurred during reporting period and the impact on the company, issuance and change of corporate stock and bond, shareholding of major shareholders, composition of board of directors, titles and annual pay of senior managers, financial and accounting books, audit reports, etc. The above all belong to the scope of corporate governance indicators.

The average disclosure rate of social indicators for CSI300 constituent stock companies is 28.9%.

Fig.11 below shows the average disclosure rate by indicator and highlights which metrics reported above average.

Fig.11: Disclosure rates on social indicators by CSI300 companies

INDICATOR / TOPIC	DISCLOSURE RATE	AVERAGE DISCLOSURE
Freedom of association	3.9%	28.90%
Collective bargaining	25.2%	
Anti-forced labour	32.6%	
Prohibition of child labour	32.3%	
Equal pay for equal work	24.5%	
Anti-discrimination	42.3%	
Diversity promotion	17.4%	
Number of female employees	35.5%	
Employee turnover rate	13.2%	
Non-regular employee ratio	14.5%	
Number/time(s) of employees receiving vocational training each year and duration	66.1%	
Responsible supply chain management	13.2%	
Supply chain supervision system	25.2%	
Human rights	12.3%	
Enterprise foundation	19.7%	
Donation	88.7%	
Employee welfare activities	24.8%	
Occupational health and safety	85.4%	
Fatality rate	54.7%	
Proportion of working hours lost in accidents	38.0%	

Source: SynTao Green Finance

As mentioned before, according to the *Administrative Measures for the Disclosure of Information of Listed Companies* issued by the CSRC in 2007, listed companies shall disclose several corporate governance indexes, including board composition in their periodic reports. Among the disclosure of E, S and G indexes of CSI300 constituent stock companies in 2018, the overall disclosure rate of corporate governance indexes was relatively high, reaching 66.3%. However, whereas the disclosure rates of several indicators such as anti-corruption and bribery policies, reporting systems and board management are over 75%, the quality of those disclosures varies greatly.

Fig.12: Disclosure rates on corporate governance by CSI300 companies

INDICATOR / TOPIC	DISCLOSURE RATE	AVERAGE DISCLOSURE
Anti-corruption and bribery policies	65.8%	66.30%
Reporting system	25.8%	
Commitment to sustainable development	5.8%	
Tax payment	33.9%	
ESG information disclosure	80.0%	
Compensation of directors	97.4%	
Diversity of board of directors	97.6%	
Decentralization of authority of President & CEO	75.8%	
Independence of board of directors	97.2%	
Independent remuneration panel	82.9%	
Independent audit committee	88.4%	
Ratio of average compensation of employees and CEO compensation[39]	97.7%	
Board of directors & ESG	11.0%	
Auditing independence	6.5%	
Independent nominating committee	86.4%	
Unqualified audit report	95.2%	
Thematic committee	80.5%	

Source: SynTao Green Finance

39 Ratio of average compensation of employees and CEO compensation are calculated from data disclosed by listed companies.

Analysis by Bloomberg on the top 30 most reported metrics by listed companies in China, regrouped by primary ESG indicator/topic, indicates that similar key topics are generally being reported, as indicated by Fig.13.

Fig.13: Top 30 most reported metrics in China regrouped by primary ESG indicator/topic

TOPIC/PRIMARY INDICATOR	MOST REPORTED ESG METRICS IN 2018
Energy consumption in MWh	Total Energy Consumption
	Electricity Used
	Crude Oil/Diesel Consumption
	Natural Gas Consumption
GHG Emissions by scope in tonnes	Total GHG Emissions
	Total CO_2 Emissions
	GHG Scope 1
	GHG Scope 2
	GHG Scope 3
Total waste from operations in tonnes	Total Waste
	Waste Recycled
	Waste Sent to Landfills
Environmental fines	Environmental Fines (Amount)
	Number of Environmental Fines
Total water withdrawal	Total Water Withdrawal
	Total water use
Environmental management	ISO 14001 Certified Sites
Workforce composition	% Women in Workforce
	% Women in Management
	Number of Temporary Employees
	Employee Average Age
	% Employees Unionized
Donations	Community Spending
Training	Total Hours Spent by Firm - Employee Training
	Employee Training Cost
Turnover	Employee Turnover %
Employee safety	Lost Time Incident Rate
	Total Recordable Incident Rate
	Fatalities - Total
	Workforce Accidents - Employees

Source: Bloomberg

Comparison between most commonly reported quantitative metrics in China and internationally

Fig.14 shows a degree of similarity among metrics reported above average in China and internationally, despite a lower average reporting threshold for CSI300 listed companies.

Fig.14: Common E and S quantitative indicators and reporting frequency

ESG TOPIC	PRIMARY INDICATORS	REPORTING FREQUENCY INTERNATIONALLY	REPORTING FREQUENCY IN CHINA (CSI300)
GHG emissions	Total GHG emissions (scope 1,2,3) in tonnes	92%	26.1%
Air pollutants	Air emissions of NO_x, SO_x, POP, VOC, HAP, PM in kg[40]	NA	38.9%
Water	Total water withdrawal (m^3) % of water recycled	92%	31.6%
Energy	Total energy consumed (GW) % of renewable energy	85%	39.4%
Waste (water, solid, hazardous)	Total waste from operations (tonnes) % of hazardous waste % of waste recycled	77%	36.3-46.4%
Workforce	Workforce composition by gender Training hours per employee	69%	35.3-42.3%
Health and safety	Injury rate (TRIR) Fatality rate (for direct and contract employees)	100%	38-85.4%
Turnover	Employee turnover by category	62%	13.2%

Source: ICF, SynTao Green Finance

There is an increasing body of expertise in China among regulators, stock exchanges and listed companies, based on more than ten years of regulatory and market practice. The Chinese market is now ready for mandatory ESG disclosure that will integrate policy requirements and existing voluntary reporting practices. Including common standardised performance indicators in this framework will significantly improve the quality and quantity of ESG data in corporate reporting.

40 For definitions see https://www.globalreporting.org/standards/gri-standards-download-center/gri-305-emissions-2016/

GLOSSARY

CDSB	Climate Disclosure Standards Board
CSR	Corporate Social Responsibility
CSRC	China Securities Regulatory Commission
GRI	Global Reporting Initiative
ICGN	International Corporate Governance Network
IFC	International Finance Corporation
IIRC	International Integrated Reporting Council
OECD	The Organisation for Economic Co-operation and Development
PRI	The Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosures
UK PACT	UK Partnering for Accelerated Climate Transitions
UNEP FI	UN Environment Finance Initiative
WBCSD	World Business Council For Sustainable Development

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Opinions expressed in this report do not necessarily reflect the views of contributors and their institutions.

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