Transcripts of the interview with Camille Leca (Group Head of ESG and Sustainable Finance, Euronext) – June 2024

Melina London:

Good afternoon everyone and welcome to our new interview for the Sustainable Finance Research Forum of the European Commission. My name is Melina London and I am an economist working on the sustainable finance projects at the Joint Research Centre of the European Commission. For those of you who have been following our Interview Series, we are back on our discussion with scholars and practitioners in the field of sustainable finance. Today, I am very happy to welcome Camille Leca, Head of ESG and Sustainable Finance for Euronext group. So thanks a lot, Camille.

Camille Leca:

Good afternoon. Thank you so much for the invitation.

M.L.:

Camille, maybe I give a bit of information on your background for everyone. You joined Euronext in 2013 and you have been in charge since 2022 of developing Euronext sustainable finance business, supporting the client in the ESG journey, but also rolling out Euronext carbon reduction ESG strategy.
Prior to this, you played an important role in the Euronext listing franchise where you developed the tech sector oriented and SME offer.
You also contributed to the European expansion of the business as Head of Listing France and Iberia and Chief Operating Officer for Euronext listing business.
You are also a graduate from ESCP Europe with a master degree in public law and business law from Paris 1 Pantheon Sorbonne. You are part of the EU Commission Sustainable Finance Platform Expert Group in the subgroup on monitoring sustainable capital flows. So maybe you can tell us more about this later. You served in the past in ESMA's group of experts on corporate finance. Finally, you are board member of Euronext, Oslo Bors, I am not sure about the pronunciation, sorry, and of Cercle des Administrateurs.
So thanks a lot. We see that we have a lot of expertise here. So we're very thankful to for you to take the time to discuss sustainable finance and have bring a bit the Stock Exchange perspective on the topic because it's a topic we didn't have time to discuss with other guests. So thanks a lot.

C.L.:

Thanks, Melina.

M.L.:

So maybe I can go with my first question, which will be on what role can stock exchange play in the development of sustainable finance from your perspective at Euronext and also, what you know from other Stock Exchange potentially?

C.L.:

Sure. Well, stock exchanges are facilitators. They are intermediating, need demand offer, demand request. We need all of that to make it work. We cannot launch new sustainable finance products as is, because either is no market for it, it is just not going to work. I will give you an example. Some years ago, we tried to launch ESG derivatives and well, we had very little demand, the market was not mature enough. So, stock exchanges can be pioneers, innovative, but this is not where we get the strongest interest because we really need to have the two sides coming up together to play a role and to do that.

So what can we do? We are basically very important when it comes to education, lobbying, pedagogy, explaining to all market participants what's happening, what are the expectations from the other side, either it's listed companies, corporates, or either its investors. And also explain what's coming up, what is the EU working on, what is the global trend when it comes to investing in equity, in debt and bonds. We have to raise awareness about sustainable finance topics so that all parties in the financial markets are aware and are working in the right direction for being ready and being prepared when whatever comes, comes. What it means in practice, is that we spend a lot of time with corporates, with listed companies. We have done that for many years, and all exchanges have done that for many years, trying to explain them what are the expectations of investors when it comes to sustainable finance: what are they going to look at, what is changing and how the regulatory landscape is going to support, accelerate, this trend?

When they face difficulties, we are one of the many persons, one of the many partners, that can support them in their journey and we can connect them with the right person so that they are, you know, properly supported.
And why do we do that? Because most of the time when there are new regulations, they start with large corporates, they start with listed companies. And so it has been the case for many years, when there is new G standards, E standards, S standards.
They usually start with the biggest corporates we have in Europe, or in the world, and most of those are listed companies. So it's fair to say then the exchanges' clients are at the forefront of all those evolutions, and therefore they're kind of pioneers because they are the first one being submitted to that. That is the reason why exchanges are particularly involved when it comes to supporting them, and training them, and so on.

But at the same time, as I said, we're facilitators. We take part of the corporate aspects, but we also have to work with the investors to try to understand what are their needs are the financial products that are available for them, working for them. Do they need changes in what is being offered and the way they invest in products? So, that's also a role most exchanges play. So they can develop products, or list products. Depending on what we're talking about (from green bonds, to green equity, to ESG ETF, to calculating and rolling out new ESG indices), there is many, many offerings that then we can have for all exchanges, trying to accommodate the needs of investors, and again trying to make kind of the connection between those two. So that's what exchanges do when it comes to sustainable finance, being an enabler, facilitator, helping everyone to spoke out their need and trying to accommodate everyone.

Last but not least, exchanges are corporate themselves. So they also need to work on their sustainability journey, and for us, it mostly means working on green data centers because as service providers, I would say that our biggest carbon footprint comes from the energy we use to, you know, to run the markets, right. So, this is something we do and, for example, at Euronext we are a SBTi committed company and we have migrated all our markets on the green data centers, and most exchanges are also working on their own ESG journey at some point. So that's basically what we can do: supporting corporate but trying to apply those principles to ourselves as well along the way.

M.L.:

It's better to actually give rules and also apply to your side by side for sure.

C.L.:

Yeah, I guess you're more credible when you provide advice.

M.L.:

Yeah, for sure. Thanks a lot. It is a really interesting theme. It brings a lot of other questions, maybe because so you said you were a facilitator between the investor and the corporate. I would say it gives you really a good view on what is happening on the market, how you see sustainable finance developing and how it has been developing for the last few years. What would you say are the key market trends for now, from both sides and what are the challenges for the companies?

C.L.:

If I go back to my two blocks, corporates and investors, it's a bit of a simplistic view, but I guess it helps to understand. When it comes to corporates, corporates are very focused on the implementation of new regulations that will have impact on the way they report every year. They are focused on, you know, what rating agencies are asking them to do. The sustainable topics have been very hot in the past years for all corporate and they are working on that. That being said, among the corporates, there's some companies and sectors that have benefited from, you know, renewed interest in or accrued interest depending on those, for investment. For example, in the past years we have had a lot of companies from alternative energies, they're choosing to do IPOs. So they are raising funds because the market was hot for them because of the war in Ukraine and all the energy difficulties we know. So there is these two kind of fall patterns, at the same way every corporate are trying to go into the CSRD canvas and, what's going to come next. But at the same time among them, some sectors are benefiting from head winds from the market, because their industry is interesting, is promising in this new evolving sustainability landscape. When it comes to investors, there has been a lot of demand in the past years. As an example at Euronext, I would say that 90%, nine zero percent, of all the indices we have launched in the past years where ESG oriented, either fully ESG designed, or having, you know, references to ESG, that's really become massive.

Same, for Green Bonds, we had a lot of it, but it's fair to say then, let's say over the past nine months, it has slowed down. Always a bunch of reasons when it comes to financial markets, it's never one way and we are seeing less green bonds at the moment that we used to, but it is also very much connected to the interest rates. So that's one of the metrics. We will see in the in the months and quarters to come, you know, depending on how the global bond market is going, if it's a ESG focused shift or not. I do not think it is, but we will see.

Same for equity, you know, the markets have been quite slow. We have less clean tech than before. But again, I think it's very market-timing oriented and that structurally there is a real shift and we're seeing it there. One thing that has been a bit tricky for this industry is that, well, in the past years, the energy sector and the military sector have known very strong performances, which were sectors that were not part of sustainable funds.

And so obviously the performances of those funds, have been less important than regular or no ESG flagged funds. But again, this is very conjunctural, and I personally believe that the trend that we have seen in the long run about sustainable finance being more and more incorporated into a financial product is here to stay.

M.L.:

Would you say that there is some EU specificity or it's something that we see, this trend is also something we see worldwide? Do you see any change in the EU context?

C.L.:

Well, I think it is a worldwide thing, but it has been particularly acute in Europe. We mentioned the war in Ukraine; we mentioned challenges we had on the power market. So it has been and Europe was probably one of the places in the world where there was the most visibility about how sustainable finance has being developed. So all those factors together and makes it particularly visible in Europe. But this being said, again, we really see that there is a shift today. If you are corporate and you must have a ESG strategy when you are listed. Five to ten years ago, it was a nice thing, a nice add-on you could have. Now it is a must do. If you do not have one, you are not going to be able to be investible any longer in the future. So that is a shift, right? And maybe it just means that the way we were managing ESG is coming at a new maturity level where it's part of the risk profile of the company, part of the sustainability of his business model, not any longer something that sometimes can really look like a tick box exercise.

M.L.:

So would you say one of the challenges for listed companies is to have proper designed ESG strategy now?
Or would that be more on the reporting side, that it's harder for them to follow the regulation? What would be those challenges?

C.L.:

That's a very good question. I think everyone needs to have in mind that when it comes to Europe, 80% of the listed companies are SMEs. So they're quite small actually, if you remove the companies that because of the sectors where particularly exposed to systemic topics, and so were, let's say, kind of front running those topics because they had been challenged by investors for a while, for all the others it's something quite new, something they did not necessarily have the time in the past to spend time on. Many listed companies don't even have an investor relation. So when you have to do the exercise about risking, rethinking, reshipping, you know, your sustainability strategy, is something that is very new and sometimes not very easy to do because you need to put around the table all the company, because it's such transversal by nature, you need to see it with a different lens. So many corporates in Europe are being challenged. Obviously the ones for which CSRD will apply soon are particularly challenged, but it applies to all of them, right, because they will be either in the wave two or being asked by their suppliers or by their clients to do so. It is starting by a tick box kind of reporting exercise, and that is good because we need the structure, we need everyone to be able to, to have readability, and transparency, and understandability of how it works. Soon hopefully that will become for most of them a strategic exercise. We are in the process, I would say. That's what we see.

M.L.:

Yeah, they first need to understand a bit how to report and then be able to develop a strategy about it.

C.L.:

Yes, exactly. Yeah.

M.L.:

It's interesting because as researchers, our job in the firm is really to build a bridge between the practitioner and the researcher. And on the research side, we use the data that you practitioners are helping to build. So it's interesting to see that ok, we'll need some more years to have really ready to use data, but it's happening,

C.L.:

Yeah, it will take a few years. I think it is fair to say that there is a cultural shift, a cultural gap for companies when implementing taxonomy, when implementing CSRD, because it is very far away, right? I like taxonomy because I think it's a very good example. It means that the people that work in managing your building facilities need to understand what taxonomy is when they're making change in, you know, the installation of the buildings and so on. Well, that is quite a gap, right? And those people were not the ones that were at ease with the EU pieces of legislation. So that's an interesting exercise, but it's taking a bit of time.

M.L.:

Education is needed, as you were mentioning first. Maybe another question would be, do you have the feeling that they are competing, there is competition between financial marketplaces and Stock Exchange, when it comes to ESG standards and regulation, like anything, indeces that could be regulated, that could be linked or not to the regulation?

C.L.:

Yes, there is. Exchanges have the capacity to add rules on top of the regulatory landscape on which they're submitted locally, let's say. So, exchanges can decide to be more demanding on the E, on the S, or on the G part or on all of them. And there have been a few examples, not much, but a few examples in the past. And it's always interesting to see, but always a bit tricky, because financial markets are global, right. The market participants are global. So far, what we have seen is that when an exchange does put additional requirements,
the companies just go list elsewhere, as they don't necessarily improve their sustainability strategy or journey.
I can give two examples out of that. For example, a few years ago Hong Kong Stock Exchange decided for G, governance, purposes to prohibit dual class of shares. They thought that it was not good governance. Well, most big companies from Hong Kong went to list in the US where they did not have this requirement and Hong Kong Stock Exchange changed since what they are asking for. Another very recent example is the fact that NASDAQ in the US has kind of put additional requirements when it comes to governance as well, asking for at least two board members to being either, you know, from a minority or women and these sort of things. Well, I think last week or two weeks ago there was a new exchange created in the US, in Texas, kind of positioning themselves as “we won't have this sort of things”. Probably then, given their geographical location, they would not ask much ESG requirements either. So we can see that there is a competition, but both in dumping and in adding, so it's not easy. To come back to what we said at the very beginning, exchanges are facilitators. I personally believe that it's much more efficient if the rule, or implicit rules, or feedback, comes from the market. I believe companies will consider either their strategies fair enough if they trade with a discount rather than either exchange decides to delist them or put them elsewhere. I think, in the end, valuation and investor reactions to their strategy, to their governance, to their Carbon footprint, exposure and so on is probably the key, to incentivize to move.

M.L.:

I see the point that everyone needs to, if not all the indices, the stock exchanges are moving in the right, in the same direction with the ESG, then you have competition. And do you think that there could be some industry level framework, as we can see for banking, as we can see this industry level organization to have some greener indices?

C.L.:

Well, there is a sustainable Stock Exchange initiative that is being run by the UN and they offer guidelines principles, but in the end, it's obviously not mandatory. And so it's always very interesting work, but it's up to the members to roll them out. Again, in the end, it depends if investors want to invest on those indices. So we come back to what the final end user wants. What do retail investors want when they invest with the banks in funds, or put their savings somewhere? So I think where the money comes from is where the power comes from. So if the money is asking for more sustainability, it will work, and that's my view. But we're hopeful, right? Because end users are being more and more aware and that's why it seems to be getting in the right direction. But that's a perpetual work.

M.L.:

Yeah, we need to keep trying and keep educating. Ok, great. Maybe another question to come back to one of the topic we mentioned at the beginning, which is your participation to the EU Platform on Sustainable Finance. Could you maybe tell us more about the initiative, the word lines, and maybe how, why at Euronext you wanted to be part of this initiative, what you think it can bring?

C.L.:

Sure. Well, I was selected as a member of the subgroup three of the platform and the sustainable finance. What we try to do in this subgroup is to identify how the environmental transition is being financed as it's coming from public money, from private money, as it's coming from equity, from debt, which type of products, how is it working and so forth. We have worked on the methodology to establish what is, what it means actually to finance the transition, which sectors and which products and how to flag them. Based on that we are built KPIs that we believe should be monitored, and hopefully we will be able to make some recommendations on how to better channel savings, funds, in order to finance the transition, because we know the need are very big, right. So, there is a need for more money, that's for sure. So that's the work we're trying to do.
For me personally, but for Euronext as a whole, it's very interesting to be part of this forum because we get to meet with many active players from all over Europe that are being active on those topics. It's very problem-solving oriented. It also gives us a bit of a view of where the debate is going and to try to provide the feedback, as you said, of real life, what we see from more occupied clients, from our investor clients, the feedback from the market, in order to try to get the most pragmatic and effective policies out there. At least we are voicing out what the market practices and concerns are, so that's what's interesting.
And because Euronext is such a European player, we have seven exchanges in Europe. Well, I think we get feedback from very diverse markets of different maturities, different sizes. So it's quite interesting.

M.L.:

I think it's what's really needed for policies, to really hear, have feedbacks from the stakeholders on the field and see what's working, what's not, what could be done. So it's really an interesting initiative. Would you say that it also feeds into Euronext ESG strategy and advice to clients?

C.L.:

Yes, for sure. Well, this is Euronext specific, but we have developed an advisory service for clients. Because we realized then for some typologies of clients, it is useful to have really a financial market perspective, you know, on top of the reporting, really what are my investors looking at in terms of ESG messaging, what are my peers doing? So we're doing that and I think more generally, either it's for those advisory clients or for all our clients being able to also help them understand why the role is the way it is.
Why it takes so many pages? Because otherwise it won't be clear where it's coming from. What the purpose is also very helpful. At least on my end, it's a very virtuous circle where we provide feedback from the market, but we also provide to the market an understanding of how it works, what is the aim and why it's important and where it's going right. So hopefully that's helpful for clients too.

M.L.:

It will definitely be helpful, I guess. EU regulation can be hard to understand at first. So like having some more education and more common advice on it it's always great.

C.L.:

Yes. I think pedagogy, education, will be needed when it comes to sustainability. For a long time people needed to embark on board all the organization, right? It's a global transversal effort. And I believe the financial aspect is a powerful tool. As I said earlier, I think where the money comes from, where are the requirements that come with the money, are super helpful and that's also a great internal leverage for corporates. Let's say if a company has listed sustainability linked bond and has committed on delivering this target. If they don't, they would have to pay more money. Well, that's a great leverage for ensuring that all the organization is going to try to do deliver the ESG targets is committed to. So I think it's very good. And that's why even though it's a bit of a pain, let's be fair, the implementation of CSRD is the good news. Because auditability will ensure that corporates fully commit and engage. And based on this, after it would be easier for everyone to work on the strategic part, which would be the good rate, not the reporting part.

M.L.:

Yeah, once you have the data, you know where you stand and then you can develop the strategy.

C.L.:

Yeah, you can compare, you can benchmark. It's the beginning.

M.L.:

Maybe as a way to conclude, do you have ideas at Euronext on how to use this new source of data in the future? Do you have some new projects?

C.L.:

Yes, oh, many! I think CSRD is a great opportunity, when it comes to data. As I told you, for example, we have a lot of ESG indices, we have more than 350 on biodiversity, on gender, on the carbon footprint. We really have a lot. So far we were working with rating agencies because this was the data that was available out there, right? Having access to all this information will allow us to be even more creative and to develop financial products that will be even more to the point of what either it's a fund, or ETF or, you know, want to address based on their client request. So that will be a great asset. And same for corporates, it would be much easier to leverage them to show them where they have to go, how far they are from their peers and what needs to be done. So I believe it's going to be a very powerful tool for the financial industry.

M.L.:

We also have the same view and we're also looking forward from the research side! So

C.L.:

I can imagine.

M.L.:

We will continue to follow these and follow the developments at Euronext and other Stock Exchanges.
I think it's time to conclude the interview, but I don't know if you want to add anything before this.

C.L.:

Oh, no thanks, Melina. It was, I think, a very interesting discussion. There are obviously many things to say on this topic, but I guess we touch upon the main points. Thank you so much.

M.L.:

No, thanks a lot for taking the time to join. It was super nice to have this different perspective, I would say. For our audience, please stay tuned for the next interview coming in July to hear more experts on sustainable finance. Many thanks everyone.