

EFAMA's reply to EU Ecolabel for Financial Products: 1st Stakeholder Questionnaire on the product scope and criteria definition

2. Familiarity and experience with existing labelling schemes and initiatives

This section is intended to gain some insights into the respondents' familiarity with sustainability labelling initiatives for financial products.

Q2.1 Is your organisation currently involved in, or has it been involved in, any green/ sustainability labelling schemes for financial products or instruments?

Yes

No

If yes, please indicate in what capacity

- Verifier
- Label scheme owner
- Product manufacturer/retailer
- Asset/investment portfolio manager
- Distributor
- Investor
- Other (please describe below)

Q2.2. If you responded yes to 2.1 please indicate which type(s) of labelling schemes

Multiple answers are possible

- National
- Private e.g. CBI
- Financial Sector schemes e.g. Rabobank, Tridos etc
- Multilateral schemes (e.g., EIB, IFC, WB, GCF – EBRD)
- Other (please describe below)

If you chose other, please specify below

Q2.3 If you responded yes to 2.1 or 2.2, please state what kind of retail financial products are covered within the scope*

Multiple answers are possible

- Investment Funds
- Life insurance policies with an investment element
- Structured Products
- Structured Deposits
- Bonds
- Pension products
- Savings schemes/accounts
- Other (please specify below)

If you chose other, please specify below

Please indicate, if appropriate, whether financial products addressed to professional investors are also covered within the scope.

Q2.4 Does your organisation manufacture or distribute any financial products having a green certification or label?

- Yes
- No
- Not applicable

*If yes, please list the products covered**

Q2.5 If you responded yes to 2.4, was/is your choice of scheme/labelling initiative based on any of the options below?

Multiple answers are possible*

- Cost
- Product portfolio
- Investors' demand
- Suitable ambition level
- Ease of verification
- Compatibility with internal systems
- Other (please specify below)

If you chose other, please specify below

Q2.6 Can you provide information about any best practices used by existing Ecolabelling schemes to raise awareness and inform retail investors about products with Eco-labels?

If yes, please provide more information and examples.

There is no single existing Ecolabelling scheme which can be used as reference at the moment. There are a number of different industry-led and national labels which results in confusion for investors. The articulation would need to be clear between any existing or future labels to avoid a “patchwork” for the consumer. For product development purposes, funds that are distributed on a cross-border basis will need to potentially comply with many labels in the future across Europe: further inconsistency and confusions between the labels’ approaches, combined with a lack of flexibility could lead to cross-border investment products having to comply with multiple and possibly inconsistent constraints on their investment objectives (and to a certain extent leading to a possible fragmentation of the offering).

For any future EU Ecolabel to be effective, we would recommend that it has the following:

- Clarity of purpose – it needs to be very clear what this label is trying to achieve. Any label needs to have a very clear objective as to what it seeks to bring to investors’ attention. **In this respect, the Ecolabel clearly suggests to be an environmental label.** Though we would fully support the development of a full-fledged ESG-label, we do not think this could be provided under the Ecolabel. The name and content would differ, thereby confusing investors.
- Clarity around whether the label is intended to draw attention to a particular investment process or particular investment outcomes – Similar to the clarity of purpose, it is essential that a label is clear whether it is flagging a sustainable investment approach which looks at investment process or whether it is intended to flag an investment outcome designed to support particular sustainability objectives (i.e. focused on investment outcome).
- Clarity of target audience – There should be no doubt around who the label is intended to serve. We would recommend a label focus on the retail market as this is least well served by information on sustainable investments as it currently stands.

3. Product Group Definitions and Scope of Financial Products Information

Q3.1 Based on your understanding of the current state of the financial market would you agree that UCITS should be included in the first product group(s)?

Yes

No

No opinion

Q3.2 More broadly, which retail financial products should be included in the EU Ecolabel first?

- Investment funds addressed to retail clients
- Life insurance policies with an investment element
- Structured Products
- Structured Deposits
- Bonds
- Pension products
- Savings schemes/accounts
- others (please specify)

If you chose other, please specify below

We would like to make an overarching comment that a labelling system has merit because it could help investors choose products that are right for their needs and investment preference. In terms of application scope, and having in mind the fact that the Ecolabel is a voluntary exercise, all products competing with each other should be measured against the same criteria as far as possible and be part of the Ecolabel if they meet those criteria.

Q3.3 Other than market share, what factors should be taken into account in defining the initial scope of products?

- Interchangeability or competition between financial products
- Potential for the product to deliver environmental benefits
- Level of engagement of consumer
- Objective to mainstream sustainable finance
- Other (please specify)

If you chose other, please specify below

Competition is an important point, in particular since we do not know for the time being how much impact the new foreseen ESG integration requirements regarding investment advice will have. We might end up in a highly competitive market for sustainable products sold to retail investors.

In any case there should definitely be a level playing field amongst competing retail products and consistency in the approach that can lead to objective comparisons. The level playing field between competing products should be ensured within the governance model for granting the labels.

4. Strategies and Green Definitions

Q4.1 What types(s) of strategies should be reflected in the EU Ecolabel criteria?

	Not at all	Limited extent	Moderate extent	Great extent	Very great extent	Not relevant
Exclusionary (negative) screening	<input type="radio"/>					
Norms based screening	<input type="radio"/>					
Best in class (positive)	<input type="radio"/>					
Thematic approaches (e.g., climate change mitigation, circular economy, social services, improving sustainability, etc)	<input type="radio"/>					
ESG integration	<input type="radio"/>					
Corporate engagement	<input type="radio"/>					
Impact investing	<input type="radio"/>					
Other (please specify)	<input type="radio"/>					

If you chose other, please specify below

Generally speaking, the Ecolabel should be a descriptive rather than prescriptive approach which focuses on the processes and transparency behind financial products rather than single data points. In a prescriptive approach, the Ecolabel risks to turn into a tick box exercise.

We think that all existing and internationally acknowledged strategies should be reflected in the Ecolabel. It is, however, difficult to tick boxes differentiating to what extent these strategies should be taken into account. Usually, asset managers use a combinations of several strategies, depending on the overall fund strategy and the investment objectives. As for "positive impact", it is very difficult to assess as there are different definitions / interpretations of what this entails and how this is to be measured.

Q4.2 To what extent do you consider that the EU Ecolabel should have criteria that address social issues?

- A wide –range of social criteria should be included so that there is a proper balance between environmental and social sustainability in line with best market practice of integrating ESG and with the Paris agreement on a just transition
- Only key social factors should be included to ensure that social objectives are not jeopardised while the focus should be on environmental issues
- Social issues should not be addressed at this stage in this first set of criteria development. They could be considered later on.
- Social issues should not be addressed in the Ecolabel because environmental issues are the most important to address
- Other (please specify)

Please add any additional comments to support your view

While we acknowledge the importance of Social and Governance risks/factors and accordingly fully support the intention to create an ESG-label, **the term “Ecolabel” is clearly focusing on environmental aspects since this label is to be awarded to financial products with the best environmental performance. If it were to take into account other aspects it would be misleading for the investor.** In any case an Ecolabel should not extend at this stage to ethical questions which differ across Europe as it is meant to reflect a harmonised European approach.

The consideration of social and governance criteria for an ESG-label should be timed with the introduction of a social and governance sustainability taxonomy under the EU Taxonomy Regulation in order to avoid that at a later stage investment guidelines, procedures and concepts must be revised if different from the EU Taxonomy as this would trigger costs that would ultimately have impact on the performance of the financial product in question. Nevertheless, to ensure that there is no major social and governance risk involved, a possible approach for the EU Ecolabel could be to require the product originator to conduct its own due diligence on S & G criteria but without setting out what these criteria are.

Q4.3 In relation to Question 4.2, which of the following social aspects do you consider relevant for the EU Ecolabel for financial products?

- Human rights
- Labour rights
- Gender equality and diversity
- Respect for the rights of communities
- Non-Discrimination Policy
- CEO -pay ratio
- Human capital management and skills development
- Health and safety
- Other (please specify)

If you chose other, please specify below

Given the proposed label is an “Ecolabel”, this implies it’s a green label focused on Environmental objectives. It would therefore be confusing to widen the scope and coverage.

Comment regarding a potential ESG-label: For investment managers it is currently difficult to gather consistent, reliable and standardized data on social aspects. That could lead to a profound and potentially misleading or erroneous differentiation between investment approaches with regard to labelling. Therefore the consideration of social criteria should be timed with the introduction of a social sustainability taxonomy under the EU Taxonomy Regulation

Q4.4 To what extent do you consider that the EU Ecolabel should have criteria that address how ethical are corporate activities and governance structures?

- A wide –range of governance issues should be included so that there is a proper balance between environmental and social sustainability in line with best market practice of integrating ESG and with the Paris agreement on a just transition
- Only key governance issues/factors should be included to ensure that governance objectives are not jeopardised while the focus should be on environmental issues
- Governance issues should not be addressed at this stage in this first set of criteria development. They could be considered later on.
- Governance issues should not be addressed in the Ecolabel because environmental issues are the most important to address
- Other (please specify)**

Please add any additional comments to support your view

Given the proposed label is an “Ecolabel”, this implies it’s a green label focused on Environmental objectives. It would therefore be confusing to widen the scope and coverage.

Q4.5 In relation to Question 4.4, which of the following governance aspects do you consider should be relevant for the EU Ecolabel for financial products?

- Transparency
- Anti-corruption
- Board diversity
- Board –separation of powers
- Sustainability report
- Management quality
- CEO - pay
- Director-employee pay ratio
- Dialogue with stakeholders
- Risk management including due diligence
- Task evasion
- Others (please specify)**

If you chose other, please specify below

Given the proposed label is an “Ecolabel”, this implies it’s a green label focused on Environmental objectives. It would therefore be confusing to widen the scope and coverage

Comment regarding a potential ESG-label: We would advise against producing a restrictive list of possible factors. Investment managers need to have the flexibility to consider any and all governance factors that they deem to have a material impact on an investment.

Q4.6 Given the range of possible investments in a portfolio and the different combinations of criteria, it might be beneficial to examine a point system for the Ecolabel. To what extent would this be appropriate for this product group?

- Not sure
- Not appropriate
- Moderately appropriate
- Highly appropriate

Q4.7 If there were to be a points system, what weighting would you attribute to each of the following possible components that contribute to the total score for a financial product?

	Not sure	Low weight	Moderate weight	High weight
Green activities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Excluded activities	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social screening criteria	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Governance screening criteria	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reporting and third party verification	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Others (please specify)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you chose other, please specify below

This is difficult to define at that point. Existing labels should be assessed and evaluated in order to find a sensible functioning system. At minimum however, it should be required to be transparent on the policy adopted on each of the items listed above to be awarded any “Ecolabel”. Moreover as highlighted earlier in our response, the consideration of social and governance criteria should be timed with the introduction of a social and governance sustainability taxonomy under the EU Taxonomy Regulation in order to avoid

that at a later stage investment guidelines, procedures and concepts must be revised if different from the EU Taxonomy as this would trigger costs that would ultimately have impact on the performance of the financial product in question.

Q4.8 What would you see as mandatory or minimum requirements within such a point system?

5. Sustainable Investment and Economic Activities

Q5.1 Should the EU Ecolabel have exclusions for specific activities on the basis of their environmental impact?

Yes

No

If yes, which ones below would be relevant?

- Nuclear energy
- Genetic engineering-
- Fossil fuel energy generation
- Coal mining
- Petroleum extraction
- Natural gas or shale gas extraction
- Deforestation
- Others (please specify)

If no, please provide an explanation.

The EU ecolabel should not automatically include the exclusion of certain activities as a baseline and provide the flexibility to be applied to an investment approach which has chosen to exclude certain activities. We believe other factors will likely become relevant as time progresses. However, for the moment, we do believe that in some jurisdictions investors expect that a 'green' (or variant of that theme) investment product would not contain coal mining activities

Including exclusions in the Ecolabel itself might be problematic as fund managers need to be able to provide solutions for different clients who may have preferences for different exclusions. There should not be a one size fits all approach to which exclusions are integrated into the label. A key example is nuclear power. Some investors might consider this un-green and want it excluded whilst others may see this as a significant alternative to fossil fuels. Investors need to be able to make such choices.

Q5.2 Should the EU Ecolabel have exclusions for specific activities on the basis of their social and ethical impact?

Yes

No

If yes, which ones below would be relevant

- Tobacco
- Pornography
- Human rights violation
- Labour rights violation
- Corruption
- Poor corporate management, insufficient long-term risk management
- Poor Human capital development
- Others (please specify)

If no, please provide an explanation.

Comment regarding a potential ESG-label (not Eco-Label): There are certain activities that constitute legal and normative international standards that should not be breached under any circumstance – and which would be applicable to any investment i.e. human rights violation, labour rights violation and corruption. As above, there are also certain social considerations which will only be applicable to certain investments and should be treated as such. This would form part of the ESG assessment of the investment – and is dependent upon the impact of those social considerations of the material value of the investment. Finally, there are certain social activities that certain investors consider should be excluded, whilst others do not, for example, tobacco and pornography. It should be the investor's choice whether these are excluded or not.

Q5.3 If exclusions are included in the EU Ecolabel, should they be total or partial?

We would recommend partial exclusions for specific activities based on their environmental impact to support the energy transition e.g. thermal coal and oil sands. We believe blank exclusions on certain sectors could bring along unintended consequences and stifle legitimate ways for end investors to express their sustainability preferences.

In a broader sense, these sectors need capital to fund a transition to a future energy mix. Excluding sectors or companies who need to make this transition undermines some of the stated political aims of the Sustainable Finance Action Plan.

Generally speaking the approach is excluding companies or industries from portfolios where they are not aligned with an investor's values.

Q5.4 If partial exclusions were to apply, could you provide examples of to which activities they should apply and how they could be applied, including thresholds.

Q5.5 At what level do you consider the EU Ecolabel will need to work in order to verify the product's greenness?

Multiple selections are allowed. For each selection you consider to be needed please also complete Q5.6.

	Not at all	Limited extent	Moderate extent	Great extent	Very great extent	Not relevant
Portfolio (e.g., investment funds)	<input type="radio"/>					
Asset class (e.g., equities, bonds, securities)	<input type="radio"/>					
Company (x% turnover or revenue in green activities)	<input type="radio"/>					
Activity and use of proceeds (e.g., renewable generators, green buildings)	<input type="radio"/>					
Other (please specify)	<input type="radio"/>					

If you chose other, please specify below

The Ecolabel should not only look at the product’s greenness based on how sustainable a certain economic activity is at a certain moment in time, but also at the direction of travel. It is important to avoid an exercise which will lead to burdensome tick-the-box compliance exercises (behaviour the EU should try to avoid) as this may hamper development in a market that is already moving in the right direction

Relying solely on some of the methods above could be misleading. For instance, relying solely on limits to portfolio construction such as benchmarks or manager-driven constraint could lead to products being accidentally defined as Green at a particular time because the portfolio composition meets an arbitrary threshold. The primary purpose of an asset manager is to safeguard their client’s assets and generate investment returns (for the client) with a certain level of risk tolerance.

The primary basis for defining whether a product qualify as green should be its investment objective. A minimum portfolio percentage could be set but only as secondary criteria to reinforce the investment objective.

Q5.6.1 Based on your selection of 'portfolio' in Q5.5, what minimum percentage should be invested in green activities for product to qualify for the EU Ecolabel?

- at least 25%
- at least 50%
- at least 70%
- other (please specify)
- Not sure

If you chose other, please specify below

We are unsure whether a minimum portfolio percentage is the right approach and it will ultimately depend on the set of criteria. It could perhaps be set as a secondary criteria to reinforce the investment objective.

Q5.6.2 Based on your selection of 'asset classes' in Q5.5, what minimum percentage should be invested in green activities for product to qualify for the EU Ecolabel?

- at least 25%
- at least 50%
- at least 70%
- other (please specify)
- Not sure

Q5.6.3 Based on your selection of 'company' in Q5.5, what minimum percentage should be invested in green activities for product to qualify for the EU Ecolabel?

- at least 25%
- at least 50%
- at least 70%
- other (please specify)
- Not sure

Q5.6.4 Based on your selection of 'activity' in Q5.5, what minimum percentage should be invested in green activities for product to qualify for the EU Ecolabel?

- at least 25%
- at least 50%
- at least 70%
- other (please specify)
- Not sure

Q5.7 Please explain the reason for any of your selection in Q5.6 or provide your own proposal with a justification

Q5.8 Would you suggest any other methodology for defining the minimum portfolio allocation?

It might be relevant to consider to what extent the assets in the portfolio are assessed with respect to sustainability factors (coverage).

Q5.9 Focussing on specific asset classes, please describe technical criteria that could apply to the following:

a) Transferable securities

Shares

Bonds

b) Financial derivative instruments

c) Money market instruments

d) Real Estate

e) Others (please specify)

Q5.10 When assessing the greenness of a portfolio, how should the ‘greenness’ of the various companies be weighted?

- Minimum threshold applying to the (weighted) average of companies’ green turnover share
- Minimum share of green turnover (or revenue) required for each of the companies
- Others

If you chose other, please specify below

What is missing in this exercise is the assessment of the value of an EU Ecolabel for end investors. Will the target investor base recognise or value this label when it comes to an investment product? Targeted market research is necessary to gauge the ultimate value and construction of the Ecolabel.

Q5.11 To what extent should the greenness of the issuer of the bonds be taken into account?

- Not at all
- Limited extent
- Moderate extent
- Great extent
- Very great extent
- Not sure

6. Assessment and Verification Methods

Q6.1 To what extent would the following financial products require their own specific form of verification?

	Generic verification	Very specific form of verification
Investment funds addressed to retail clients	<input type="radio"/>	<input type="radio"/>
Life insurance policies with an investment element	<input type="radio"/>	<input type="radio"/>
Structured Products	<input type="radio"/>	<input type="radio"/>
Structured Deposits	<input type="radio"/>	<input type="radio"/>
Bonds	<input type="radio"/>	<input type="radio"/>
Pension products	<input type="radio"/>	<input type="radio"/>
Savings schemes/accounts	<input type="radio"/>	<input type="radio"/>
Others (please specify)	<input type="radio"/>	<input type="radio"/>

If you chose other, please specify below

This depends on the system used. The question is however mixing investment vehicles and asset classes so an answer is not possible. If investment vehicles are compared, then we believe that specific forms of verification are required as only through a look through a verification is possible and some of the asset classes themselves require their own form of verification.

Q6.2 To what extent would the following asset classes require their own specific form of verification?

	Generic verification	Very specific form of verification
Shares	<input type="radio"/>	<input type="radio"/>
Bonds	<input type="radio"/>	<input type="radio"/>
Financial derivatives	<input type="radio"/>	<input type="radio"/>
Money market instruments	<input type="radio"/>	<input type="radio"/>
Real estate	<input type="radio"/>	<input type="radio"/>
Others	<input type="radio"/>	<input type="radio"/>

Q6.3 How can the cost and complexity of assessment and verification be minimised?

Q6.4 To what extent, and under what conditions, should private verifiers be permitted to assess compliance with the EU Ecolabel criteria?

- Not at all
- Limited extent
- Moderate extent
- Great extent
- Very great extent
- Not sure

Please elaborate further on your opinion

We believe private institutions should be permitted to certify compliance with the Ecolabel. Requirements for private institutions must allow for competition without jeopardising compliance with the criteria. However it is important to consider who should bear the cost. Private verifiers should be specifically licensed to assess compliance with the EU Ecolabel criteria

Q6.5 Please make any other suggestions or rec

There are a number of consideration to make when discussing the assessment of the EU EcoLabel which should be included in the framework:

- Who will maintain the standards and will they be flexible enough to allow products to adapt to meet investor demand in a timely manner?
- Who will certify the compliance and what will the costs associated with the compliance be?
- If the EU Ecolabel criteria are ultimately based on the taxonomy, how will that be transposed into a framework that is suitable for a range of investment products (ie. Equity, fixed income, government bonds or real asset portfolio) will investors need to understand the underlying taxonomy, or will reliance on the table itself be enough to drive the demand?

* * *

Brussels, 25 January 2019

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