

Development of EU Ecolabel criteria for retail financial products

2nd Ad Hoc Working Group (web)meeting

25th – 26th March 2020

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EU Ecolabel for retail financial products

Structure of the web-meeting



Day 2

10:30 – 11:00	Criterion 3	Social and governance aspects
11:00 – 12:00	Criterion 4	Engagement
12:00 – 12:30	Overarching discussion: ambition level and criteria design	

EU Ecolabel for retail financial products

Criterion 3: Social and governance aspects

Criterion 1: Investment in green economic activities

Criterion 2: Exclusions based on environmental aspects

Criterion 3: Social and governance aspects

Criterion 4: Engagement

Criterion 5: Retail investor information

Criterion 6: Information provided on the EU Ecolabel

1st criterion proposal

Social and Ethical related exclusions

Companies that derive their revenue from activities that contravene the ILO's eight fundamental labour conventions and the United Nations Global Compact's 'Principles on Human rights and Labour' shall be excluded from the investment portfolio of the financial product. The following specific activities shall also be excluded:

- Tobacco production at any stage from raw material to final products for consumers
- The production of weapons

These exclusions shall apply to all activities within an investment portfolio.

In the case of sovereign bonds or bonds issued by international organisations the following exclusions shall apply either to the issuing country or the economic activity:

- The use of controversial weapons
- A corruption index reported to be less than 50
- Non ratification of international conventions on social and ethical matters e.g. ILO conventions
- Country is subject to EU or UN financial sanctions for special social or ethical violations

Assessment and verification

The applicant shall provide the investment policy, investment portfolio and the allocation of proceeds to the Competent Body. Further to the initial verification, internal checks shall be performed at least once per year and any changes communicated to the Competent Body who also retains the right to make random checks on compliance.

Stakeholder feedback after the 1st AHWG meeting

Weapons exclusion

Corruption and
bribery

Broadening the social
exclusions list

Corporate
governance

Human and Labour
Rights

Verification
requirements

Focusing more on
environmental
aspects

The term 'Ethical'

Stakeholder feedback after the 1st AHWG meeting

Feedback on weapons exclusion

- The term "Controversial weapons" may vary significantly from one institution to another
- At a company level:
 - Weapons exclusion to be extended beyond production to also cover trade activities
- At a sovereign level:
 - the production, trade and possession of controversial weapons are recommended to be excluded
 - Exclusion applies to sovereign bonds if relevant international treaties are not ratified

Stakeholder feedback after the 1st AHWG meeting

Feedback on corruption and bribery

- At a **company level**:
 - The evaluation of corruption and bribery shall be better outlined
- At **sovereign level**:
 - A review of the corruption perception index threshold is requested

Stakeholder feedback after the 1st AHWG meeting

Feedback on Human and Labour Rights

- To consider international treaties and local regulations to better incorporate this aspect
- **SRI labels** could serve as a source to obtain human and labour rights-related exclusions

Stakeholder feedback after the 1st AHWG meeting

Feedback on verification requirements

- Reviewing and strengthening verification requirements

Stakeholder feedback after the 1st AHWG meeting

Feedback on broadening the social exclusions list

- To adopt a **normative approach** and **to consider** the work of international institutions e.g. the United Nations, the International Labour Organisation and OECD on the topic. Specific **requirements set by these organisations** at a company and a sovereign level could be sufficient in defining social exclusions
- Recommendations to contemplate **local regulations**

Stakeholder feedback after the 1st AHWG meeting

Feedback as to focusing more on environmental aspects

- Suggestions to focus more on the environmental dimension and to only maintain a **minimum of social aspects**
- **EU Taxonomy requirements on social aspects** to be used to define social exclusion minimum and so avoiding restricting eligible funds

Stakeholder feedback after the 1st AHWG meeting

Feedback as to focusing more on environmental aspects

Meanwhile others suggested

- Social exclusions to be defined more broadly at the corporate and sovereign level following the EU Ecolabel Regulation which advocates doing so where relevant
- The **current market practice** indicates the importance of more detailed social exclusions than the EU Taxonomy
- To set broader exclusions since no weighting or rating of social matters is available, which would have facilitated the prioritisation of some social aspects over others while adequately addressing major societal concerns

Stakeholder feedback after the 1st AHWG meeting

Feedback on corporate governance

- Many labels define **governance aspects separately** to environmental and social issues and thus create ESG metrics
- Develop a separate governance criterion that would examine in more detail the specific governance aspects
- Poor capital development and poor corporate management may **strongly differ across companies** the inclusion of these topics in an exclusion criterion may raise controversies
- Verification of those aspects **is challenging**

Stakeholder feedback after the 1st AHWG meeting

Feedback on the term 'Ethical'

- The term ethical might **range** from "business ethics" to a "moral approach". Both interpretation edges are ambiguous as linked to individual perceptions which are far from being universally shared among European countries
- The basis for defining the term ethical **is not robust**

Findings from further research

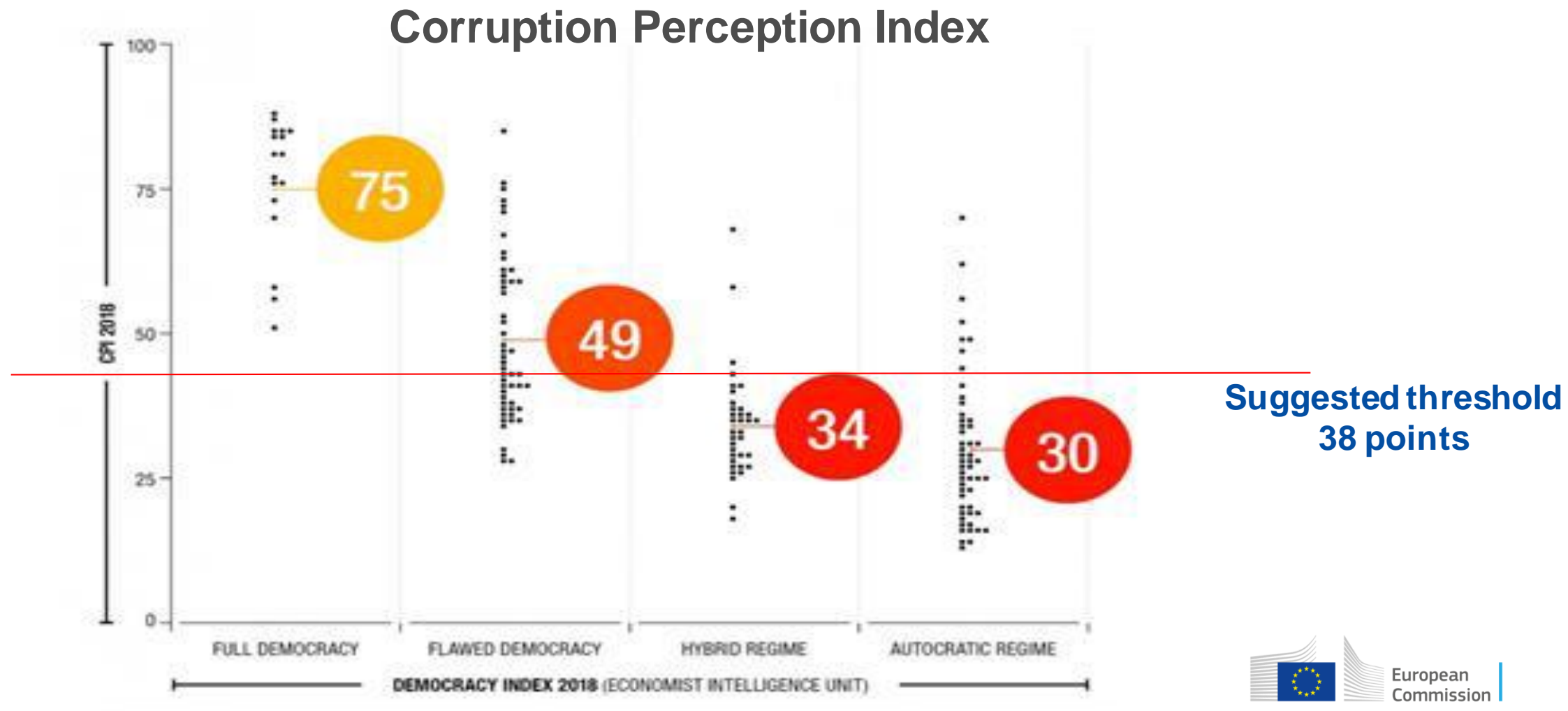
- Treaties referring to **human and labour rights** are further explored
- The list of all social exclusions relevant treaties has been reviewed and updated
- The **overall company operations** should not violate human and labour rights
- Corporate operations should respect **minorities and indigenous communities rights**
- At sovereign level, the EU Ecolabel suggests a **minimum number of ratifications** to ensure a sufficient degree of compliance

Findings from further research

Further research on Corruption – Sovereign level

- EC considers the [Corruption Perception Index](#) as a metric to quantify the UN SDG goal 16 on peace, justice and strong institutions
- The [CPI](#) is reviewed. The compliance threshold is suggested to be set [at 38 points](#), which indicates democratic administration and a satisfactory anti-corruption level

Findings from further research



Findings from further research

Further research on Corruption – Corporate level

- A **policy commitment** against any corruption attempt, approved by the **highest management level**, is proposed to be laid down
- A policy commitment to **respect anti-corruption laws** in the countries where business operations take place
- Anti-corruption **policy shall apply** to daily business activities
- A **management system** to prevent/eliminate any corruption attempts shall be established

Findings from further research

Further research on bribery

- At sovereign level the application of **Bribe Payers Index** is explored. In contrast to the Corruption Perception Index, the Bribe Payers Index is **not officially used** in the EU. At the moment not included subject to discussion.
- At a corporate level, measurements against bribery, **analogous to those of corruption**

Findings from further research

Further research on tobacco and weapons

- Tobacco consumption is the single largest avoidable health risk and the most significant cause of premature death in the EU
- EC has already implemented various tobacco control measures in the form of legislation, recommendations and information campaigns
- Market practices suggest sustainable funds to exclude tobacco, e.g. the Eurosif Transparency Code recommends to exclude tobacco
- The treaties related to [controversial weapons](#) have also been reviewed.

Findings from further research

Further research on assessment and verification

- Adoption of policy statements and implementation of **due diligence procedures** as means of proof
- In the long term, **a balance** between considering a broader range of societal concerns and the acceleration of sustainable growth is explored.

Findings from further research

Further research on creating a separate governance criterion

- The Non-Financial Reporting Directive (NFRD) and the Directive (EU) 2017/82899 aim at increasing the transparency of institutional investors and asset managers. Following these directives, governance-related exclusions and even separate governance criteria **could have been proposed**
- Regulation (EC) 66/2010 on the EU Ecolabel **does not explicitly refer to governance criteria**

Summary rationale for the major changes

- The need for a social exclusions criterion was imposed by the requirements laid down in Regulation (EC) 66/2010.
 - Article 6(3e) specifies that in determining EU Ecolabel criteria, where appropriate, social aspects be considered
- The EU Taxonomy was also consulted to articulate the social exclusions criterion
 - Article 13 of the EU Taxonomy requires 'environmentally sustainable economic activities' to comply with minimum social safeguards

Summary rationale for the major changes

- Reflection on the **outcomes** of the 1st AHWG meeting
- Suggestions are considered as result of the online consultation **process**
- Suggestion that tendencies are considered, yet if strong divergences exist. Further discussion is suggested
- The rationale for proposing updates is supported by relevant **EU policies and international treaties**

2nd criterion proposal

3.1 Exclusions applying to companies

The investment portfolio shall not contain equities, corporate bonds or use-of-proceeds bonds issued by companies excluded on the basis of social aspects or corporate governance practices as defined below. For fixed-term and savings deposit accounts, loans shall not be made to these companies.

A company is excluded on the basis of social aspects if it, throughout its business activities, does not comply with the following conditions:

- Respect the protection of internationally proclaimed human rights and relevant domestic laws and regulations of the country in which they operate and from which they source raw materials. [UN Global Compact, OECD Guidelines for Multinational Enterprises]
- Ensure they are not complicit in human rights abuses. [UN Global Compact]
- Uphold the freedom of association and the effective recognition of the right to collective bargaining. [ILO Convention, UN Global Compact]
- Ensure the elimination of all forms of forced and compulsory labour. [ILO Convention, UN Global Compact]
- Uphold the effective abolition of child labour. [ILO Convention, UN Global Compact]
- Ensure the elimination of discrimination in respect of employment and occupation. [ILO Convention, UN Global Compact]
- Abide by local legislation that addresses corruption, bribery and extortion, and work against corruption in all its forms, including extortion and bribery by formulating and operationalising adequate business policies. [UN Global Compact, UN Convention against Corruption]

2nd criterion proposal

3.1 Exclusions applying to companies

A company is also excluded on the basis of social aspects if it derives revenues from following activities:

- Tobacco production or any tobacco-related activities at any stage from raw material to sale of the final products to consumers.
- The production and trade of weapons.
- Production or trade of any printed or digital material with pornographic content.
- Corporate activities which violate minorities' and indigenous communities' rights with reference to the World Bank's Social Safeguard Policies.

2nd criterion proposal

3.1 Exclusions applying to companies

A company is excluded on the basis of corporate governance practices if they, throughout its business activities, do not have in place:

- corporate policies on social aspects and operational procedures necessary to embed compliance throughout the business activities;
- an up-to-date management system covering all business activities with the capability to identify, evaluate, prevent, mitigate and remediate existing adverse impacts or potential risks on social aspects;
- good corporate governance practices.

At a company level, exclusions apply to both transnational and other business enterprises, regardless of their size, sector, location, ownership and structure.

1st criterion proposal

3.2 Exclusions applied to sovereign bonds

The investment portfolio shall not contain sovereign bonds issued by countries that:

- have not ratified the following international conventions on labour rights and corruption:
 - the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work;
 - ILO Declaration on Social Justice for a Fair Globalization;
- have ratified less than half of the 18 Core International Human Rights Treaties^[89];
- are subject to EU or UN financial sanctions for special social violations;
- achieve a score worse than 38, when evaluated according to the Corruption Perception Index;
- produce, trade or possess controversial weapons that are subject to EU or international restrictions, including non-ratification of:
 - Chemical Weapons Convention,
 - Biological Weapons Convention,
 - Ottawa Convention (Ban on Anti-Personnel Mines),
 - Oslo Convention on Cluster Munition and Arms Trade Treaty), and
 - the Non-Proliferation of Nuclear Weapons.

1st criterion proposal

Assessment and verification

The fund manager shall demonstrate to the Competent Body that following have been assessed, with respect to companies in which investments are held and/or the issuers of sovereign debt that is held:

- Excluded activities: The status of each country and company shall be checked against the exclusions list.
- Compliance of corporate policies on social aspects with social exclusions.
- Compliance of risk identification, evaluation, prevention, mitigation and remediation targets, as included in the management system, with corporate policies on social aspects.
- Compliance of good management practices to Corporate Governance (CoGo) codes and standards.

For use-of-proceeds bonds the EU GBS may be used as proof of compliance.

For large companies, reporting under the Non-financial Reporting Directive (2014/95/EU^[90]) shall be accepted as basis for verification. Small and medium-sized enterprises (SMEs) shall disclose information about their social responsibility, human and labour rights and their anti-corruption policies, approved at the most senior management level.

Further to the initial verification by the Competent Body, the fund manager shall carry out assessment on compliance with social exclusions at least once per year and communicate any inconsistencies to the Competent Body. Furthermore, the Competent Body retains the right to perform random checks on compliance.

EU Ecolabel for retail financial products

Criterion 4: Engagement

Criterion 1: Investment in green economic activities

Criterion 2: Exclusions based on environmental aspects

Criterion 3: Social and governance aspects

Criterion 4: Engagement

Criterion 5: Retail investor information

Criterion 6: Information provided on the EU Ecolabel

Shareholder engagement

Shareholder engagement: shareholder activities that are intended to change companies environmental or ESG practices, such as:

- The right to vote on shareholder proposals during annual general meetings
- Discussions during informal meetings with management
- Criticising corporate practices in the news media
- Threat of selling the assets held

Acting on “positive” companies, complementing the effects from the exclusion criterion

Stakeholder feedback after the 1st AHWG meeting

- Engagement is important mechanism to ensure companies take remedial action or to divest from environmental harmful activities
- Research evidence submitted that shareholder engagement is an effective mechanism through which 'investor impact' on companies can be achieved.
- Evidence from leading investors of more intensive use of engagement strategies to change the environmental policies of companies
- The Nordic Swan and Austrian labels include specific criteria and weightings for engagement practices

Research on investor impact

There is evidence of effect of shareholders engagement on the 'quality' of company activity

- Extent to which companies comply with shareholder engagement requests is likely (between 18% and 60%)
- Shareholder proposals are associated with increases in ESG ratings of targeted companies (response less likely for E v. S/G issues)

The success rate of engagement depends on:

- The investor influence (higher probability for shareholders holding larger shares)
- The company's level of ESG experience
- The cost of the reform requested by shareholders → incremental improvements rather than transformative change

Review of existing label criteria

	Engagement criterion
Nordic Swan Ecolabel	<p>The fund manager:</p> <ul style="list-style-type: none">• Regularly engages with at least 10% of its holding companies (in number or AUM) in order to address ESG issues, concerns or performance; <u>or</u>• The fund manager regularly engages at a comprehensive level with at least 5% of its holding companies (in number or AUM) in order to address ESG issues, concerns or performance <p><i>If the above is fulfilled, a maximum of one additional point can be earned if the fund manager can demonstrate that the engagement process includes:</i></p> <ul style="list-style-type: none">• <i>A clear and systematic method for selecting candidates and topics/themes for engagement.</i>• <i>Clear and specific ESG-related goals for the engagement, including the planned timeframe.</i>• <i>A description of resources and tools for conducting the engagement.</i>• <i>A description of how the engagement and company dialogue reflect the UN's Agenda 2030 goals.</i>• <i>Regular assessment of the achievement of goals.</i>

Gaps in research/current practice

- Investor impact metrics are not available right now
- Current company impact metrics are not comparable and can be misleading
- Standards for reporting the impacts of engagement would make shareholder engagement comparable, more visible and marketable
- The effect of alliances of asset owners promoting sustainable finance have not been researched yet

1st element of proposal

Documented engagement policy

The fund manager shall have a documented engagement policy describing at least:

- clearly identified key environmental issues on which to engage with companies;
- the method and reasons for selecting companies and specific key issues on which to engage;
- submission and voting of resolutions at AGM to address these issues;
- regular monitoring and evaluation of companies and the achievement of specific environmental outcomes.

1st element of proposal

Documented engagement policy

Propose to move text from assessment and verification point 5:

Other engagement practices with other shareholders/stakeholders (e.g. cooperating with other shareholders to push a specific climate resolution)

For discussion and feedback

- Possible reference to working with other shareholders
- Possible reference to specific outcomes – resolutions, divestment, investment

2nd element of proposal

Engagement activities and target companies

The fund manager shall engage regularly with at least half of the companies that have less than 50% green activities.

Engagement activities shall include voting at general assemblies and other related actions such as communication and dialogue with the company and other shareholders/stakeholders (to push a climate resolution, for instance)...

For discussion and feedback

- How to prioritise engagement activity, given that it is resource intensive?
- Should the criterion target specific points in procedural processes?

3rd element of proposal

Aims and objectives of the engagement policy

Clearly stated aim of improving the environmental performance of the company, notably to encourage companies to:

- upgrade, improve the quality (from an environmental point of view) or change their existing economic activities to make them compliant with EU Taxonomy criteria;
- expand their existing economic activities that are already EU-Taxonomy-compliant;
- reduce and stop economic activities that are not EU-Taxonomy-compliant by selling or closing those activities;
- measure and assess the impact on the environment of their activities and change their behaviour with respect to environmental issues;
- take steps to respond to shareholders/stakeholders' engagement with respect to the companies' environmental strategies.

3rd element of proposal

Aim and objective of the engagement policy

For discussion and feedback

- Focus on taxonomy compliant activities – TSC provide benchmarks for monitoring
- Cannot change economic activities of company that does not carry out taxonomy compliant activities e.g. service sector
- Is the ‘measurement/assessment of impact’ beyond the scope of current engagement strategies – focus on strategic resolutions?

4th element of proposal

Establishing milestones for transition

The fund manager shall set specific key topics raised via engagement with the companies in planning actions in terms of environmental strategies and green activities within a specific period of time, failing which the fund manager may decide to sell (some of the) shares from the company (or reconsider inclusion of the company within the fund).

For discussion and feedback

- Possibility to track and report on actions completed?
- Other measureable actions? e.g. alignment of votes on company resolutions with engagement policy

Assessment and verification

The fund manager or product provider applying for the EU Ecolabel shall provide the verifier with the following information:

- Evidence showing the percentage of companies with which the manager has engaged.
- Specific key environmental topics raised via engagement.
- Voting behaviour in compliance with the engagement policy.
- Use of other engagement mechanisms with the companies, such as evidence of a constructive company dialogue developing a business case for change and keeping up a good level of interaction with companies.
- Other engagement practices with other shareholders/stakeholders (e.g. cooperating with other shareholders to push a specific climate resolution).

Follow-up research

Verification method in existing label criteria

	Assessment and verification method
Nordic Swan Ecolabel	<p>A document confirming the extent and description of the engagement (engagement vs comprehensive engagement), including a high-level description of relevant ESG issues, concerns or performance.</p> <p><i>For the verification of the additional point, a document describing the engagement process, including: a method for selecting the engagement candidate, themes/issues, goal setting, resources and goal achievement in accordance with criteria above.</i></p>
Febelfin	<p>When using corporate engagement and shareholder action as a sustainability strategy, the product manager shall have a formal policy and publish an engagement report, on the company or on the product level, indicating on what topics shareholder action is carried out and how, providing a general view on: 1. the voting policy per (category) of topics; 2. the internal organisation of corporate engagement; 3. the actual voting (issues, number, ...); 4. the targets for evaluating the effectiveness of continuing corporate engagement; 5. the questions asked in general assemblies; 6. dialogue and other actions towards issuers (type, outcome)</p>

EU Ecolabel for retail financial products

Any questions?

EU Ecolabel for retail financial products

Recap from Session 1:

Ambition level and criteria design

How the EU Ecolabel would work

- Domicile of the fund or deposit in EU – where management company has head office
- License issued per fund management service or deposit service
- Passporting where permitted in regulation for the product
- New funds – proposal already for deposits, intention to explore for funds

Product scope

- Level playing field for banking products – structured products
- Retail v. professional AIF – final check on how to address the overlap
- Insurance unit accounts – alternative proposal made based on ecolabelled units
- Retail AIF – real estate and infrastructure as underlyings still emphasised

Ambition level dilemma

- Reputation and retail consumer perception of the ecolabel is critical
 - The 10-20% threshold is indicative and deviation from it may be appropriate
- Ability to put together diversified portfolio should not be overly restricted
 - Could work counter to the need to achieve transition and (if possible) impact
- Current market shares for ESG or climate funds <5%
 - Criteria set combines several investment strategies so market potential likely to be significantly less

Ambition level dilemma

Questions

- Could introducing an alternative CAPEX threshold into the transition pocket compensate for the lower overall green threshold?
- Could the criteria set be designed to allow flexibility in combining different strategies that we see in the market?

e.g. green threshold + exclusions + social criteria = ESG;

green threshold + exclusions + engagement = active investor

green threshold + transition threshold + impact monitoring = impact investor

Treatment of bonds

Questions

- How can we better align the thresholds for equities and bonds?
- Should corporate bonds be possible to verify using the same approach as for equities?
- How to treat existing bond issues – transitional grandfathering arrangement v. encouraging new issuance?

Thank you

Contact

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Next steps

- Comments can be submitted via the BATIS online consultation platform
- Registration required to obtain access
- **New deadline for comments in BATIS: Friday 17th April 2020**
- Following analysis may organise follow-up bilaterals and/or sub-groups

Queries?

Registration: jrc-b5-financial-products@ec.europa.eu

BATIS: jrc-b5-product-bureau@ec.europa.eu

EU Ecolabel for retail financial products

Criterion 5: Retail investor information

Criterion 1: Investment in green economic activities

Criterion 2: Exclusions based on environmental aspects

Criterion 3: Social and governance aspects

Criterion 4: Engagement

Criterion 5: Retail investor information

Criterion 6: Information provided on the EU Ecolabel

1st criterion proposal

Consumer information

The following information shall be provided by the applicant to the consumers on an **annual** basis:

1. Investor information and investment policy which shall detail the following:
 - the methodology for computing the portion of turnover in accordance with Criterion 2.
 - the environmental objectives of the portfolio
 - the financial objectives
1. Information on corporate activities and governance structures of the company managing the portfolio detailing how social and ethical issues are managed
2. Information on management and internal control procedures which detail a monitoring mechanism for reducing the potential risks of including in the investment portfolio activities included in the exclusion lists of criteria 2 and 3.

1st criterion proposal

Assessment and verification

The applicant fund shall provide the latest annual reports and or documentation to the Competent Body: the green investment policy of the applicant, portfolio statement and prospectus including complete listing of the portfolio assets for the financial product and management and internal control procedures for ensuring compliance to environmental and social performance aspects.

The financial objectives could be indicated in the form of e.g, risk reduction policies, etc

Stakeholder feedback after the 1st AHWG meeting

- 12 months as a very reasonable interval for fund asset managers or portfolio managers for monitoring and reporting information to the consumers
- This period of time should be reduced if any of the following occur:
 - Changes in the methodology of computing the portfolio
 - Changes in the objectives of the awarded fund
 - Relevant changes in the investment portfolio

Stakeholder feedback after the 1st AHWG meeting

- Stakeholders highlighted the benefits of aligning this criterion on consumer information to the requirements of other regulations the financial products could be covered by

Findings from further research

Two examples of regulations related information are as follows:

- UCITs funds and their share classes should be accompanied by a key investor information document (KIID)

The points covered in KIIDs are:

- Objectives and investment policy
- Risk and reward profile
- Charges
- Past financial performance and practical information

Findings from further research

- The PRIIPs Regulation requires that basic pre-contractual information be provided through the key information document (KID)

KIDs address

- The identification of the manufacturer and its regulator
- An alert on complex products
- Information on the objectives, target consumers
- Details of any insurance benefits and terms
- Risk-reward profile of the product
- Guarantee schemes
- Costs
- Holding periods
- Consequences of cashing in early

Findings from further research

- However, KIDs and KIIDs do not need to include information on environmental, social and engagement aspects

Findings from further research

Additional section could be included in the prospectus, KID or KIID related to the relevant information should inform the consumers about the following points:

- Sustainability aspects taken into account
- The fund company influences
- Carbon footprint
- The fund excludes
- The fund selects
- EU Ecolabel

Findings from further research

Two levels of information are suggested

- The first one aims at communicating to end consumers the most relevant aspects of the fund related to environmental and social aspects by using:
 - Simple statements that can be included in the prospectus
 - KID or KIID given to the consumers at the time of purchasing
 - This information can be also annually revised and sent to the end consumers by email or any other media
 - link to an extensive and updated annual report addressing the requirements of the criteria

Findings from further research

- The **second level** is related to **compliance monitoring**
- ✓ Could be checked **annually by** the Competent Bodies to ensure compliance with the criteria
- The fund could issue an annual (at least) report
 - Describing the state of the investment
 - Its performance as well as aspects related to the environmental and social issues
 - This report will be published on the fund manager's website

Summary rationale for the major changes

- There is a need to provide consumers with clear information on the environmental and social performance of financial product(s). These requirements will allow consumers to take a well-informed decision and also enhance transparency.

2nd (revised) criteria proposal

5.1 Equity, bonds and mixed funds

As a minimum the following information shall be made available annually by the fund manager to the consumers:

- Information about the percentage of the total portfolio value in terms of assets under management (AuM) invested in companies whose economic activities comply with the requirements of criterion 1, i.e.:
 - share of AUM in shares of companies with >50% green activities;
 - share of AUM in shares of companies with $20\% < x < 50\%$ green activities;
 - share of AUM invested in green bonds;
 - share of AUM going (indirectly) to green activities.
- Information on how the fund manager actively engages with companies on sustainability issues.
- Information about the type of exclusions considered. In the case of environmental exclusions, the applicant shall specify if they are total or partial exclusions, and report the percentage.
- Information the main principles for the selection of the companies.
- An electronic link to the full annual report described below.

2nd (revised) criteria proposal

5.1 Equity, bonds and mixed funds

Where the financial product is required to publish a prospectus, key investor information document (KIID) or key information document (KID) in accordance with European or national laws, only such information which is additional to that contained in the abovementioned documents needs to be disclosed separately or as additional information in the prospectus, KIID or KID.

As a minimum, the financial product manager shall issue a report annually to be uploaded on the financial product's manager website describing the environmental, social and engagement aspects as well as the activities and environmental performance of the financial product. The report shall be published on the fund manager's website. The report shall include at least the following:

2nd (revised) criteria proposal

5.1 Equity, bonds and mixed funds

- A description of the green economic activities in which the money held by the financial product was invested in during the reporting period, including the investment policy and how the companies are selected.
- A description of the main engagement activities (including voting and cooperating with other shareholders) and results within companies.
- A description of the methodology used for estimating the most relevant indicator (e.g. carbon footprint (GWP)) of the financial product and of the financial benchmark product. In the event that the GWP is the most relevant indicator, this description shall include the scope of the GHG emission covered. Additionally, the rationale for choosing the selected indicator and why it is relevant for the financial product shall also be included.
- The report shall include the engagement policy followed by the fund manager or an electronic link to it.
- Information on management and internal control procedures to identify and correct any non-compliance with EU Ecolabel criteria.

2nd (revised) criteria proposal

5.2 Sovereign bonds (where held)

As a minimum, the following information shall be made available annually to consumers by the fund or deposit manager:

- A climate or environmental risk rating for each sovereign issuer for which bonds are held.

2nd (revised) criteria proposal

5.3 Deposit accounts

As a minimum, the following information shall be made available annually to consumers by the deposit manager:

- An itemised list of projects and green economic activities for which loans have been approved, including their value. This may take the form of a selected list in a report together with a link to a website where a full list can be consulted.
- An annual report that as a minimum includes: details of the projects to which loans have been granted, their implementation status, the deposit account balance sheet showing the annual and historical deposit to loan ratio and the auditor's qualification of the ring fencing procedure for the deposited money.

In the event of any observed deviations from any of the following the fund or deposit manager shall without delay communicate and publish the updated information and/or the updated report:

:

- changes in the methodology of computing the portfolio or deposit ratio;
- changes in the objectives / investment policy of the fund;
- relevant changes in the investment portfolio.

2nd (revised) criteria proposal

5.4 Monitoring

The consumer information should be updated regularly and therefore be based on regular monitoring of the portfolio.

Assessment and verification

The applicant shall provide a sample of the information to be provided to the consumers that clearly complies with the requirements of the criterion. The information can be added on the prospectus, KID or KIID or be provided as a separate information brochure.

Outlook: external study commissioned by DG FISMA

- Climate and Company has been selected.
- The academics will test draft criterion 1 for financial products for a representative sample of 100 “green” UCITS equity investment funds
 - they will analyse UCITS equity investment funds portfolios and identify the level/portion of the activities of the issuers of the equities in which the funds invest that are compliant with the new EU taxonomy for green activities
- The study will provide an additional basis for the potential adjustment of the draft criterion.
- The results will be published in June 2020.

EU Ecolabel for retail financial products

Any questions?

EU Ecolabel for retail financial products

Criterion 6: Information appearing on the EU Ecolabel



Criterion 1: Investment in green economic activities

Criterion 2: Exclusions based on environmental aspects

Criterion 3: Social and governance aspects

Criterion 4: Engagement

Criterion 5: Retail investor information

Criterion 6: Information provided on the EU Ecolabel

Information appearing on the EU Ecolabel

- Aims at reinforcing messages promoting an EU Ecolabel product over non-labelled alternatives
- EU Ecolabel Regulation → 3 key environmental characteristics can be displayed in the optional label text box
- In this case:
 - One on environmental aspects
 - One on social aspects
 - One on transparency

1st criterion proposal

If the optional label with text box is used, it shall contain one of the following statements:

- The chosen environmental objective for the greenness of the product selected from the following:
 - Reduced impact on climate change
 - Enhanced climate change adaptation
 - Enhanced sustainable use and protection of water and marine resources
 - Enhanced transition to circular economy, waste prevention and recycling
 - Enhanced pollution prevention and control
 - Enhanced protection of healthy ecosystems
- Social and ethical principles respected
- Transparent reporting of environmental performance

Stakeholder feedback after the 1st AHWG meeting

- The proposed statements were perceived as very general and could be misleading (only climate change adaptation and mitigation will be covered by the Delegated Act adopted under the Taxonomy Regulation, at least for 2021)
- Stakeholders favoured statements which can highlight the specific contribution of the EU Ecolabeled product to the environment or to climate change
- Stakeholders would welcome **flexibility** in adapting the statements to the characteristics of the product, resulting in a more accurate communication of the *environmental areas of investments*

Findings from further research

- More accurate communication does not necessarily mean better understanding by stakeholders
- Moreover, such flexibility would not provide harmonisation among EU Ecolabelled financial products
- → it is proposed that communication focuses not on reduction of negative impacts but on expected improvements on environmental aspects

Summary rationale for the major changes

- The 1st proposal has been amended to touch upon environmental information only, avoiding reference to social aspects or to disclosure requirements

2nd (revised) criteria proposal

If the optional label with text box is used, it shall contain one of the following statements:

- Invests in activities contributing to environmental objectives
- Does not invest in environmentally harmful activities
- Encourages companies to become greener

1st and 2nd criterion proposal

Assessment and verification

Assessment and verification

The applicant shall provide a signed declaration of compliance along with a sample of the product label or product documentation where the EU Ecolabel is placed that clearly shows the label, the registration/licence number and, where relevant, the statements that can be displayed together with the label.

Thank you

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