EU Ecolabel Criteria for Retail Financial Products

Criterion 1 Stakeholder Sub-group Meeting

Tuesday 28th July 10:00 – 12:30 CEST

Webex meeting platform

Final Agenda

	Tuesday 28th July	Schedule
	Connection of participants	**09:45 – 10:00**
1.	**Introduction and structure of the meeting** (JRC)	**10:00 – 10:10**
2.	**Ambition level of the greenness criterion** • Presentation of findings to date and proposal of options (JRC) • Discussion of proposed options (all)	**10:10 – 11:15**
3.	**New sub-criterion for companies in transition** • Presentation of follow-up research and proposal of options (JRC) • Discussion of proposed options (all)	**11:15 – 12:20**
4.	**Conclusions and next steps**	**12:20 – 12:30**
5.	**Close of meeting**	**12:30**

List of participant organizations

1	FIDEAS	Asset manager
2	Triodos	Asset manager
3	Amundi	Asset manager
4	BlackRock	Asset manager
5	FNG label	Environmental label
6	ADEME (French Environment Agency)	Environmental label
7	VKI	Environmental label
8	Nordic Swan	Environmental label
9	FairFin	NGO
10	French Ministry of Ecological and Inclusive Transition	LIFE project
11	Transport & Environment	NGO
12	Better Finance	NGO
13	European Environmental Bureau	NGO
14	BEUC (The European Consumer Organisation)	NGO
15	VKI	Environmental label
16	Nordic Swan	Environmental label
17	Climate and Company	Data analysts
18	Frankfurt School of Finance	Data analysts
19	MSCI	Data analysts
20	Sustainalytics	Data analysts

Apologies

21	BNP Paribas	Asset manager

How the meeting was run

The working group meeting was run as a web meeting using the WEBEX platform. JRC introduced the rules of the meeting and gave a short presentation on the research conducted on the ambition level of the greenness criterion, the possibility to set up a sub-criterion on companies in transition, and the summary findings of the research on these tasks. Three new alternative options for criterion 1 (equities) were proposed to the subgroup for along with relevant questions, which aimed at facilitating discussion.

Both oral and written comments (via the chat box) were allowed and encouraged. The discussion started by going through the chat comments and later on it continued with comments invited orally on the three options for criterion 1 in order to find a consensus view on a hybrid option A this stage cross-reference was also made to emergent views in the chat room as the discussion intensified.

The minutes of the oral and written comments are reported in the sections below, clustered by main topic.

Background analyses of the possible take-up and investible universe

JRC had considered the outcomes of four analyses, which differed in terms of scope, methodology, data, and organisation conducting the study. However, all four analyses investigated the size of the investment universe eligible for the EU Ecolabel under the current version of criterion 1. The four analyses are detailed in the discussion paper circulated to sub-group members prior to the meeting.

Comments made orally

Transport & Environment did not agree with the conclusion on the ambition level drawn by JRC out of the four studies conducted. In their view, the only conclusion is that there is a lack of data and this gap will continue to exist until 2024. All four existing studies are based on estimates and include strong limitations, which can affect the outcomes considerably. Moreover all the simulations were based only on climate change mitigation and the energy sector, yet the EU Taxonomy is much wider than that, and they considered that other economic activities are less challenging than energy utilities in achieving green thresholds.

JRC asked whether the estimates are on the conservative side. **Climate & Company** replied that there are two ambition levels considered. The first one refers to the EU Taxonomy compliance and reflects its (current) ambition. Considering this ambition level, the report takes a conservative approach in evaluating the EU Taxonomy's screening criteria and also applies a sensitivity analysis to examine the robustness of the results. **JRC**, based on this, stated that the outcomes of these existing four analyses provide some of the best available information at the moment.

FairFin considered that the adoption of other objectives of the EU Taxonomy would enhance the eligible universe. On the other hand they highlighted the low ambition level of the EU Taxonomy and stated that they want the EU Ecolabel to be a pure green label since there are already a lot of transition labels in the market. They would support a sixteen-months delay in publishing the criteria in order to wait for adopting the second delegated act of the EU Taxonomy Regulation and have in place better reporting. If the label does not refer to pure green, that could be very misleading to the consumers. Additionally, it was added that financial bubbles are already being created in the market due to the EU Taxonomy. The EU Taxonomy distinguishes between green and the rest. Therefore, bubbles should not be a big concern of the EU Ecolabel.

Transport & Environment supported the comment on the EU Taxonomy criteria not being very exclusive at all, and made examples of some large capitalisation companies that would be EU Taxonomy compliant. The analysis for compliance shall go beyond utilities companies.

Sustainalytics stated that there is very little data disclosed at the moment, however, trends derived from available data show that very few companies would be able to comply with the currently proposed thresholds. If there are other views on that, they should be examined and substantiated with more data.

Comments made in the chatroom

Triodos

Q on the studies. The scope of companies included in the studies are these only companies that fall under the taxonomy? It is a pity that the studies do not look at ambitions of companies/funds.

BlackRock

What does the tail of the analyses looks like? E.g. the funds that fall just out of the scope of the Ecolabel?

Fideas

It is key to be able to include large caps as small cap is in asset management a specialized universe or an additional risk. A reduced universe (ESG - ecology bias - funds) could be the one into which have a 10/20% target for the Ecolabel

BlackRock

We do need to have a diversified portfolio including large caps otherwise there will not be a lot of demand for funds with the Ecolabel

FNG-Siegel

Isn't a "normal" SRI label good for "mainstream" UCITS? As the ECO-Label is a kind of special green label

Fideas

"normal" SRI sufficient yes - AMF has defined the criteria to meet to be able to "make ESG a defining sales argument for a fund" could define the universe

FNG-Siegel

Green is a particular part of ESG, and while not having a common, general EU-SRI-Label, yet, the ECO-Label should focus on "E" (and thus perhaps should wait for the remaining 4 elements)

FairFin

It's a pity that the Climate&Company/Frankfurt study sensitivity analysis doesn't include funds that are just below compliance level, and could qualify with minor changes, as Ewa mentioned. Perhaps the representative of C&C can reflect on this?

Climate & Company

@Fairfin: Regarding your question on sensitivity analysis & funds just below compliance level. We have not looked at this issue specifically. But two calculations in our study should give you some indication: 1) sensitivity on firm/activity level: we have assumed that 11% of "non-verifiable" revenue share per firm was green (-> no outcome on awarded funds, see Figure 11 of our study); 2) fund level: as a sensitivity we have assumed slightly lower thresholds (-> 2 more funds are awarded given our sample, see Figure 17 of our study)

Sustainalytics

The argument that the further development of the taxonomy will lead to many more eligible companies is in our view highly speculative

Consideration of the options presented by the JRC

Three options for a revised version of criterion 1 were formulated by JRC, considering the outcomes of the analyses and the stakeholders' views on the subject matter. These options were provided in the discussion paper circulated to sub-group members prior to the meeting.

Comments made orally

FIDEAS commented that the ambition level of the EU Ecolabel should try to reach the 10-20% investable universe of the ESG funds, and not considering the whole market. If this is taken into account, it is possible to achieve a reasonable level of uptake. Furthermore, it was commented that setting a high ambition level has consequences on the risk rating of the fund and financial risk is of huge importance in finance In regard to this and to the proposal of focusing on small-cap companies it is important to take into account that the more specialised you go, the riskier product you get.

Transport & Environment commented that the pocket approach for criterion 1 as proposed in TR2.0 is not ideal for two main reasons: it punishes large cap companies, since most of them will end in the less green pocket. Therefore, investment in large-caps will be limited. The pocket approach also defines 'transition' in such a way that it does not match to the definition used in the EU Taxonomy Regulation, and that could create confusion. Out of the alternative options proposed by JRC, the first one (market capitalisation-geared thresholds) has the implication of lowering the ambition level for large cap companies, while perpetuating the confusion on transition revenues. Transition revenues shall relate to economic activities that accelerate transition on not to companies in transition. In their opinion, the best option is the second one (revenue/capex metrics). This option is easy to understand and communicate, and it allows for flexibility and diversification (asset classes deriving less than 20% revenues from green activities, as large-cap companies usually do, would still make the thresholds). Option 2 allows companies to achieve the 50% threshold (as defined in the option 2) even if they currently have low level of green revenues. Moreover, it suggests the use of capital expenditure (Capex), and Capex is the best indicator to show the direction of corporate investments.

The French Ministry of Ecological and Inclusive Transition affirmed that the target of the EU Ecolabel should be green companies, Therefore, green companies and transitioning criteria should not be mixed up. Moreover, a clear distinction should be made between a green and transition label. For this reason they are establishing a complementary label referring to transition and set on completely different set of criteria.

JRC clarified the difference between the concept of "transitional activities" as defined under the EU Taxonomy and the concept of "companies in transition" as defined under the proposed approach for criterion 1 in the EU Ecolabel.

VKI stated that option 2 is the best option, and shared the view of dropping the pocket approach as it is proposed in the TR2. Indeed, the pocket approach is very complex also in terms of assessment and verification. Option 2 should require that companies with less than 5% green revenues are excluded. They suggested defining an entry level of strictness for Capex. Moreover, as stated by Nordic Swan in the chatbox, the option 2 should make use of a Capex indicator averaged over three years. One issue in this respect is that capex is not well defined in the current data nor in the EU Taxonomy. They also highlighted that option 1&3 will be difficult to realise due to the challenging verification requirements they impose. Finally, they asked how the proposal would deal with EU Taxonomy activities that are neither green nor brown.

EEB/BEUC commented that the ambition level of criterion 1 is a big concern for them, because the current (TR2) ambition is not aligned with the EU Green Deal, the Paris agreement targets, and would not meet consumer expectations. EEB/BEUC mentioned that the target of the EU Ecolabel for Retail Financial Products should not be to identify the best 10-20% already green players in the market, but to support sustainable finance and drive change. The EU Ecolabel shall not be based on current market availability or green funds, but rather the opposite; it shall drive the market to more sustainable investment attitudes. EEB/BEUC suggested at least 50% green revenues according to a principles based approach. In their opinion, even if weaker thresholds were set for criterion 1, the uptake of the label would not increase. . They might also welcome a dynamic approach that would allow for progressive market adaptation.

The **JRC** stressed the fact that from the analyses it seemed that retail AIF products provide much more flexibility to include pure players in the portfolio and thus to achieve a higher greenness threshold. On the contrary, for UCITS the problem seems to be the large cap companies (likely to have a low % of green revenues but a greater potential scale of change), and it should be decided whether to consider that it will take longer for them to transition towards having higher share of green revenues.

BlackRock commented that the ambition of the EU Ecolabel is very important and that lowering the threshold would not necessarily increase the uptake of the label. Moreover, it is necessary to make a clear distinction between a green label and a transition label. They agreed that large capitalisation companies are more difficult to capture but it is important to include them.

FIDEAS reiterated that it is very risky to create highly specialised funds, and by narrowing the investment universe one could create a bubble in the market. It should also be borne in mind that the users of the EU Ecolabel would not be the consumers but rather the asset managers. The criterion needs to be simple, it has to be high level (higher than the Paris Agreement benchmark), but it has not to exclude companies in transition. Indeed, companies in transition should not be penalised because they have a leftover from the past, as long as they are transitioning in a fast pace. The NGOs have to be convinced that the aim of the EU Ecolabel is to move as much money as possible towards the green economy objective, rather than creating a label that nobody choses. FIDEAS considered valid all three alternative options proposed by JRC, and said that the simpler one should be chosen.

Climate & Company stated that there is a difficulty at the moment to derive green share from the available data that are fundamental for a solid analysis. The also highlighted the necessity for mandatory reporting and made two further observations. Firstly,- not all of the EU Taxonomy's screening criteria are very ambitious and aligned with the target of climate neutrality by 2050. They are rather reality oriented, e.g. the thresholds proposed for the manufacturing sector. This makes it easier for companies to comply with the EU Ecolabel. Secondly, - an initial low uptake is the norm in any new label. Later on, when the other EU Taxonomy objectives will be implemented, the label uptake will be increased as more funds will be eligible.

Amundi suggested not to split into categories according to capitalisation, but to keep things simple. They were not in favour of the first alternative option because of its complexity (it would be difficult to communicate and verify market capitalisation-geared criteria), and suggested to tailor the criterion thresholds to match the different sectors and their requirements. This proposal would be based on a best-in-class inclusive approach, building KPIs on a sector-by-sector basis and considering exclusions. . If the criterion aims at measuring the greenness of companies, it should not only look at what companies do but also how they do it.

EEB/BEUC stated that they would prefer option 2, as for option 1 to be ambitious enough it has to be complemented by a list of very strict exclusions. They also mentioned that the criterion 1 should not distinguish between green and companies in transition as the taxonomy is doing so. Otherwise, the EU Ecolabel will not be aligned with the EU Taxonomy on what transition is. Capex is a good indicator for measuring transition. Nevertheless, corporate policies, which are aligned with the Paris agreement or mitigating impacts, could be an alternative for indicating transition.

Moreover, **JRC** summarised that according to the views received so far, there is no need to create capitalisation-based pockets, whereas it seems to be important to set different criteria for UCITS and AIFs. The subgroup panel was asked to provide their views on how to set a specific criterion for companies in transition by taking into account a timescale for transition and the rate of change of green revenues, and if they consider such a specific criterion and the flexibility it could provide to be necessary. Finally, JRC asked the opinion of the subgroup panel on the proposed option 2, and especially on a possible weighting between green revenues and Capex.

Triodos stated that all companies that they invest in need to derive a majority of turnover from sustainable activities. Occasionally, they allow for investing in a company with <50% in sustainable activities if it is demonstrable that this company is on its way to reach min. 50% green revenues in less than three years. Triodos does not define transition criteria, instead their requirements need to be achieved by all companies. The inclusion of the Capex as indicator in the EU Ecolabel would bring more companies into the scope. Nevertheless, Triodos would not emphasise on Capex as much as on green revenues.

JRC explained a hybrid option 4, which was also presented and was based on recommendation of PNB Paribas and asked the opinions and comments of the sub-group.

Sustainalytics commented that of the three options proposed by JRC, options 1 and 3 have a high level of complexity, therefore, the second option should be further investigated, although its simplicity may also be a drawback, and some kind of grading system might additionally be needed. They pinpointed that an ecolabel for financial products is quite different from other EU Ecolabel products. Therefore, a direct comparison of methodological aspects, such as the degree of greenness, cannot be applied. They suggested that the threshold should not ignore the availability of eligible companies in the market and should allow for diversification.

Climate & Company supported the idea to adopt a forward-looking approach when evaluating Capex. In doing so, one will be able to distinguish companies that are green from companies in transition using a straightforward approach and a measurable path, and also enhance the eligible universe by including companies that are either green or are moving towards that direction (transitioning). He mentioned that there is a lack of activity based reporting relating to Capex and that needs to be considered if Capex will be used as an indicator to measure transition.

FNG commented that a definition for Capex is far from being harmonised, and it will probably not be so until 2023-2024. They pointed out that the availability of disclosed data will remain an obstacle, and that the adoption of the 2nd Delegated Act of the EU Taxonomy will change the eligible universe, yet it might bring additional challenges in terms of data availability.

JRC mentioned that currently there might limitation on available data, but that is may improve over time as disclosure becomes mandatory. Therefore, adequate indicators shall not necessarily be excluded due to the existing situation.

JRC summarised that the opinion of the subgroup panel seemed to be aligned on the fact that options 1 and 3 are very complex. Moreover, JRC commented that for Capex to be a meaningful indicator, it should be linked to green revenues in a way that shows that the investment leads to an increase in green revenues. Capex could act as a supporting factor to increase green revenues, and any change in green revenues should be monitored. It was asked whether under option 2 an entry level % of Capex should be considered as the proposal does with the green revenues threshold. A reasonable timeframe shall also be taken into account, for example a 3-5 years' time after the investment.

Transport & Environment said the exclusions along with the 5% cut-off establish the credibility of the label. They also stated that there is a possibility of merging the proposals. Regarding the option 3, they very much liked the dynamic threshold of the proposal, but the the rate of change and the timeframe need to be further explored. They also stated that there is no need to split into large and small-cap companies in option 1, and to skip the pocket approach. Option 2 stands for a forward-looking approach by including Capex and for ambition by setting a threshold by 50%. However, they highlighted a potential lack of reporting on Capex in a global scale, and that Capex is a static indicator. All the options can be combined as they focus on different methodological aspects, which are useful for defining the criterion.

JRC asked the sub-group members for their views on the 5% entry level of green revenues and what that could mean for the eligible universe. JRC also asked if possible to consider future corporate targets to form the current greenness of a portfolio or one should only tae into account the actual greenness of a company. They pointed out a fundamental aspect of the proposals on which agreement is needed, which is the total ambition level for the portfolio. Therefore, JRC asked the sub-group members about the timeframe to achieve an envisaged ambition level and the ideal frequency of monitoring and reporting.

FIDEAS agreed that option 2 is worth to being explored more, but suggested to set exemptions for excluded companies based on their efforts for transition. They also stated that companies need investments to transition. Considering Capex is a key point for measuring transition.

EEB/BEUC stated that option 3 as proposed by JRC is interesting because it introduces a dynamic approach, but it cannot be supported because the total amount of green revenues required by the proposal is far from being close to the systemic change that is needed to reach the 2030 targets and a net-zero carbon economy by 2050.

The **JRC** responded that option 3 includes indicative numbers that were for discussion by the sub group, although the yearly rate of change should be realistic. JRC asked the subgroup members if they all agreed with removing the pocket approach that was suggested in TR2, and if a threshold should be set to limit the percentage of companies investing in transition the portfolio.

Transport & Environment supported JRC's proposal to link Capex with a demonstrable increase in green revenues, but stated that the minimum green revenues threshold should be 51%. Additionally, the criterion could adopt a dynamic threshold, which could increase by e.g. 2% per year, yet that could open a discussion on what is an adequate and realistic increase of the threshold over time. Considering, this the EU Ecolabel should strive towards an increase of the greenness threshold without indicating the level of increase. They re-iterated again that Capex shall be linked to the increase of green revenues and that should be monitored.

JRC mentioned that there are different ways to define Capex and that could have very variable effects on the greenness of the company. This effect is analysed and presented in the briefing note. Many sub-group members suggested not adding complexity by introducing a rate of change on green revenues. JRC replied that the intention was for companies somehow demonstrate and measure transition.

Triodos apply a three years' timeframe when a company commits to achieve/increase a certain level of greenness and publicly make a relevant statement. Something that BNP Paribas refers to as a declared pathway. JRC suggested adding a look-back approach in addition to the forward-looking one for Capex, in order to reassure investors on the reliability of the company.

FIDEAS supported this suggestion on measuring Capex.

JRC suggested the possibility to incorporate a definition of Capex in the EU Ecolabel criterion text, aligning as much as possible with the EU Taxonomy. They highlighted a suggestion made by Triodos to disclose data on companies transition path to the Competent Bodies including past records and future commitments, using Capex as one piece of evidence rather than the main evidence.

FNG reiterated that there is no harmonised data on Capex, and that can rise verification issues, but they could support an approach in which Capex was only part of the evidence of transition.

JRC asked again if the ambition level of option 2 could allocate future targeted increases in the green activity % of a company at day 1.

Transport & Environment mentioned that the 51% threshold should be met by the existing green revenues in the time of application. The dynamic approach needs to relate to further improvements of the threshold beyond 51% but that this had to be evidenced from day 1. This position was supported by representatives of other national labels in the meeting.

The **JRC** mentioned that in that way companies in transition would not be rewarded. This would remove the potential for flexibility that was already discussed.

Transport & Environment said that Capex is the only way to incentivise transition.

Triodos made a proposal to start with an ambition level of 40% and increase it over a three year period to 50%. That could allow more companies to be included in the scope in day one.

JRC asked for opinions on using the weighting factor between capex and green revenues under option 2.

Many stakeholder indicated in the chat to keep the criterion simple and do not apply weighting. Some stakeholders stated their suggestion on the chat regarding the way Capex shall be considered and the way a transition path for the ambition threshold could work.

National label representatives stated again that simplicity should be targeted and criteria can be reviewed later on. They also mentioned that it will be difficult to consider any future commitment on day one. More detailed comments and suggestion were made in the chat room and they will be considered for further investigation and in order to formulate the criterion.

<u>Comments made in the chatroom</u>

MSCI

Do the mid capitalisation size correspond to companies or funds? on proposal 1 : should this be relevant to large cap companies or funds. what if the fund has mixed capitalisation companies?

Fideas

It is difficult in our view to be indifferent to the policies of [risk] "diversification"

Triodos

Diversification is not an issue/concern.

Transport & Environment

Taxonomy does not penalises Large Caps. Current Ecolabel design does

Triodos

I agree. Don't make a distinction for large vs mid/small caps. This will lead to a focus on the later and that is fine. What is more important is that we bring more AIF funds in scope of the label. And these are not necessarily more risky. These too can be well diversified.

French Ministry

We should definitely elude the legal issue for including professional funds (PE, infrastructure, real estate) and set separate criteria (more ambitious) for these AIFs.

Triodos

All three proposals make the application very complex. Is this approach applied for other EU ecolabels? Please keep it simple otherwise the investors don't understand.

Blackrock

I believe the Belgium label has a phased implementation of the exclusion criteria. Could a phased approach be considered in order to not dilute the label albeit allowing more funds to be included.

FNG-Siegel

One of the studies found out, when going from relative to absolute numbers concerning LARGE caps the inclusion factor mounts to 9. Is this also due when considering DNSH?

Nordic Swan

Regarding ambitions

- Aim for about 3-5 % in number of funds (that can apply)
- And with more data in the coming years there will be greater possibilities for more "mainstream" funds.

--> so we might end up with 10% (that can apply)

This in combination with a short validity time, maximum three years, threshold could be adjusted.

French Ministry

Are the numbers in proposal 2 based on actual companies? It looks very theoretical.

Transport & Environment

numbers are rounded but derives from real examples. purpose of tale is to show impact of Capex (essentially allows lower green revenes company to be included since they're making an effort)

One real example would be VolksWagen, which currently has probably 6% of green revenues but 80% green capex

Black Rock

With regard to engagement, index funds may be limited in their ability to react to any breaches to commitments

Sustainalytics

We also support the idea of dropping the pocket approach

Triodos

Agree with EEB/BEUC. The ambition should be higher.

French Ministry

I'm afraid consumers don't have the technical competencies to assess the quality of a label (financial or not): it's our job to ensure strong criteria, but we must not be guided by anticipated consumers' expectations.

Transport & Environment

the principle of "the majority of revenues of a green fund must be green" should not be negotiable.

Triodos

If we change transition into ambition we can bring in CAPEX and stay aligned with the taxonomy.

from kumar neeraj to everyone:

I think the benefit of proposal 2 is that it combines revenue and operation excellence together and provides a way for companies which are transitioning their activities to be considered. I think, with capex, should we also combine the growth in green revenue as a consideration for companies with low level of revenue. Capex tends to by cyclical so we need to take a much longer view of capex. Operationally however building green capex data could be an onerous task and there are some methodological challenges in classifying wat is green capex.

ADEME

Agree, Capex ratio are very volatile and should be evaluate on a 2-3 year average to try to encompass the climate strategy plan of companies.

Nordic Swan

When will there be Capex data available for most companies?

Transport & Environment

2022 for Climate and 2023 for the rest of the criteria. I think there's a possibility to integrate the proposals. They're not mutually exclusive. I'd like to explore that.

Triodos

Would it be sufficient for a company to publish/specify its ambition for taxonomy compliant activities and CAPEX/OPEX may be used to support their statement?

French Ministry

What if the rate of change is not achieved? Maybe it should consider past years rather than following years (or both).

Sustainalytics

The 5% threshold is likely to reduce significantly the possibilities for diversification

French Ministry

There is still a 30% pocket for diversification.

Transport & Environment

@Sustainalytics: a company with 96% of non-green revenues should not be in a green fund

Climate & Company

@ Sustainalytics: Any sensitivity analysis you guys have done on this, to illustrate your point?

Sustainalytics

Yes but with existing data

ADEME

In proposal 3 : How is it possible for an Asset manager to ensure this rate of change?

EEB/BEUC

We agree with a dynamic approach but need to start on the first year from 51%

Sustainalytics

is the 5% threshold meant to be applied to ALL portfolio holdings or to the 60% bucket?

EEB/BEUC

5% is meant to apply to all portfolio holdings

Transport & Environment

it's an eligibility criterion

Sustainalytics

I understand. As noted earlier, this criterion will greatly reduce the possibilities for diversification

CB Austria

agree with Blanca - dynamic approach ok, starting point should be ambitious, no pockets

FairFin

Irrespective of the calculation, the target figure after 5 years needs to be far more ambitious. Remember we are talking about 2027 here. That's a few years before key target dates of implementing Paris and SDGs. And products with only 23% green revenues would be sold as "green" to consumers? As Blanca says, perhaps it should be a linear annual increase starting at 50+%.

MSCI

If the company promises an increase in revenue of over 5 years then there can still be variation, how will those be dealt with. Will variability in YoY change increase turnover

Fideas

incidentally it seems that the growth of green revenues in proposition 3 does not achieve 7% annual decline of CO2 emissions

FNG-Siegel

@BlackRock: Green Bonds of a "non-compliant" company should be investable as far as a SPO exists for "proof" of green use of proceeds

Triodos

@Sustainalytics. Diversification will increase if more companies move in a green direction. And even today, diversification is not an issue.

French Ministry

The question is how to enforce the rate of change. A transition funds will foster this change, whereas a green funds will find companies that respect these numbers (then the label will become much like an indice, as a list of eligible companies will quickly circulate).

Transport & Environment

not an issue. you lose the label. it's a problem for the auditors

French Ministry

It's not the fault of the investor if the company doesn't succeed. What about engagement, voting, resoltuion and divestment first?

FNG-Siegel

a lot of Asset Managers also publicly signed PRI...

Fideas

the label can look at actual recent CAPEX and its the role of the asset manager to check future CAPEX to make sure he remains complient while keeping its investments

Transport & Environment

@Yann: you can mitigate that. Have a 'grace/tolerance' period etc. the way we look at this is: we start at 51% and we increase 2% every 3 years. Up to 71% in 15 years from now...

French Ministry

OK that's an option

Triodos

We would welcome a min 40% with an ambition to be above 50% in three years?

EEB/BEUC

When we made this proposal we had called for 70% from day 1, but we are open to compromise to lower figures provided that a majority of the weighted revenues/capex is achieved from Day 1

FairFin

I would not support a starting percentage under 50%. We seem to accept that 10-20% eligibility is not feasible on Day 1 anyway.

Nordic Swan

Lets´s keep it simple. No weighting.

VKI

i agree with Per, no weighting

BlackRock

What is the alternative to weighting?

Sustainalytics

Rather than weighting one should look at some way of adding these two dimensions

Climate & Company

I think this would remove the incentive to improve performance!

FNG-Siegel

In general a good approach, but who is the organisation who decides on what is in the green sense for fulfilling EU's objective

Transport & Environment

@Sustainalytics: Capex could be used only at corporate level and not portfolio level. So used to assess the level of 'transitioning'

BlackRock

If we do not have a weighting we will need a clear guidance on how capex will be used as an additional indicator. Capex is a good incentive for performance albeit acknowledge current challenging disclosure

Sustainalytics

In our view the dynamic threshold adds unnecessary complexity. Is the overall % of aligned revenue/activity not the key metric to focus on?

MSCI

A forward looking growth rate can add a lot of complexity

EEB/BEUC

I also think the proposal from Triodos and BNP is valuable to link CAPEX to green revenues

Sustainalytics

We would prefer clear criteria when and how capex can be considered/added to revenue rather than creating a new bucket

French Ministry

The criteria we discuss focus on companies (revenues, capex, exclusions). That's OK, but we urgently need a true financial label, with criteria applicable to the funds manager and that implies... impact. Rather than setting random threshold as we don't have the taxonomy data: the dynamic approach could compare the green part to the one of the index used by the AM.

FNG-Siegel

On a lookback approach, a label CANNOT look on recent Capex, as no comparable data! Every company is not publishing same capex numbers, some do it on regions, some on business fields, some on different scopes, etc. A label organisation has to treat any applicant in the SAME way based on ONE dataset. In an ideal way this DATASET is traceable and publicy available

French Ministry

Agreed with a lookback approach, as prospective trajectories don't bring extra confidence

Transport & Environment

@FNG: you're right. This is challenging. But in practice you know that auditors/verifiers do make assumptions

FNG-Siegel

We do not! Making assumptions is not serious in a label system (at least for exclusions) as it opens door for mis-treatment

Transport & Environment

@FNG: sorry not assumptions but adaptation. Accounting standards vary across the world.

Climate & Compamy

But financial reporting has always been driven and changed trough regulation!

Transport & Environment

In the EU. Challenge is for non EU companies

FNG-Siegel

@Transport & Environment: But accounting bodies will of course be consulted as it is the case for the MiFID-II target market definition at the moment, where the industry associations also of course are implied

VKI

In my opinion a certain portfolio threshold should be met from day 1

BlackRock

Difficult to take future contributions as a day 1 thresholds. Agree with Raphael

Transport & Environment

Capex doesn't need to be aggregated at portfolio level. But Capex is a great indicator of 'good will' for low green revenues companies

Nordic Swan

An application must be based on actual data and not plans that the company body shall consider be ok or not ok

VKI

I agree with Nordic Swan

Climate & Company

I agree with Nordic Swan and VKI

FNG-Siegel

good point from Nordic Swan

Consideration of the impact of the criterion

Comments made orally

Climate & Company asked to JRC what the impact logic behind the EU Ecolabel is, and how the impact it is expected to measure the impact. Indeed, lots of ESG indexes are quite easy to obtain, whereas the EU Ecolabel should be associated with real impact. The impact is not necessarily a consequence of a large uptake only.

The **JRC** responded that there is evidence that investor impact can be achieved by supporting access to capital for non-listed companies (impact in terms of access to capital), by fostering the transition of companies towards greener revenues or by investing in companies that have already a high share of green activities and which are growing the market share of green products or services. JRC mentioned that there are different perspectives on how to achieve impact.

Comments made in the chatroom

ADEME

Does transition revenues [correspond to] the revenues from transitional activities defined by the taxonomy in the first proposal?

Fideas

I believe that in our discussion transition relates less to transitional activities but to companies transitioning toward compliance to the threshold

FairFin

@Fideas: indeed. But as Luca just explained, the taxonomy defines transitional activities but not "companies in transition". It would mean the Ecolabel would have to come up with its own definition of what those companies are. There is a large greenwashing risk attached to this, we see this with labelling of food from producers "transitioning to organic"

French Ministry

The issue lies with the naming: the "transition pocket" permits investors to invest in large caps that find it difficult to achieve >50% green revenue. Which answers another question regarding large/small caps.

Very broadly, a transition funds :

- Identifies most GHG-emitting companies in its portfolio and sets targets for these issuers,
- Initiates a phased stewardship approach for these firms: dialogue, vote, resolution, and ultimately divestment if targets are missed.
- Requires green or carbon reduction trajectories from issuers,
- Requires transparency on brown activities / latent climate-harming capacities.

Climate & Company

@ Tranport & Environment’s points:There are ultra-low emission options for most manufacturing sectors, including for aluminium and for steel; the benchmarks included in the taxonomy however are not set to incentivise this level of ambition, but are only based on the ETS-benchmarks, i.e. something similar to current "top performers".

FNG-Siegel

Capex is really good and forward-looking (in the sense of the Taxonomy), BUT be aware of not at all having a reporting framework (far from this) for this,yet. This will lead to lots of discussions with the Asset Managers as not knowing on what CAPEX / OPEX should be really based on.

FairFin

@FNG: but any backward-looking indicator also implies a lot of discussions with portfolio companies, as it relies on information that is often not available (pending NFRD Review)

FNG-Siegel

@FairFin: yes, on principle, but not on operative level

Nordic Swan

How much can Capex vary from one year from to another year? Perhaps calculate Capex over 3 years?

Transport & Environment

We believe Capex is a good synthetic indicator of transition

French Ministry

It is

BlackRock

@Transport & Environment - agree

Fideas

reallocating cash flows is actually more powerful than raising new money

French Ministry

First results from the ISS study on the taxonomy market depth will be published on September 28th: perhaps it would be wiser to wait until then for the second WG.

Triodos

I suggest that capex/opex is included only when it leads to green revenue according to the taxonomy. This way capex/opex is related to transition.

ADEME

I agree, it's important that capex are evaluate over 3 years minimum.

Fideas

I agree with both previous comments - capex is complex at least as a criteria for all stocks - SBT should be considered

FNG-Siegel

when really including CAPEX: Make sure that these numbers can be verified if you do want to challenge Asset Managers coming up with their own numbers.

Nordic Swan

To what extent will forward-looking Capex be mandatory to disclose in the coming years?

Fideas

Beware of very long term engagements

FairFin

@BlackRock. The Belgium industry label (Febelfin Towards Sustainability) includes phase-outs that in our view are not compatible with consumer expections, eg investments in solid fossil fuels

Amundi

should organise the analysis by sector & operational excellence is also a consideration

Fideas

I add that no company in the portfolio even in non-sensitive (non taxonomy) sectors be exempt from being remarkable on its efforts

Environmental exclusions

Comments made orally

JRC asked about the way exclusions, or any exemptions from exclusions, should be reflected in the criterion.

FIDEAS mentioned Iberdrola and NG as examples of companies that are making considerable efforts to transition and thus should be rewarded by being exempted from the exclusions criteria.

JRC said that the EUEB recommended not to include nuclear in portfolios that are ecolabelled. However, fossil and gas could be considered for discussion as eligible if they demonstrate a phase out plan.

Comments made in the chatroom

BlackRock

Excluding all fossil fuels will mean we will not include companies that may be on the pathway to transition or those issuing green bonds.

Fideas

@BlackRock fully agree

FairFin

The only two EU companies mentioned in the graph are companies that actually should be excluded under Criterion 2. No exceptions from the exclusions.

French Ministry

Many high green capex companies are excluded. In the energy sector for ex: Iberdrola, Engie

Transport & Environment

They'll be included once their coal/oil revenues come below the thresholds

Close of the meeting

JRC closed the meeting acknowledging the valuable inputs of the subgroup. JRC stated that would conduct further research based on what emerged from the first subgroup meeting. A new hybrid alternative proposal for criterion 1 will be presented at the second subgroup meeting in September, and a doodle poll will be sent out to the participants this week in order to already set the date. An opportunity to provide further information and evidence following this meeting will also be provided until the end of the week.

List of actions

During the meeting, statements were made that need to be addressed and potentially taken into consideration when formulating an updated proposal for EU Ecolabel criterion 1 on equities. Subgroup members are asked to provide the JRC with supporting information on the topics below, if available.

- Contrasting opinions were given during the meeting on the risk diversification of the portfolio in case a minimum 5% green activities threshold was set as an eligibility requirement for companies ("not an issue" vs "significantly increasing the risk diversification"). Any supporting material and/or further testing/sensitivity analysis on the influence of such a requirement on the eligible universe would be highly appreciated
- Any benchmark analysis that could be done by asset managers on the performance of an EU Ecolabel-compliant portfolio (considering alternative option 2 for criterion 1) would be very helpful
- Any information, ***substantiated by data***, on the potentially eligible universe for the EU Ecolabel under alternative option 2 would be fundamental for JRC's further analysis.