

EU Ecolabel Criteria for Financial Products

Technical report and criteria proposal (1st Draft)

First Ad-hoc Working Group Meeting
Sevilla, 4th April 2019

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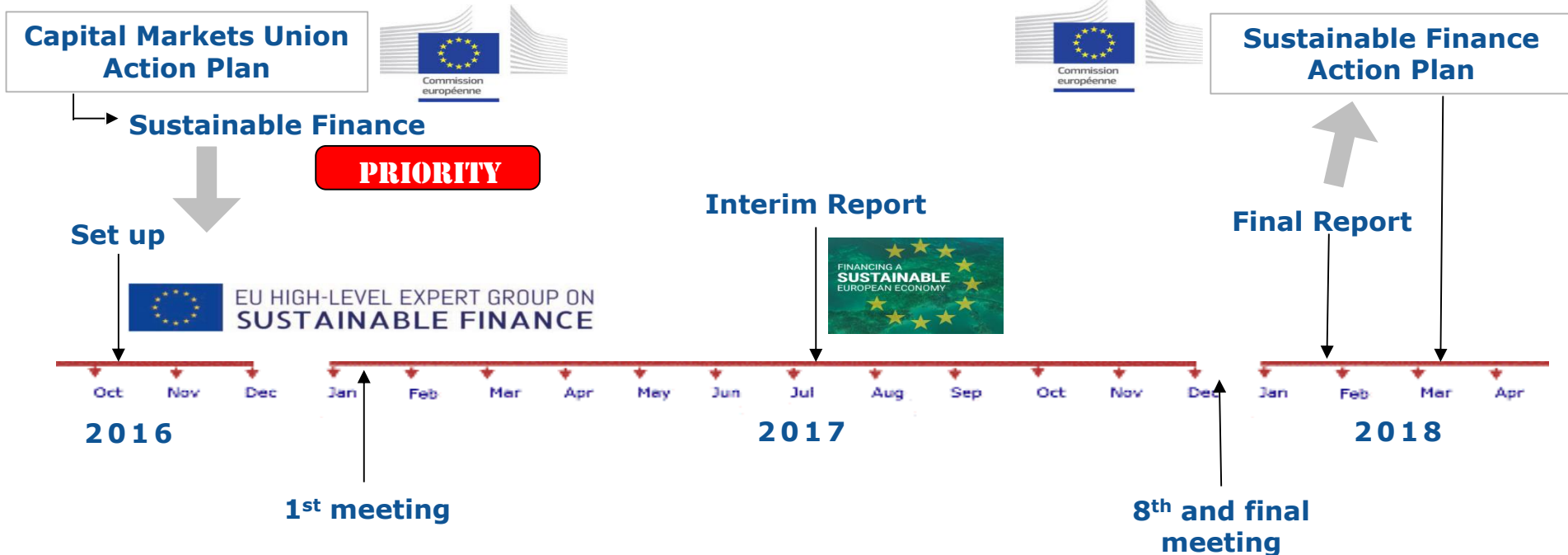
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Background and policy context

DG Environment and DG FISMA

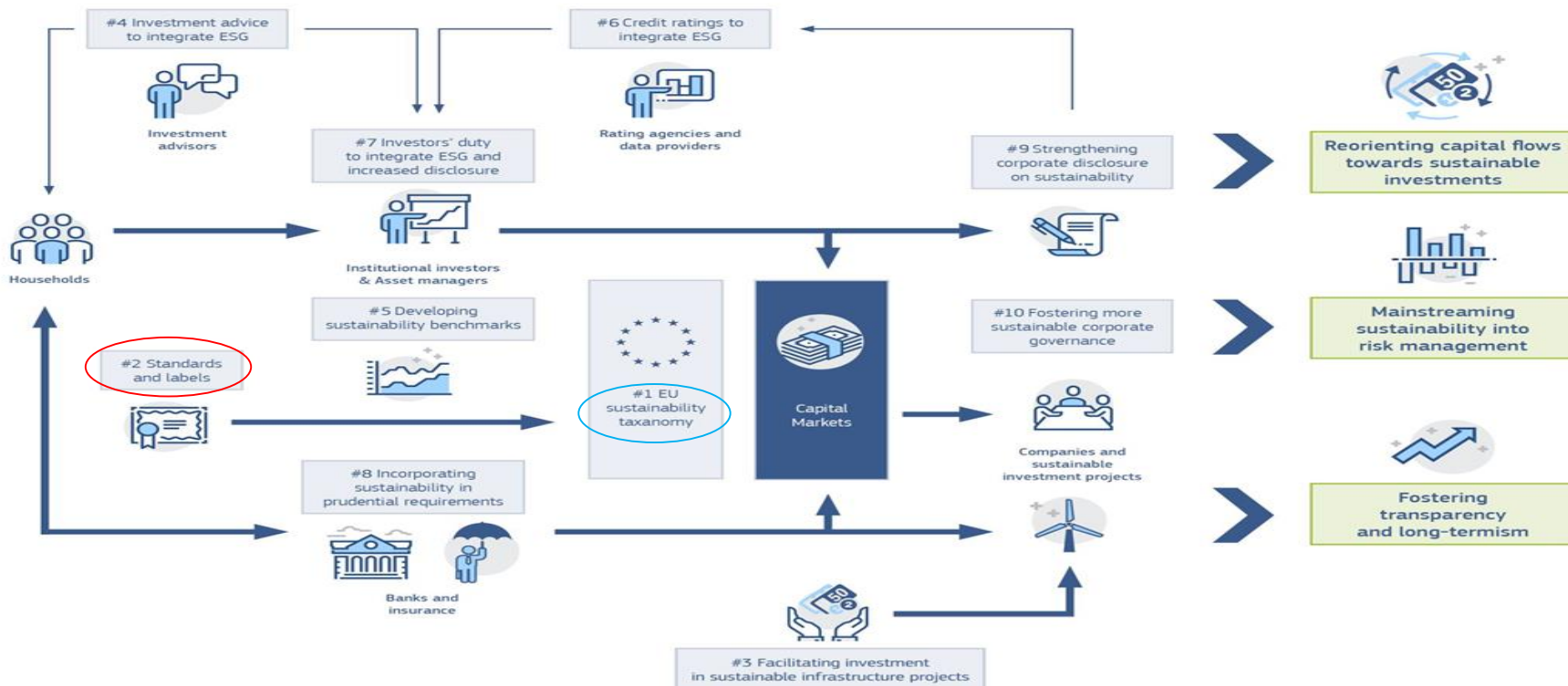


EU Ecolabel for Financial Products: Where does the idea come from?





Action Plan on Sustainable Finance





Action Plan on Sustainable Finance

"Financing Sustainable Growth" – March 2018

[...]the lack of labelled financial products may prevent investors from directly channelling their funds into sustainable investments.

*The Commission sees the potential merit in the **use of the EU Ecolabel Regulation to create a voluntary EU-wide labelling scheme**. Criteria would have to be identified for specific financial products offered to retail investors (such as **Packaged Retail Investment and Insurance Products**). [...]*





Action Plan on Sustainable Finance

There are links between the EU Ecolabel criteria development process and two actions of the Action Plan, relating to:

- An EU **Taxonomy**
- An EU **Green Bond Standard**

Taxonomy – what is it?

- Conditions for an economic activity to be considered environmentally sustainable:
 - Contribute substantially to one environmental objective
 - Not significantly harm any environmental objective
 - Respect minimum safeguards (social and governance aspects of sustainability)
- } Technical criteria
- **6 environmental objectives:**
 - 1) + 2) **Climate** change mitigation & adaptation
 - 3) **Water** resource management and conservation
 - 4) **Circular economy and waste** prevention
 - 5) **Pollution** prevention and control
 - 6) Healthy natural **habitats**

Taxonomy – process

Two steps:

1) 24 May 2018: **proposal for a Regulation**

- high-level principles and governance framework
- to ensure the progressive development of an EU taxonomy
- adoption of detailed taxonomy through Delegated Acts

2) **Delegated acts**

- will specify the technical criteria for determining under which conditions a specific economic activity
 - **substantially contributes** to one environmental objective and
 - causes **no significant harm** to any environmental objective
- Technical Expert Group subgroup will help to develop the criteria.

Substantial contribution to	Delegated Act to be adopted by
Climate change mitigation; climate change adaptation	Dec. 2019
Pollution prevention and control; circular economy	July 2021
Water resources, healthy ecosystems	July 2022

Link between EU Ecolabel and Taxonomy

EU Ecolabel criteria: focus on services provided in relation to *financial products* offered to retail investors. Criteria will determine which products are sufficiently “green” to be awarded with the EU Ecolabel.

Taxonomy: focuses on *economic activities*, with the technical screening criteria determining when such an economic activity is “environmentally sustainable”.

=> **Link:**

When assessing a financial product under the EU Ecolabel, the key elements are to assess **whether the underlying assets are linked to environmentally sustainable economic activities**, as established under the EU Taxonomy, as far as available and relevant, and whether financial products are sufficiently green to be awarded with the label.

Green Bond Standard and link between EU Ecolabel and this standard

- A European green bond standard will be developed by a dedicated subgroup of Technical Expert Group by June 2019. Their interim report has been published in March 2019.
- The scope of the EU Ecolabel criteria should include bonds (to ensure a level playing field)

⇒ **Link:**

EU Ecolabel criteria relating to bonds should take into account the work of the TEG subgroup working on a Green Bond Standard. It will have to be discussed and decided along the process how to integrate the standard, as these are being developed following an approach differing from EU Ecolabel Regulation.



Legal framework of the EU Ecolabel

Regulation (EC) No 66/2010 of the European Parliament and of the Council of 25 November 2009 on the EU Ecolabel



Regulation

requires the Member States to designate

Competent bodies

requires the Commission to set up

EU Ecolabeling Board (EUEB)



defines

- *General principles & rules*
- *Procedures for developing / revising criteria*
- *Label awarding mechanisms*
- *Promotional activities*



refers to

Commission Decisions

define

EU Ecolabel criteria per product groups



published in the EU Official Journal

based on



Financial products are in the scope of the Regulation

Article 2- Scope

This Regulation shall apply to any **goods** or **services** which are supplied for distribution, consumption or use on the Community market whether in return for payment or free of charge (hereinafter 'products').

Article 3- Definitions

- 'operator' means any producer, **manufacturer**, importer, **service provider**, wholesaler or retailer
- 'environmental impact' means any change to the environment resulting wholly or partially from a product during its life cycle

Operators apply to Competent Bodies

Any operator who wishes to use the EU Ecolabel shall apply to the Competent Body (CB) depending on where the products **originates**:

- in a single MS: to a CB of that MS
- in several MSs (in the same form): to a CB in one of those MSs
- outside the Community: to a CB in any of the MS in which the product is to be or has been placed on the market

Originates: where the management company has its head office and/or registered office or where the insurance company has its head office.



EU Ecolabel is awarded by Competent Bodies

- The Competent Bodies ensure that the verification process is carried out in a consistent, neutral and reliable manner by an independent third party
- The applicant has to present the documentation proving compliance with EU Ecolabel criteria
- Competent Bodies can charge a fee
- Competent Bodies are signing a contract with the successful applicant for the use of the EU Ecolabel



Development of EU Ecolabel criteria for financial products (Sep 2018 – 2020)

- DG ENV-DG FISMA led project with JRC developing criteria
- Open and transparent multi-stakeholder process according to the Appendix IA of the EU Ecolabel Regulation
- Criteria adopted through Commission Decision(s)
- Criteria shall be based on the best products available on the Community market in terms of environmental performance throughout the life cycle, and **they shall correspond indicatively to the best 10-20 % of the products available** on the Community market in terms of environmental performance at the moment of their adoption

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EU Ecolabel for Financial Products

**General introduction - project team
and product criteria development**

EU Ecolabel for Financial Products

- **March 2018** - European Commission **Sustainable Finance Action Plan** to achieve the EU climate and energy targets by 2030, **adopted**.
- The EU Ecolabel criteria to correspond approximatively to the top best (10 – 20 %) environmentally performing products according to the **EU Ecolabel Regulation 66/2010**
 - Unified labelling criteria at EU level
 - Encourage investments in the sustainable economic activities (**EU Taxonomy**)
 - Enhanced transparency and greater investors' confidence in the market
- Packaged Retail Investment and Insurance Products (PRIIPs) and possibly other retail financial products will be within the scope of the EU Ecolabel
- Exact scope and number of product groups to be defined after the first AHWG meeting

DG JRC Sites and Project Team

DG ENV & DG FISMA

- Project owners

JRC Sevilla – B5 Unit

- Overall coordination
- Day to day communication with DG ENV
- Management of the stakeholder engagement process.



JRC Ispra – B1 Unit

- Technical support on financial markets and asset classes
- Direct point of liaison and participation in the Sustainable Finance Technical Expert Groups

JRC Activities in Support of Product Policy

- The JRC supports the development and implementation of [Sustainable Product Policies](#), amongst them the [EU Ecolabel Regulation](#), the Green Public Procurement Communication, the Ecodesign for Energy Related Products Directive and the Energy Labelling Directive.
- The Product Bureau carries out the *analysis of a broad range of product groups and development of environmental criteria* with focus on techno-economic as well as environmental aspects.

Objectives and Products

- Support to the development and implementation of European environmental product policies for a broad range of products.



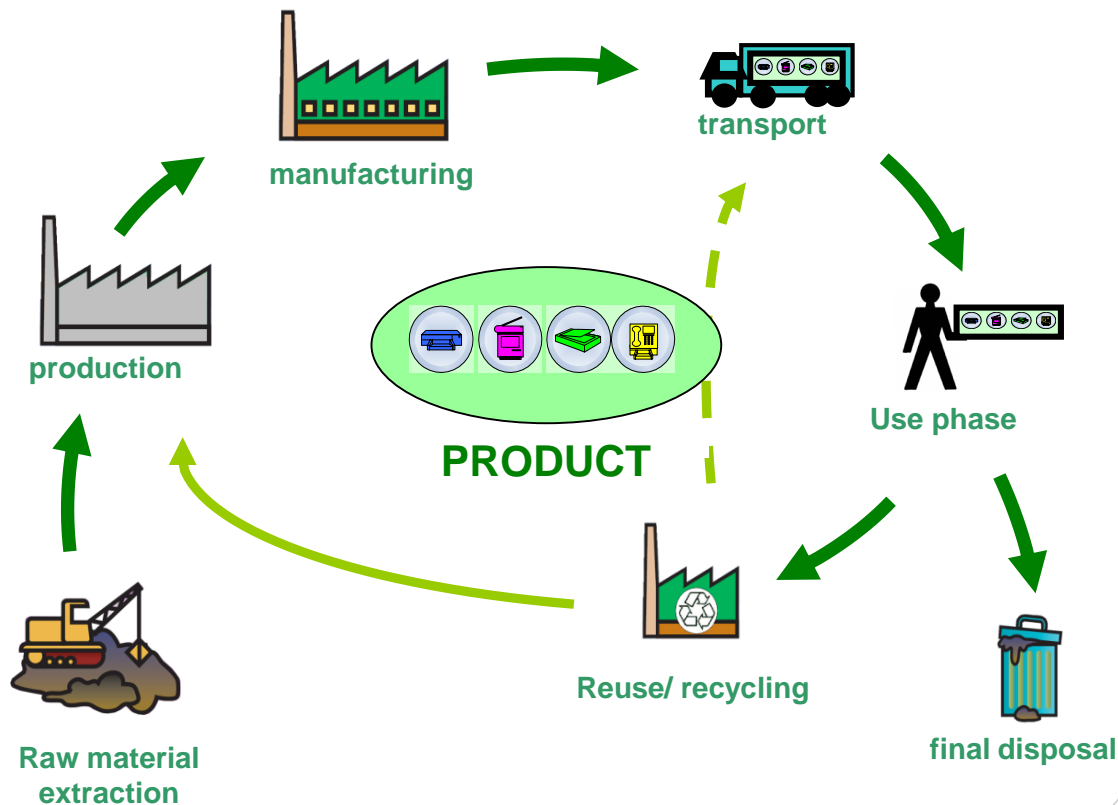
Product Policy Instruments

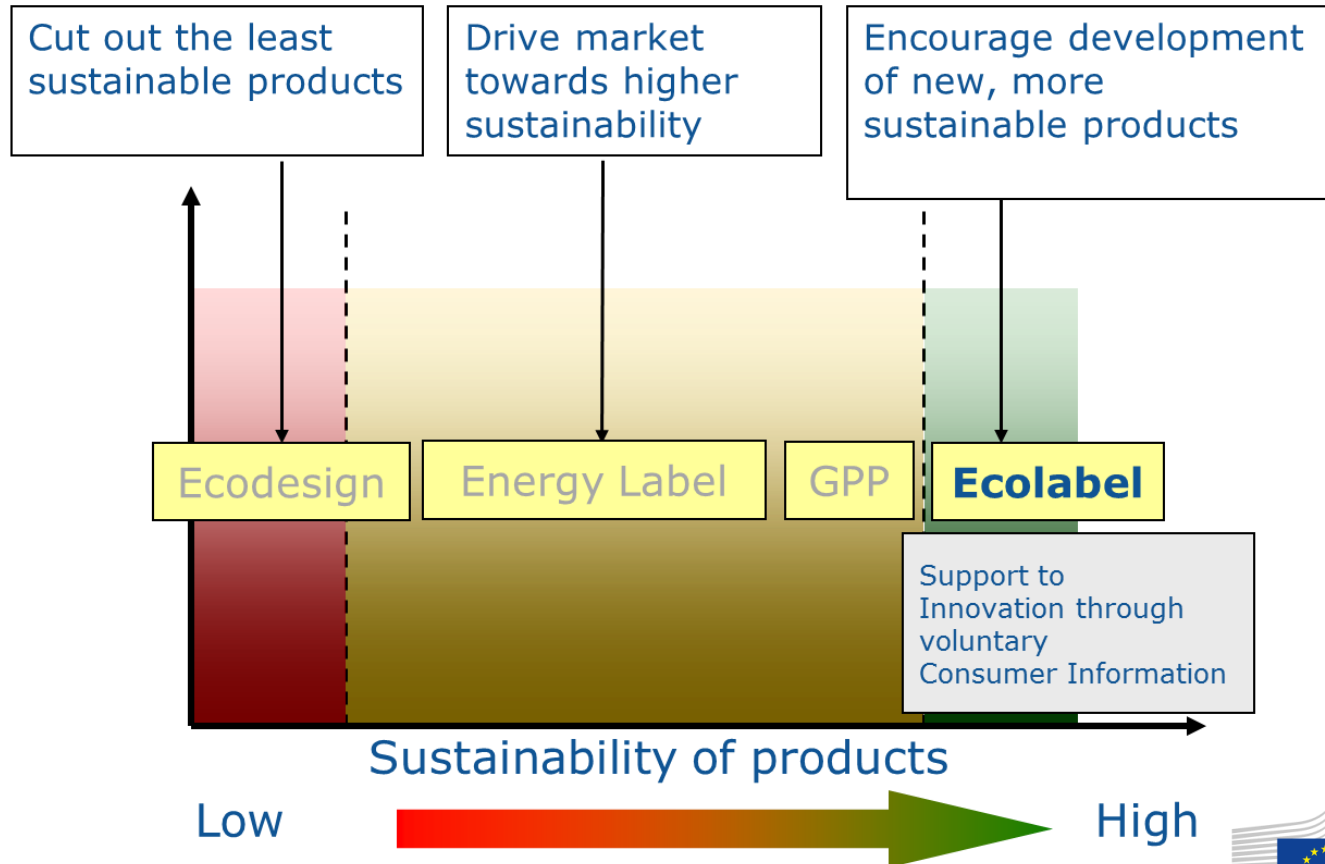
- EU Ecolabel Regulation (EC 66/2010)
- Green Public Procurement Communication (COM(2008)400)
- Energy related Products (Ecodesign) Directive (2009/125/EC)
- Energy Labelling Regulation (EU 2017/1369)

Instruments linked through similar methodologies

Identification of environmental issues along the life cycle

All instruments based on Life Cycle Thinking





Deliverables

- Scientific deliverables
 - 1 Background study per product group (~150-450pp)
 - 3-4 Criteria proposals with technical rationale for each criterion (~80pp each)
- Legal deliverables
 - Draft legal proposal for vote in Regulatory Committee:
 - Ecolabel criteria (Decision)
 - User Manual

Stakeholders

Implementation Level: ISC, Regulatory Committee



Political Level: European Union Ecolabel Board EUEB



Technical Level: Expert Stakeholders from financial sector, industry, NGO, Member States, CB Forum

Stakeholder Engagement

- Consensus based approach from start to end
- For each criterion the existing scientific basis is explored and checked with all relevant stakeholders
- 2 large meetings with stakeholders are held (up to 60 participants)
- Several online commenting rounds on research results
- Bilateral engagement with key stakeholders
- Full transparency through publication of all results on dedicated websites *http://susproc.jrc.ec.europa.eu/product_bureau/index.html*

Main actors involved in the process

Other DGs:

DGs

FISMA,

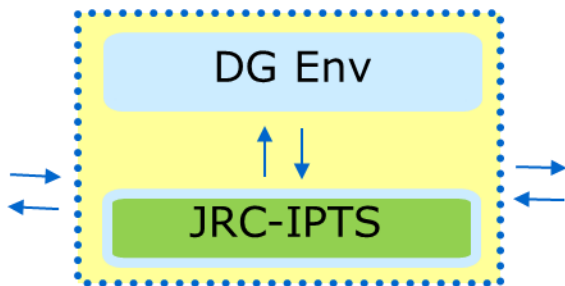
ENER,

GROW,

CLIMA,

SANTE...

DG JRC (e.g.
IES)



Stakeholders of the sector

Member States (Competent Bodies)

Individual companies

Industry associations

Testing/certification bodies

NGO (e.g. EEB, BEUC)

Academia

EU/International organisations

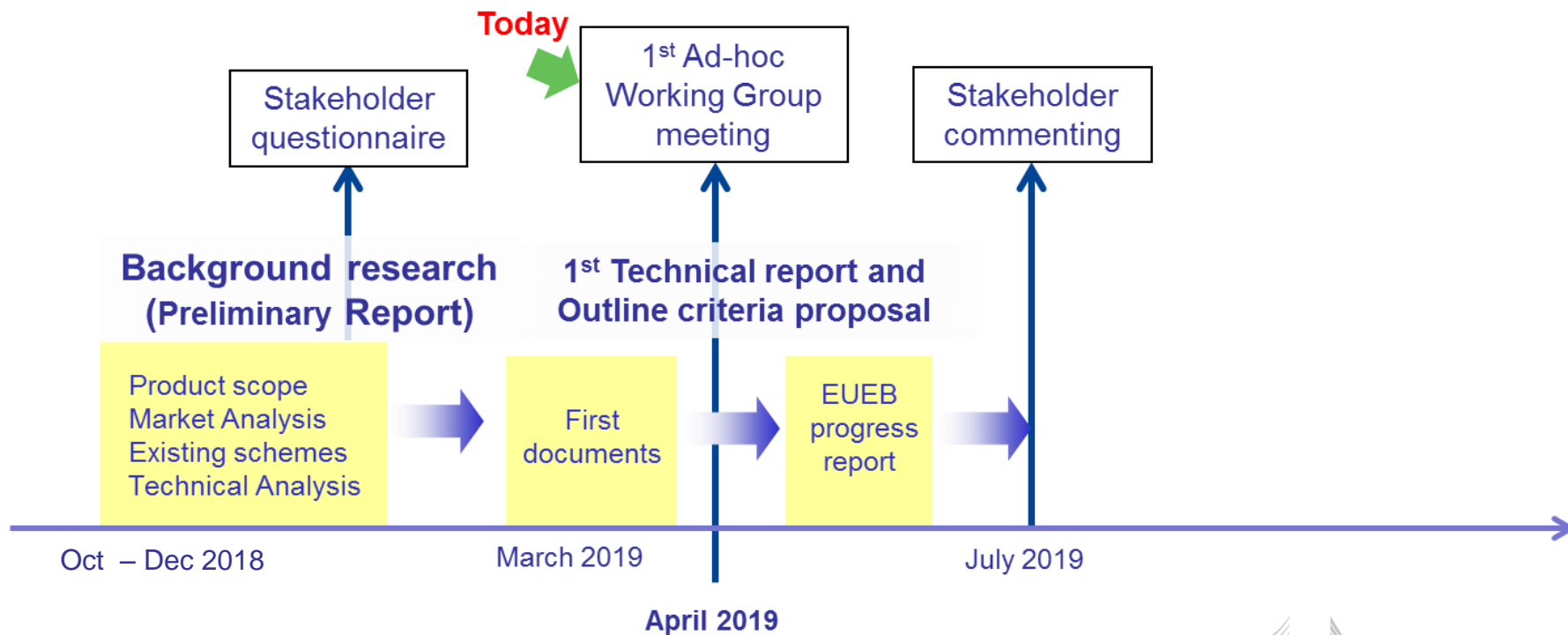
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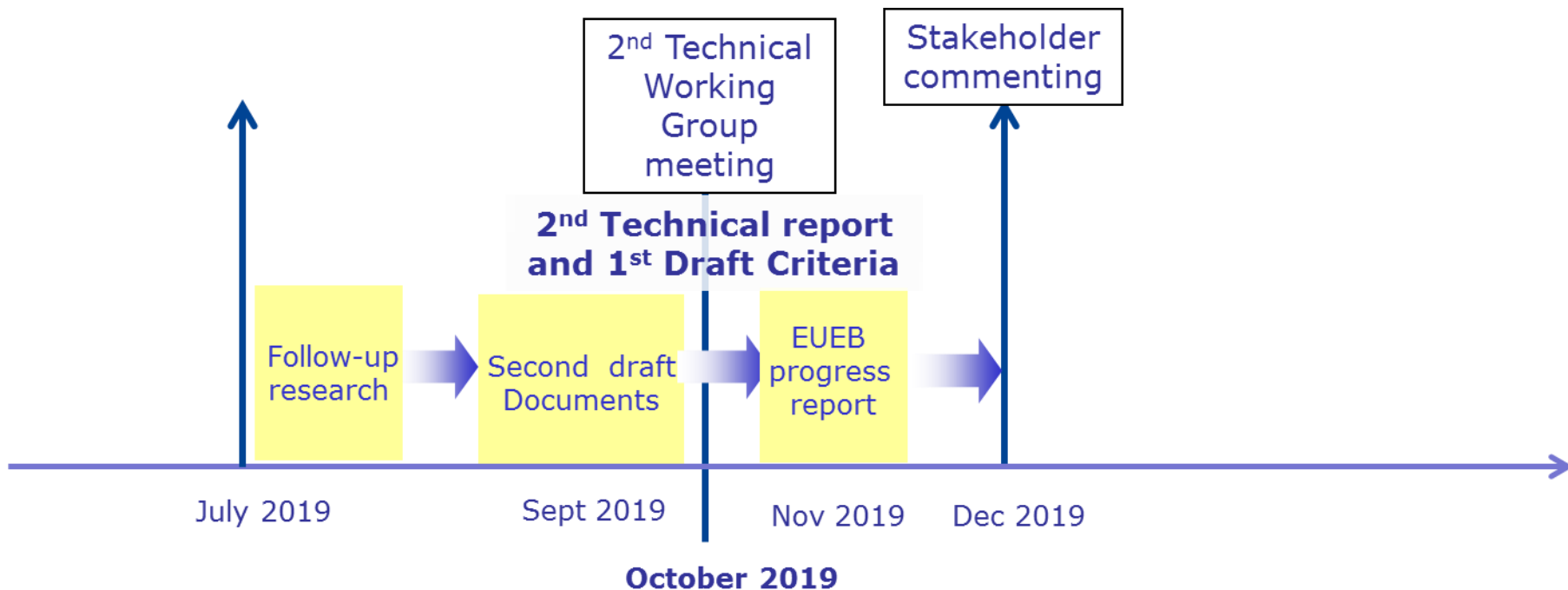
EU Ecolabel for Financial Products

Criteria development process

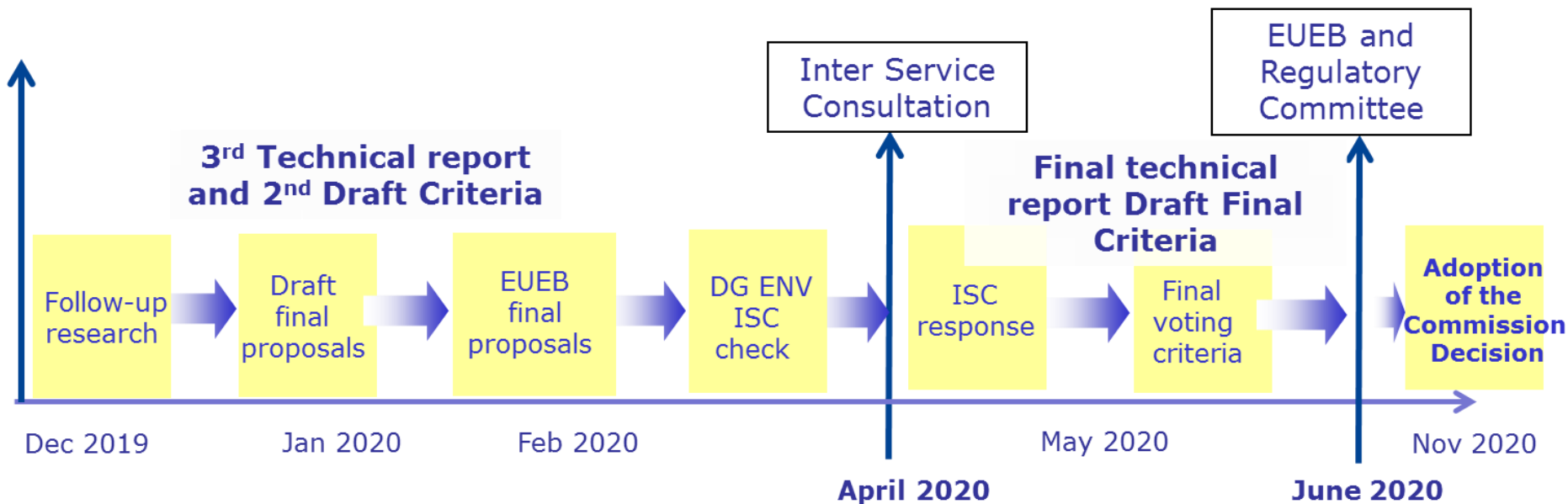
Work Plan and Milestones



Work Plan and Milestones



Work Plan and Milestones



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EU Ecolabel for Financial Products

Summary of the Preliminary Report

Objectives of Preliminary Reports and Outputs

- To obtain a better understanding of the environmental and techno-economic issues related to:
 - Scope definition
 - Exclusions
 - Thresholds
 - Social and governance criteria
- To inform the criteria areas and criteria proposals through surveys, interviews, scientific analysis, review of existing schemes and stakeholder engagement process



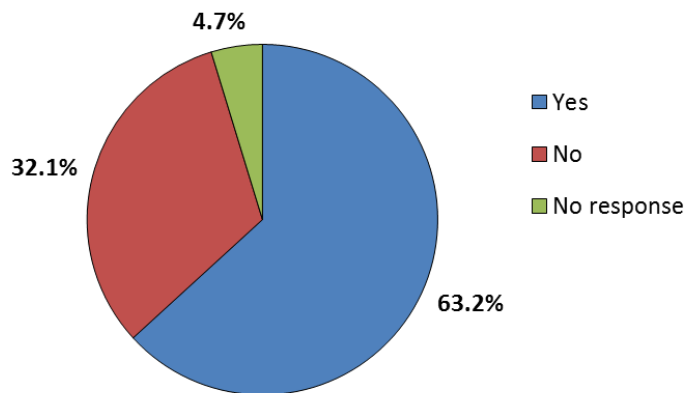
Preliminary Stakeholder Questionnaire Survey

December 2018 – January 2019

Number	Organisation type
4	Consultant and/or research institution
11	Environmental labelling scheme
17	Non-governmental organization (NGO)
11	Other*
3	Policy maker at MS or EU Level
29	Private financial entity
13	Public financial Institutions e.g. Public Banks
15	Trade associations and professional bodies
7	Not specified

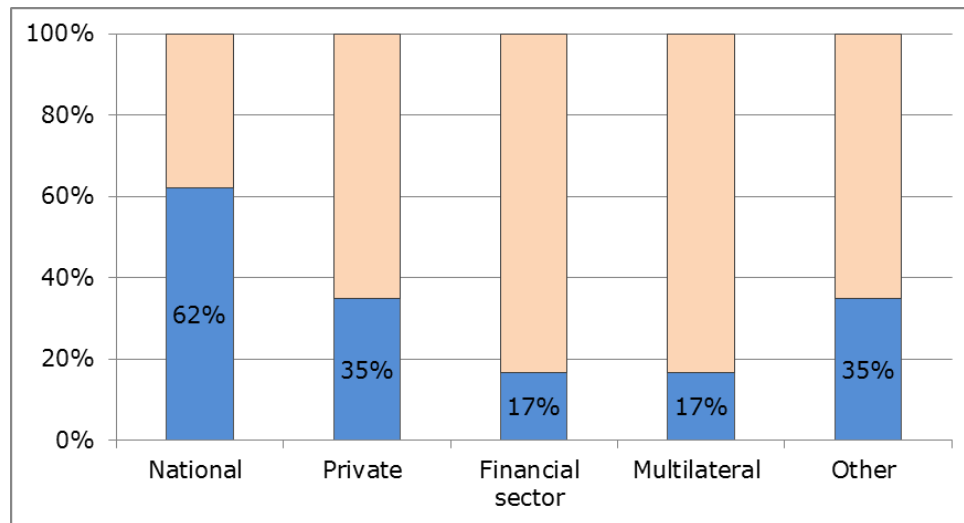
Preliminary Stakeholder Questionnaire Survey

December 2018 – January 2019



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

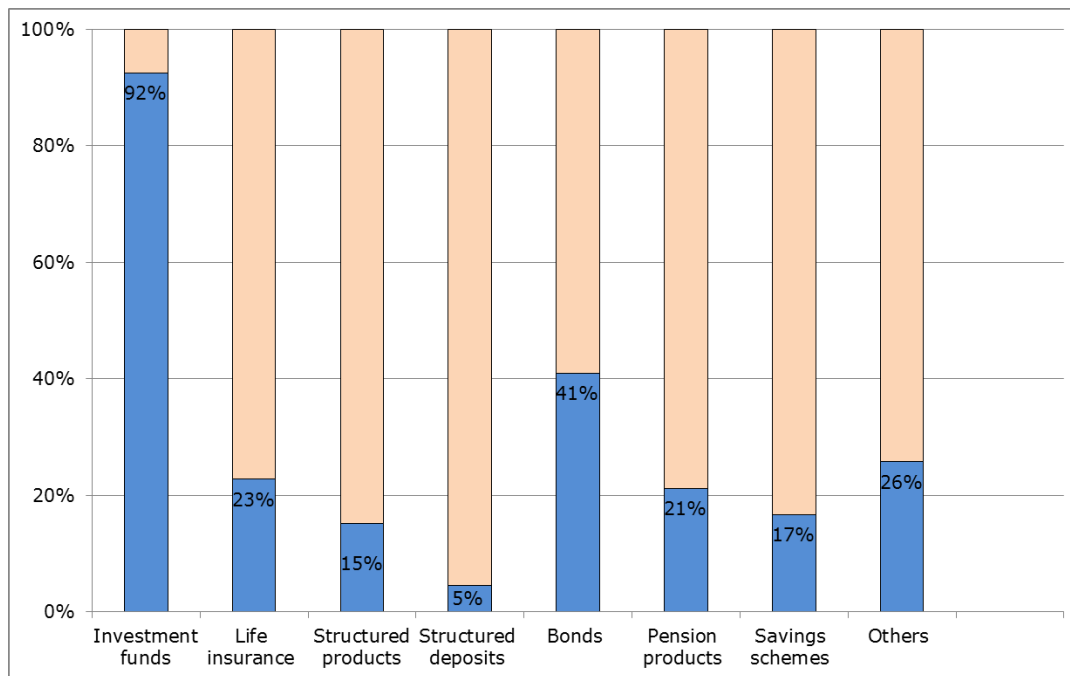
Type of labelling scheme



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

Preliminary Stakeholder Questionnaire Survey

December 2018 – January 2019



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

Bilateral Interviews European Labels

December 2018 – January 2019

Number	Organisation type
4	European labels and scheme operators
1	Label scheme verifier

Background and definition of financial services

- The EU Ecolabel may be awarded to "goods and services" which are supplied for distribution, consumption or use on the Community market whether in return for payment or free of charge
- Financial products would fall within the scope of the EU Ecolabel Regulation as they can be considered as **services for distribution or use**
- **It is the financial service being provided by the product manufacturer of the green financial product which would be ecolabelled, while the EU Ecolabel logo may figure on the promotional material of the green product itself.**

Points of reference in the legislative framework

- The ***Packaged Retail Investment and Insurance Products (PRIIPs) Regulation (EU) No 1286/2014*** which enables investors to better understand and compare the key features, risks, rewards and costs of different PRIIPs

Linked to this:

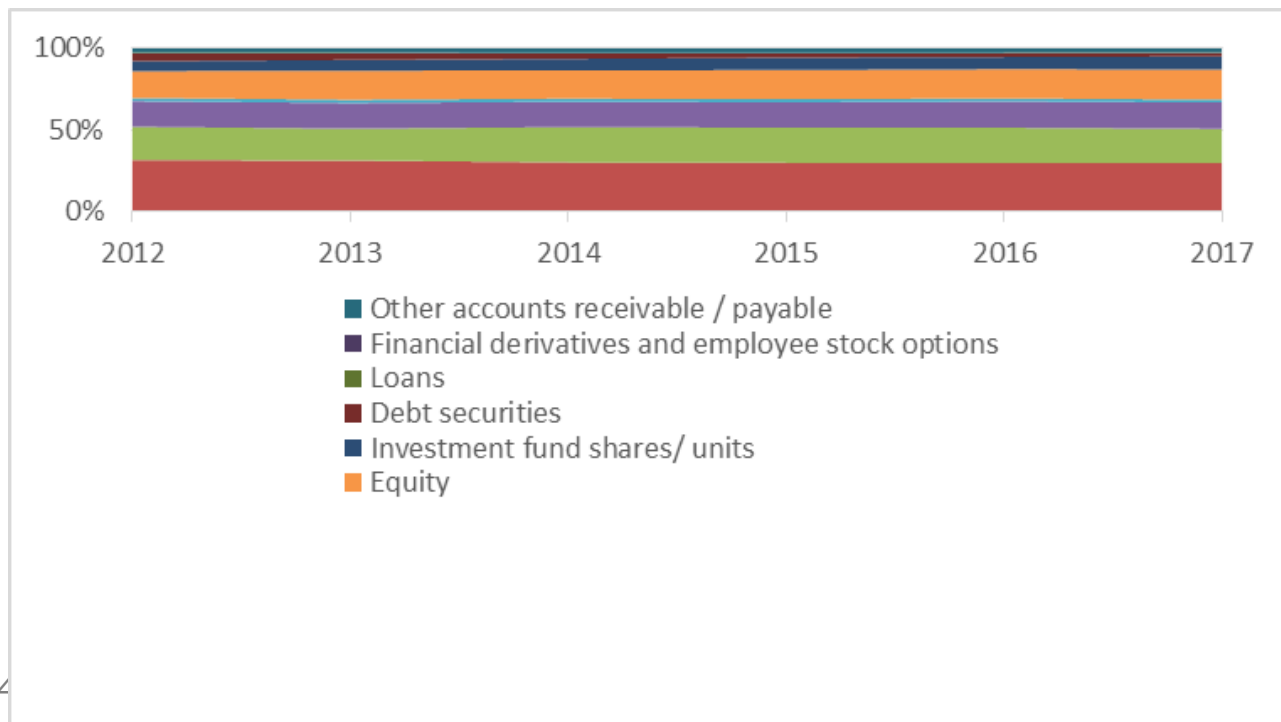
- ***Directive 2009/65/EC*** regulates and stipulates provisions on undertakings for the collective investment in transferable securities (UCITS) that are a popular product among retail investors
- ***Directive 2011/61/EU (AIFMD)*** regulates the managers of alternative investment funds, such as hedge funds and private equity
- ***Directive 2009/138/EU*** on the taking-up and pursuit of the business of Insurance and Reinsurance

Market Analysis - PRIIPs Products

- Market analysis focused on retail clients as investors
- Packaged retail investment product (PRIIP), i.e. investment, including instruments issued by special purpose vehicles, where the amount repayable to the retail investor is subject to market fluctuations
- Insurance-based investment product, i.e. insurance product for which its maturity or surrender value is exposed to market fluctuations

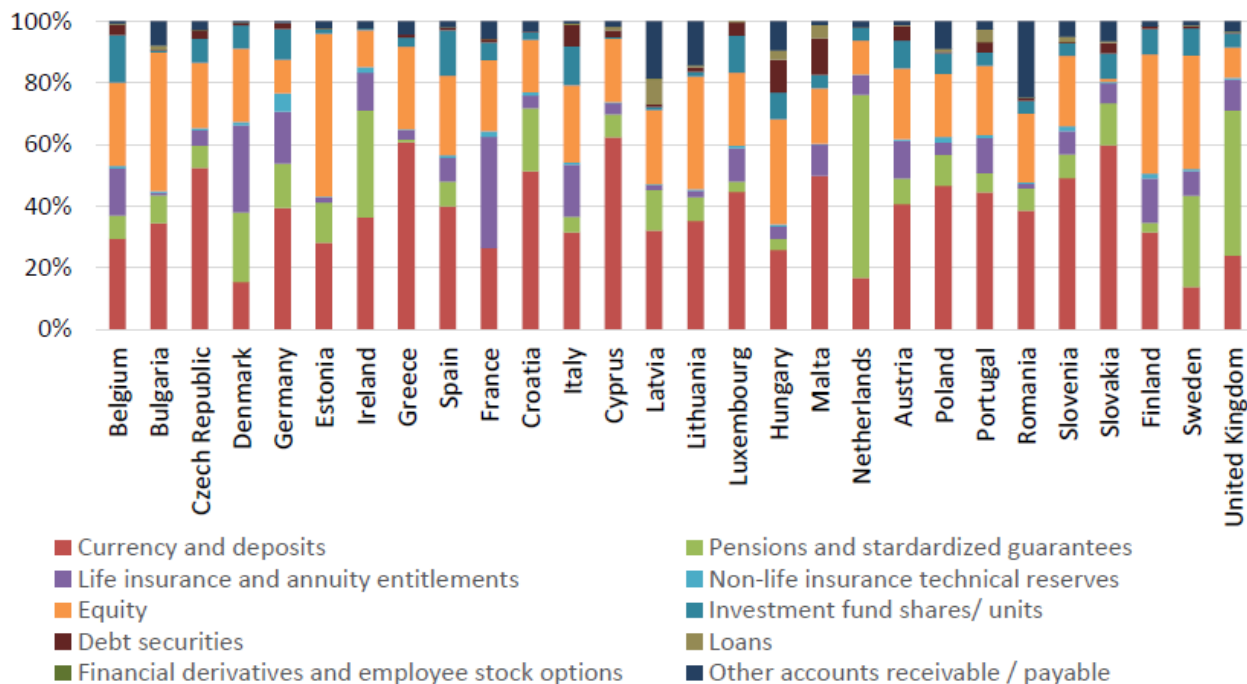
Market Analysis - Overall market trends

Total financial assets held by EU-28 households: EUR 34 tr in 2017
(Eurostat)



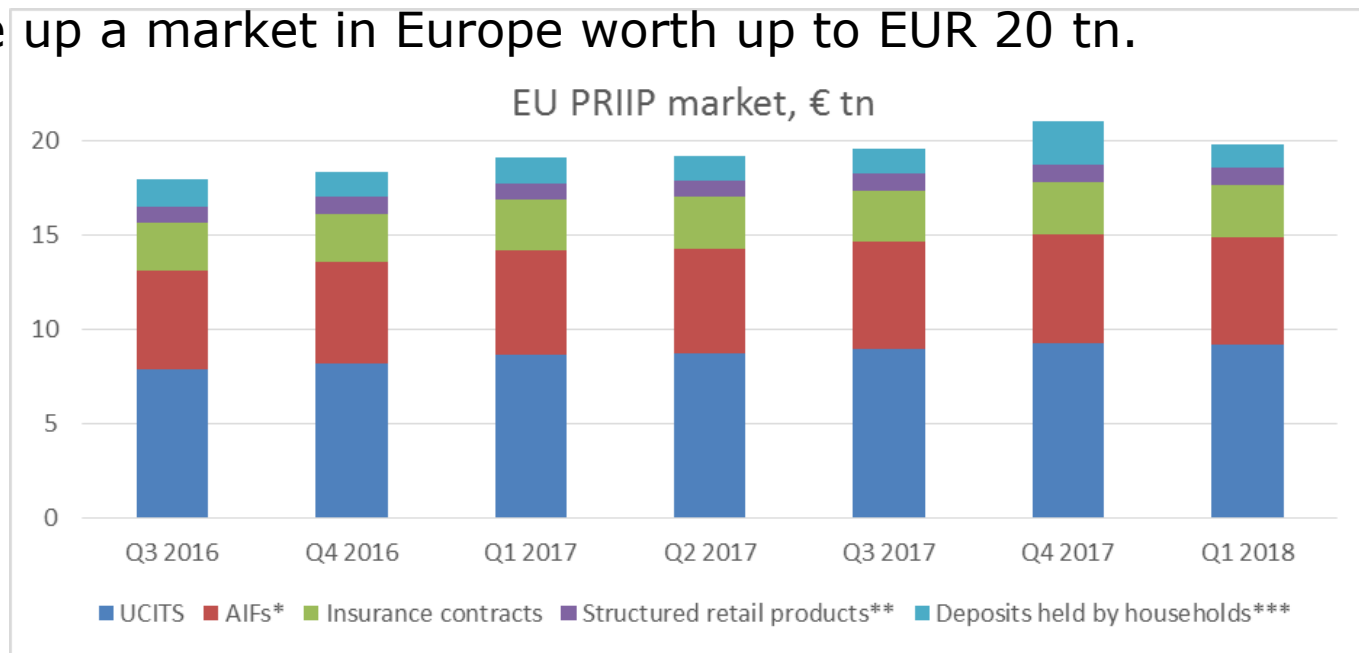
Market Analysis - Overall market trends

Majority (68%) of household money in the EU was held in a combination of currency and deposits, pension funds and insurance products in 2017 (Eurostat 2018).



Market Analysis - PRIIPs

PRIIPs cover a range of investment products which, taken together, make up a market in Europe worth up to EUR 20 tn.



Notes: for investment funds (UCITS and AIFs), the Net Asset Value is reported.

*Not all AIFs are PRIIPs. **Includes only leading markets (Austria, Belgium and Germany). ***Includes also traditional deposits, which are not PRIIPs. Sources: EFAMA (investment funds), EIOPA (insurances unit-linked and index-linked contracts), EUSIPA (structured retail products excl. derivatives), ECB (deposits).

Market Analysis - Existing European Labels

		Nordic Swan	German FNG – Siegel Label	Luxflag Climate finance	Austrian label	French (TEEC) Label	Dutch Green Funds Scheme
Investment funds	Equity funds						
	Bond funds						
	Hybrid funds						
	Money market funds						
	Exchange-traded funds						
	Real state funds						
Life insurance products	Guarantee return products						
	Non-guaranteed products linked to investment funds						
	Non-guaranteed products linked to structured products						
	A combination of guaranteed and non-guaranteed products						
Structured retail products							
Derivative products	OTC		Included with conditions				
	ETD						

Technical Analysis

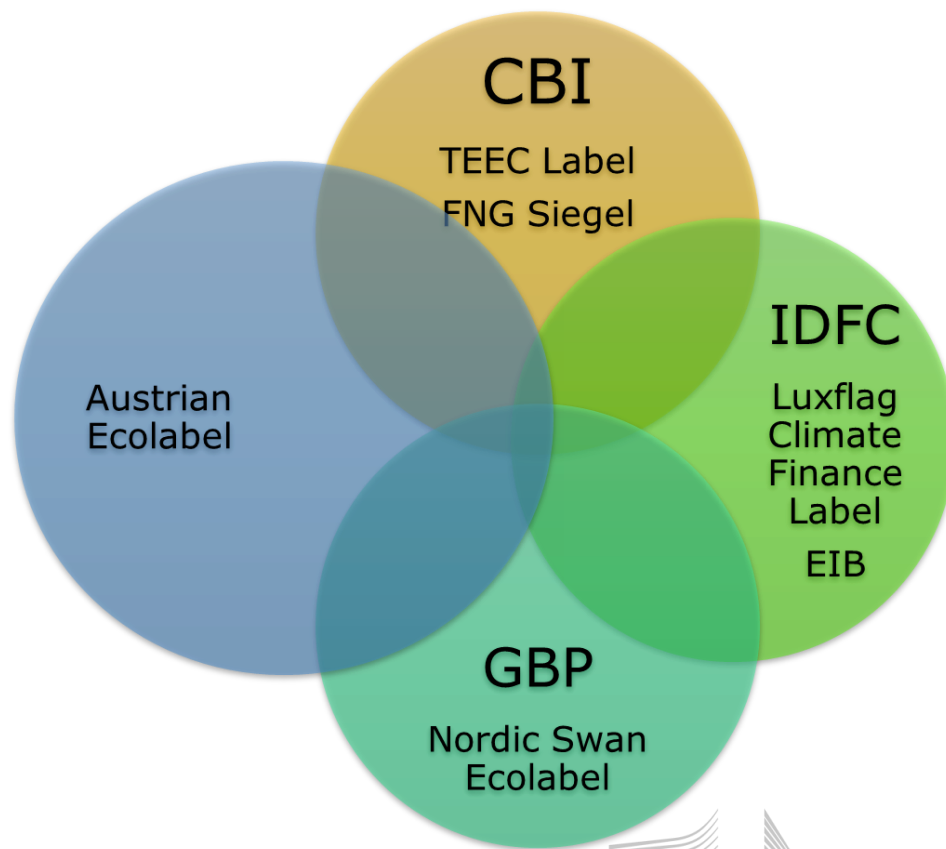
- A number of sustainable investment strategies are used to manage assets:
 - exclusionary screening
 - positive screening or best-in-class approach
 - norms based screening approach
 - ESG integration
 - sustainability themed investing or thematic investing
 - impact/community investing and
 - corporate engagement and shareholder action

Technical Analysis

- Existing labels and schemes define the "greenness" of an investment portfolio by setting a threshold on:
 - the minimum proportion of a portfolio's total assets under management that must be invested either in climate change mitigation and or climate change adaptation activities or;
 - the percentage of revenues of the company(s) that can be attributed to "green" activities by assessing to what degree the company engages in sustainable economic activities which are defined in the taxonomy applied by the label or scheme
- Existing labels and schemes apply different taxonomies to define green economic activities, in some cases with reference to screening criteria

Technical Analysis – Taxonomies and Labels

A taxonomy is a classification system that categorises different economic activities and provides criteria as to what can be considered an environmentally sustainable economic activity.



Questions to stakeholders

- Have we presented an accurate overview of the market for retail financial products?
- Are there other trends/factors to consider?

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EU Ecolabel for Financial Products

Product scope and definition

Overview of this section

- Important of the scope and definition
- Target clients for the EU Ecolabel
- Retail products that may be in the scope
- Initial stakeholder feedback
- Place of manufacture/registration
- Rationale and key considerations
- **Scope proposal** for discussion

Importance of the product scope and definition

Included within each [EU Ecolabel Decision](#)

- Defines the products that may be awarded the label
- May also influence the criteria and how they are assessed/verified
- Accompanying definitions to ensure consistent understanding and interpretation across the EU

Target clients for the EU Ecolabel

Regulatory distinction between 'professional clients' and 'retail clients'

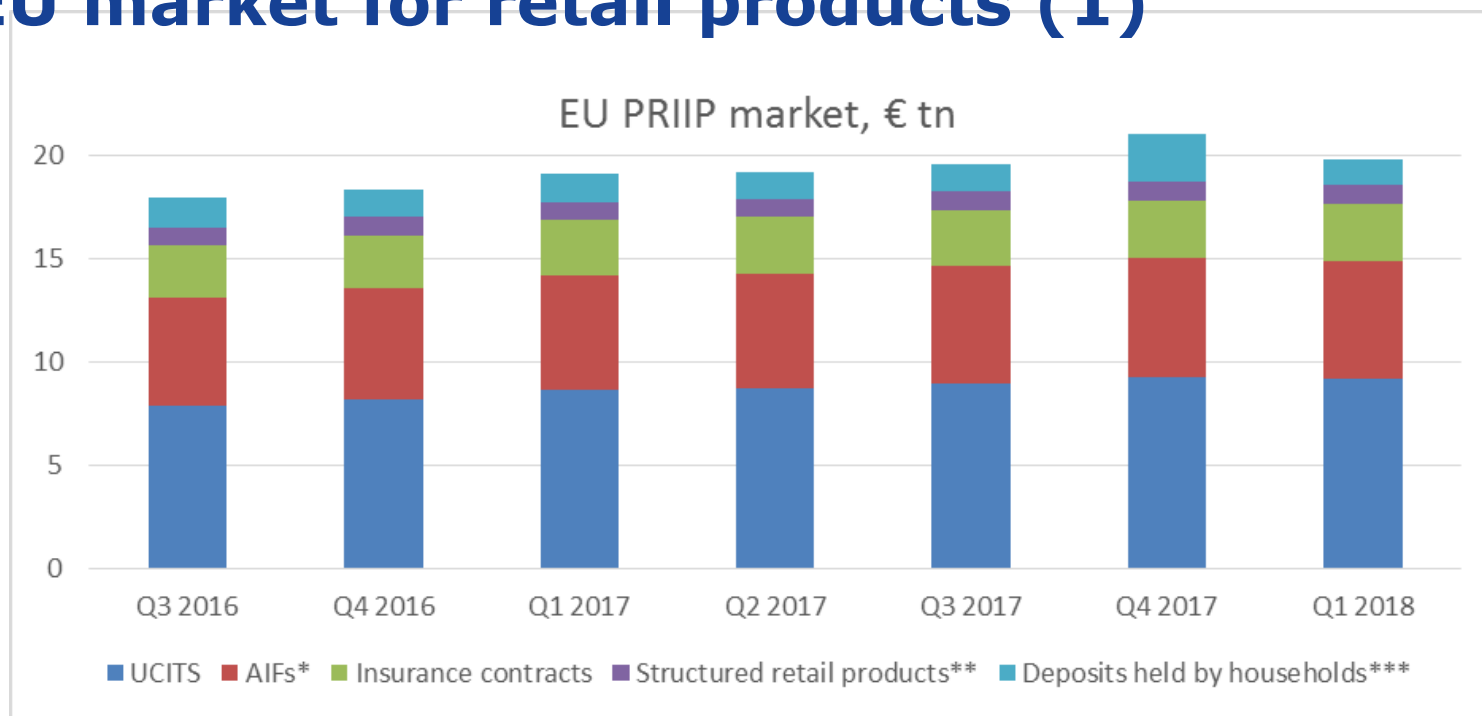
- Non-professional retail client has more limited knowledge of the potential risks/rewards associated with:
 - Complex products
 - Their underlying investments

Possible focus of attention?

Financial products typically offered to retail customers

e.g. selected PRIIPS (investment) products, some non-PRIIPs products

EU market for retail products (1)

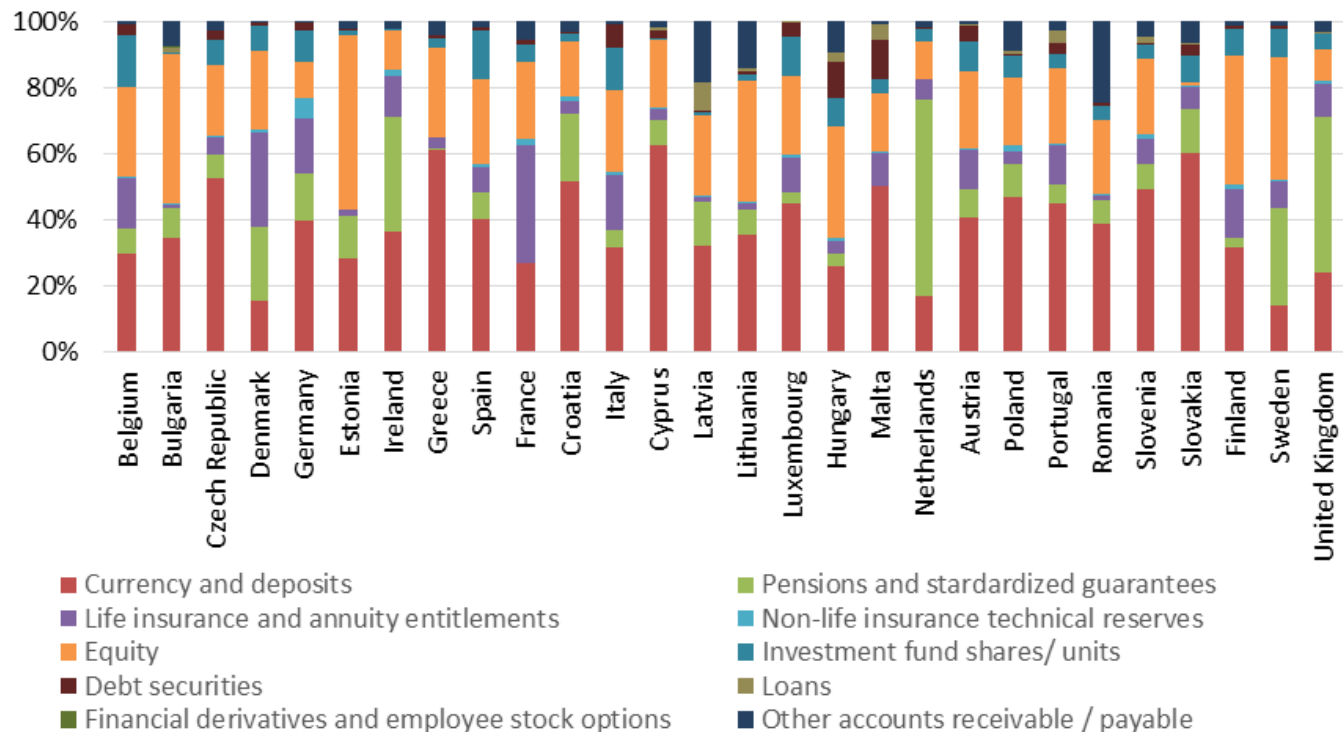


Notes: for investment funds (UCITS and AIFs), the Net Asset Value is reported.

*Not all AIFs are PRIIPs. **Includes only leading markets (Austria, Belgium and Germany). ***Includes also traditional deposits, which are not PRIIPs. Sources: EFAMA (investment funds), EIOPA (insurances unit-linked and index-linked contracts), EUSIPA (structured retail products excl. derivatives), ECB (deposits).

EU market for retail products (2)

Share of total financial assets of EU households, by financial instruments in 2017



EU market for retail products (3)

PRIIPs products encompass investment funds (UCITS & RAIFs) and insurance products with an investment component
68% of EU household money held in **currency and deposits, pension funds and insurance products**.

Importance of recognising **different allocation choices** made across the EU:

- Belgium and Spain **investment funds** 15%
- Ireland and the Netherlands **pension funds** >30%
- France and Denmark **life insurance and annuities** 28 – 36%
- Czech Republic and Greece **currency and deposits** >50%

Questionnaire feedback

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)?

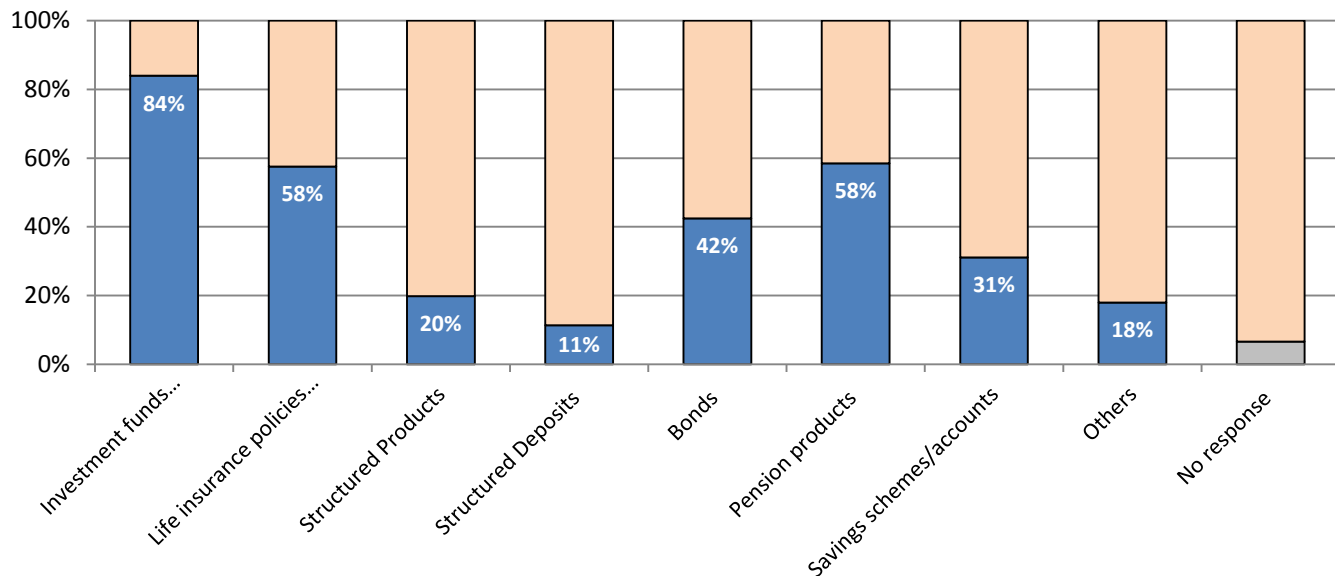
83% of respondents agreed

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

'Potential for the product to deliver environmental benefits' (74%) and *'Objective to mainstream sustainable finance'* (58%) as factors to take into account.

Questionnaire feedback

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



Further analysis of retail products (1)

Questionnaire feedback: Investment funds (84%), life insurance with an investment element (58%) and pension funds (58%)

Investment funds (UCITS and RAIFs)

- Important mainstream product made available to retail clients
- An alternative to simpler products - better short to medium term return from savings and investments

Analogous investment products that target similar retail clients?

- Insurance products that have a unit-linked investment component
- Products targeting market for income in retirement - annuities and some types of (unit-linked) individual pensions

Further analysis of retail products (2)

Questionnaire feedback: Bonds (42%)

- Both public and privately issued bonds are underlying assets of investment funds
- Can also be purchased by a retail client via a broker/platform

Careful consideration needed: how bonds awarded the ecolabel would co-exist with and complement the proposed EU Green Bond Standard.

Further analysis of retail products (3)

Questionnaire feedback: savings Accounts/products (31%)

- Could include a variety of simpler savings products, including deposit accounts
- Deposits are of significance to EU household financial assets
- PRIIPs deposit product (structured deposit account) is not currently of market significance across the EU

Can their greenness be verified?

- Accounts without structured investment element: variety of ways in which the money may be used.
- Money for loans (debt finance) or specific projects.
- Examples: Triodos, Green Funds Scheme (Netherlands)

Place of manufacturer, registration and authorisation

- EU Ecolabel Regulation (EU) 66/2010 art 2.1 Can be awarded to any **service of fund management** or **the provision of insurance*** which is supplied in the Community market
- **Sectoral EU legislation** applies that already defines the rules for manufacture/distribution in the EU
- Some existing schemes and labels allow products subject to third country regulatory requirements considered as equivalent to those of EU Member States

* For the purpose of awarding an Ecolabel, the service provided to the policy holder would be to promise to pay a certain amount of money to the policy holder or his beneficiary in case of certain predetermined events, the amount of which is dependent upon the performance of green investments. It would thus relate to the insurance service provided to the policy holder.

Rationale for the proposed scope

Proposed approach: start with a narrower product scope that could be extended in future revisions

- Based on the **service of fund management or insurance provision** by the product manufacturer for those financial products that are meant to be sold to **retail clients**
- **PRIIPs** as core of the retail investment market - start by focusing on a number of specific PRIIPs products
- **investment funds** and **unit-linked insurance** products account for a large part of the PRIIPs market

Key considerations

- **Mainstream products** in the market, taking into account variations in allocation across the EU
- **Products that are substitutable** i.e. they encompass competing offers that may be made to retail clients;
- Products that have to some extent **already been possible to label** by existing EU schemes; and
- Products that **include verifiable underlying asset classes** i.e. that consist primarily of equities and bonds.

Best fit: Investment funds together with insurance-based products that have an investment element analogous to investment funds

In later stages: potential to extend the scope to simpler products.

Savings and deposit accounts as important focus

1st criteria proposal

1st proposal for the Retail Financial Products scope:

This product group shall comprise the following financial products that are provided as a service by a fund manager and have been packaged for retail investors in accordance with the requirements laid down in Regulation (EU) No 1286/2014 on packaged retail and insurance-based investment products (PRIIPs):

- Investment funds, to include those referred to as Undertakings for the Collective Investment in Transferable Securities (UCITS) and, where applicable²¹, Retail Alternative Investment Funds (RAIFs);
- Insurance-based products with an investment component, such as individual unit-life insurances.

The retail financial product shall be registered or authorised for marketing or distribution in a member state of the European Union.

Questions to stakeholders

- Do you agree with **initial proposed scope** for the EU Ecolabel?
- Do you think **other financial products/services should be included** that are not covered in the initial proposed scope?
- To what extent could **savings and deposits** be included within the scope in the future?
- To what extent could **retailed bond products** be included within the scope in the future, with verification of their greenness based on the Green Bond Standard?
- Are there **any other financial products or retail investment opportunities** that could be considered for a future scope?

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EU Ecolabel for Financial Products

Criteria areas overview

Rationale for Criteria Areas

- Green investment is the **financing of investments that provide environmental benefits** such as a reduction in GHG and air pollutant emissions, without reducing the production and consumption of non-energy goods.
- Financial products or investments **are green** as a result of the uses to which the money is put in terms of the underlying assets or economic activities
- EU standards and labels for sustainable financial products would protect the integrity of and trust in the sustainable financial market, as well as enable easier access for investors seeking those products.

Rationale for Criteria Areas

- The framework established by the EU Taxonomy proposal will therefore be used as guidance in the development of the EU Ecolabel criteria, and the link with the EU Taxonomy will be established by taking a “look-through” approach
- The EU Ecolabel will define criteria for determining whether financial products offered to retail investors are sufficiently “green” to be awarded with the label

Rationale for Criteria Areas

- The EU Ecolabel will define criteria for determining whether financial products offered to retail investors are sufficiently "green" to be awarded with the label through requirements covering:
 - Green economic activities
 - Green investment thresholds
 - Exclusions based on compliance with the broad environmental objectives of the EU taxonomy and
 - Exclusions based on social and ethical aspects

EU Ecolabel Criteria Structure – First Proposal

Criteria area	Criteria	Technical scope
Environmental aspects	<i>1. Thresholds on green investment portfolio and economic activities</i> 1.1 Green investment minimum thresholds	<p>Portfolio threshold for minimum % investments in activities and sectors qualifying as "green" according to the EU Taxonomy</p> <ul style="list-style-type: none">• Threshold for minimum % turnover from company engagement in activities and sectors qualifying as "green" according to the EU Taxonomy• For bonds: compliance of bonds contributing to meeting the portfolio threshold with the EU Green Bonds Standard

EU Ecolabel Criteria Structure – First Proposal

Criteria area	Criteria	Technical scope
Environmental aspects	<p><i>1. Thresholds on green investment portfolio and economic activities</i></p> <p>1.2 Green economic activities</p> <p><i>2. Exclusions based on environmental aspects</i></p>	<ul style="list-style-type: none"> List of economic activities and sectors qualifying as "green" according to the EU Taxonomy List of specific sectors to which exclusionary thresholds will apply
Social and ethical aspects	<p><i>3. Exclusions based on social & ethical aspects</i></p>	<ul style="list-style-type: none"> List of social and ethical aspects to which exclusions will apply

EU Ecolabel Criteria Structure – First Proposal

Criteria area	Criteria	Technical scope
Information	<i>4. Consumer information</i> <i>5. Information appearing on the EU Ecolabel</i>	<ul style="list-style-type: none">• List of information requirements to be provided/made publicly available to retail investors• Information on the EU Ecolabel logo, registration number and statements that could appear on the EU Ecolabel

How the criteria set could work – First Proposal

Mandatory requirement system proposed for the EU Ecolabel for financial products

- Advantages
 - Strict compliance to all requirements
- Disadvantages
 - Difficulty of prioritisation of the most relevant criteria
 - No flexibility

Questions

- Do you agree with the proposal of a set of mandatory criteria for the EU Ecolabel for this Product Group
- Would optional requirements with a point-based scoring system be better?
- Based on the experience of industry and existing ecolabels could the overall approach be workable?

EU Ecolabel for Financial Products

Criteria Area: Environmental Aspects

Criterion 1: Thresholds on green investment portfolio and economic activities

EU Taxonomy

- A **list of economic activities** (at the EU level) that are considered **environmentally sustainable** for investment purposes
- It is **not** a mandatory list to invest in, nor a standard, nor an exclusion list. It does not harmonise the existing market practices and strategies with regards to sustainable finance
- Activities that are not on the list, are not necessarily polluting activities
- It provides **clarity and transparency** on environmental sustainability to investors, financial institutions, companies and issuers thereby enabling informed decision-making in order to **foster investments** in environmentally sustainable activities
- It will have to be kept up to date, taking into account the latest policy- and technological developments and innovation

EU Taxonomy

- For an economic activity to be included in the EU Taxonomy, it has to comply with four conditions:
 - **Substantially contribute** to at least one of the six environmental objectives* as defined in the proposed Regulation
 - **Do no significant harm** to any of the other six environmental objectives* as defined in the proposed Regulation
 - Comply with **minimum social safeguards**
 - Comply with quantitative or qualitative **Technical Screening Criteria**

Source: European Commission: Proposal on the establishment of a framework to facilitate sustainable investment (2018)

EU Taxonomy

- Six environmental objectives:
 1. Climate change mitigation
 2. Climate change adaptation
 3. Water resource management and conservation
 4. Circular economy and waste prevention
 5. Pollution prevention and control
 6. Healthy natural habitats

Source: European Commission: Proposal on the establishment of a framework to facilitate sustainable investment (2018)

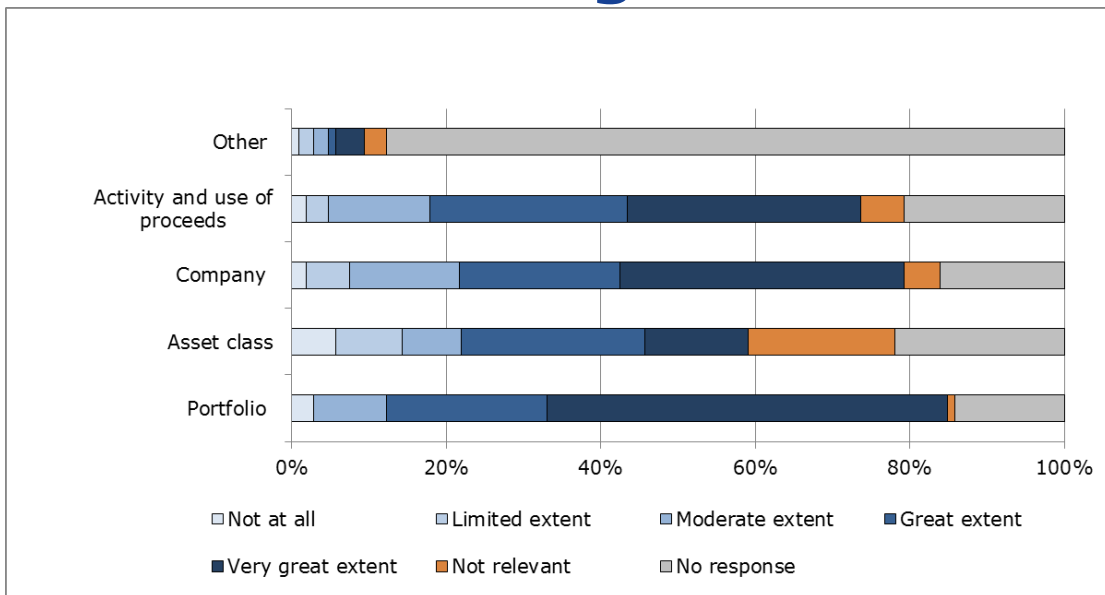
Proposed EU Green Bond Standard (GBS) requirements for 'Green Projects' (March 2019)

- The EU GBS is intended to enhance transparency, integrity, consistency and comparability of EU Green Bonds
- The EU GBS shall apply to the issuance of EU Green Bonds and may be read together with the GBP. The text of the EU GBS will prevail over the GBP for EU Green Bonds
- An EU Green Bond is any type of listed bond instrument meeting the requirements of the [current EU GBS proposal as of March 2019](#)
- For the verification of [the greenness of economic activities](#), the envisaged [EU GBS](#) will be closely linked to the [proposed EU Taxonomy](#)

Level of verification of greenness

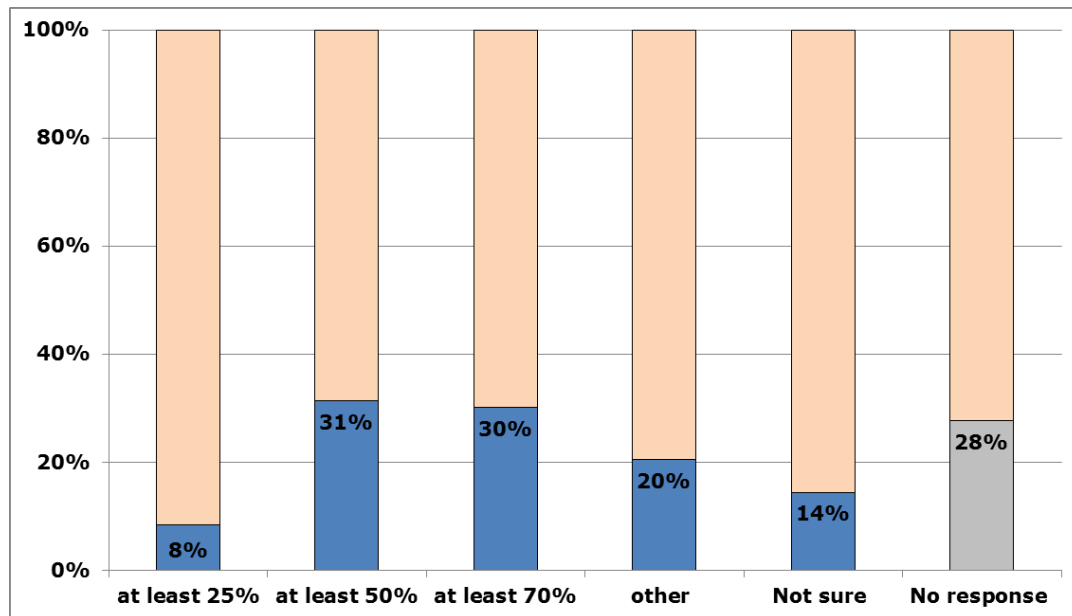
- Schemes and labels apply thresholds at three main levels:
 - **portfolio;**
 - **company; and**
 - **economic activity**
- Some schemes and labels define the greenness of financial products based on a percentage a portfolio's total AUM required to be invested in economic activities that strongly contribute to the [objectives of the EU taxonomy](#)
- Once a portfolio level threshold is established, it needs to be linked to verification of the greenness of each of the underlying assets (e.g equities, bonds, etc) held within the portfolio

Level of verification of greenness



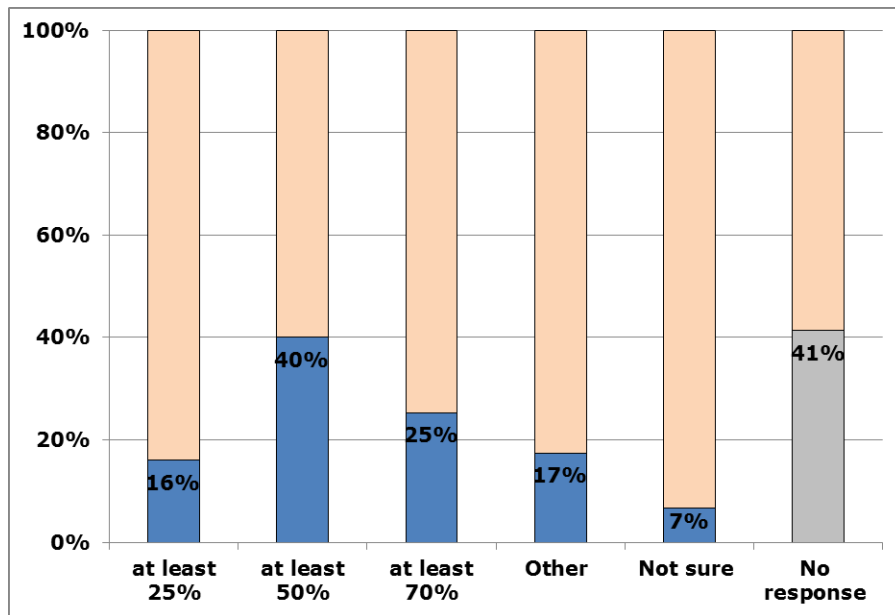
- 60% of respondents and experts (bilateral interviews) considered the portfolio level to be very important to verify the greenness of financial products.
- 44% considered the company level important

Minimum percentage 'portfolio' investment in green activities



- 31% supported at least 50% of the portfolio but
- 30% suggested **at least 70% as the minimal portfolio threshold**

Minimum percentage 'company' investment in green activities



- 40% of the respondents favoured criteria which requires that **at least 50% of 'company' should be invested in green activities**

Criterion 1: Thresholds on green investment portfolio and economic activities

- Investment portfolios for different products will have different asset classes (e.g IFs comprising company shares (equities), bonds (issued by private corporations, governments and other public authorities), real estate and fund units or shares).
- It is important to determine what proportion of the total investment in these underlying assets should be verified as green
- It may be possible to require that the EU Ecolabel could only be obtained if portfolios are invested in 'green bonds', as defined by the [EU GBS requirements for 'Green Projects'](#) (March 2019)

Criterion 1: Thresholds on green investment portfolio and economic activities

1st Proposal for Criterion 1: thresholds on green investment portfolio and economic activities

1.1 Investment portfolio greenness thresholds

The investment portfolio of the financial product shall meet the below mentioned threshold for the proportion of total portfolio asset value invested in green activities. This proportion of total portfolio asset value shall be verified based on the company economic activities related to the equities or bonds that are held and the use of proceeds of the bonds that are held.

Portfolio holdings

70% of the total portfolio asset value shall be invested in green economic activities as defined in point 1.2. All portfolio assets must be included in the total.

Assets held by the portfolio

Equities and bonds shall comply with the following thresholds:

- a. Equities: At least 90% of the direct holdings (in terms of number of issuers) of the company have a turnover of at least 50% from green economic activities as defined by point 1.2
- b. Bonds: At least 70% of value of all the bonds held in the portfolio shall be green and those bonds that contribute to greenness thresholds must be fully compliant with the EU GBS

Verification of greenness is not required for any other assets but they must still be included in the total portfolio asset value that must meet the portfolio threshold²⁶.

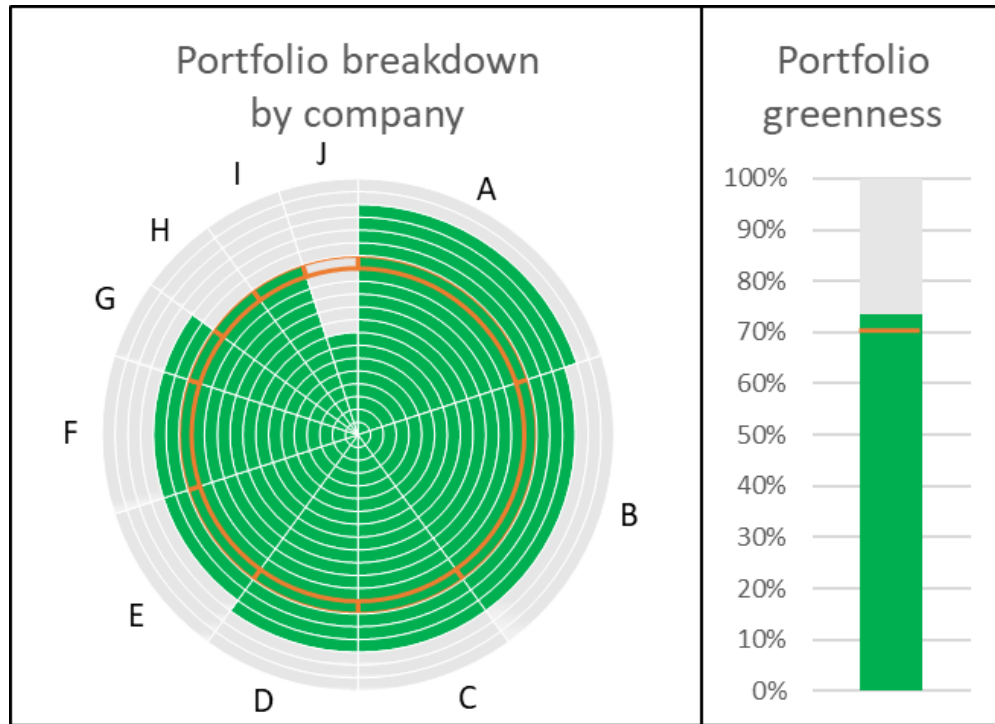
Example evaluation of criterion 1.1: for equity

- Criterion 1.1. specifies a singular threshold (minimum of 70%) at the portfolio level
- The following slides illustrate the assessment of compliance to Criterion 1.1 as well as potential issues that could arise in requiring a single portfolio level threshold **in combination** with a company level threshold using equity funds as an example

Example 1: Pass on both thresholds

Portfolio W			(As share of total portfolio)		
Company	Company greenness	Share in portfolio	of which	Green activities	Non-green activities
A	90%	20%		18%	2%
B	80%	20%		16%	4%
C	80%	10%		8%	2%
D	80%	10%		8%	2%
E	70%	10%		7%	3%
F	70%	10%		7%	3%
G	70%	5%		4%	2%
H	50%	5%		3%	3%
I	50%	5%		3%	3%
J	20%	5%		1%	4%
Portfolio		100%		74%	27%

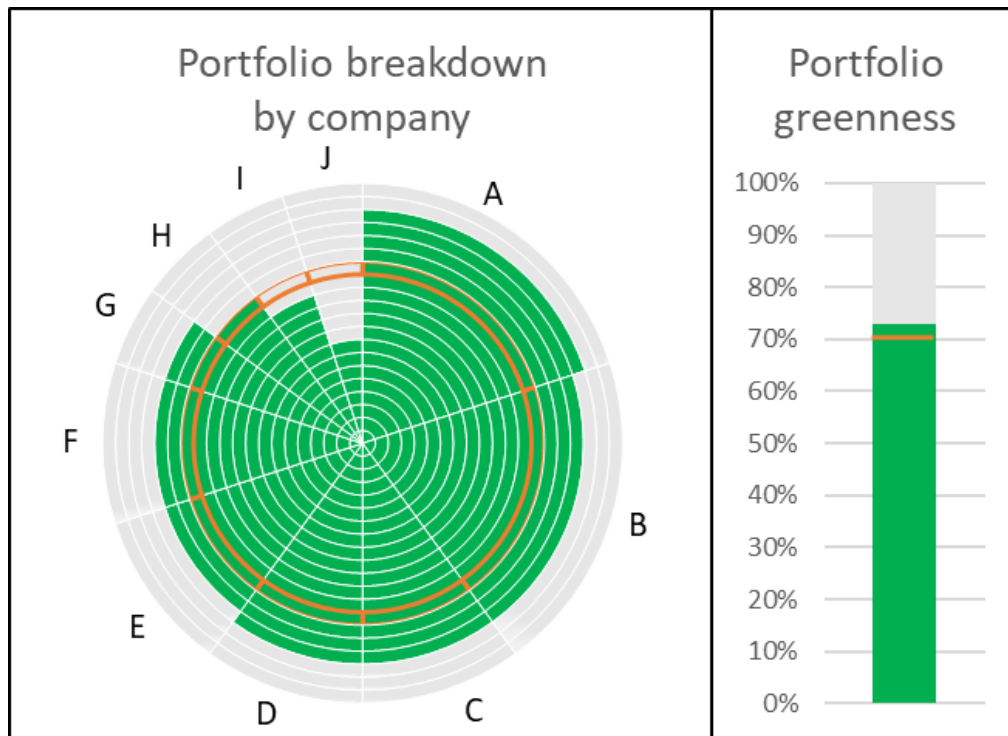
Criteria		Threshold	Portfolio value	Portfolio complies?
1	Share of green in portfolio	70%	74%	Yes
2a	Threshold for companies	50%	<div> <div>A: yes</div> <div>B: yes</div> <div>C: yes</div> <div>D: yes</div> <div>E: yes</div> <div>F: yes</div> <div>G: yes</div> <div>H: yes</div> <div>I: yes</div> <div>J: no</div> </div>	Yes
2b	Share of companies to comply with threshold	90%	90%	



Example 2: Pass only at portfolio level

Portfolio X			(As share of total portfolio)		
Company	Company greenness	Share in portfolio	of which	Green activities	Non-green activities
A	90%	20%		18%	2%
B	80%	20%		16%	4%
C	80%	10%		8%	2%
D	80%	10%		8%	2%
E	70%	10%		7%	3%
F	70%	10%		7%	3%
G	70%	5%		4%	2%
H	50%	5%		3%	3%
I	40%	5%		2%	3%
J	20%	5%		1%	4%
Portfolio		100%		73%	27%

Criteria		Threshold	Portfolio value	Portfolio complies?
1	Share of green in portfolio	70%	73%	Yes
2a	Threshold for companies	50%	<div> <div>A: yes</div> <div>B: yes</div> <div>C: yes</div> <div>D: yes</div> <div>E: yes</div> <div>F: yes</div> <div>G: yes</div> <div>H: yes</div> <div>I: no</div> <div>J: no</div> </div>	No
2b	Share of companies to comply with threshold	90%	80%	



Criterion 1: Thresholds on green investment portfolio and economic activities

1.2 Green economic activities

For an economic activity within an investment portfolio to be considered green it shall meet the following requirements:

(a) It shall contribute substantially to at least one of the EU Taxonomy's Environmental Objectives, for which technical screening criteria are available:

- (i) climate change mitigation,
- (ii) climate change adaptation,
- (iii) sustainable use and protection of water and marine resources,
- (iv) transition to a circular economy, waste prevention and recycling;

(v) pollution prevention and control and

(vi) protection of healthy ecosystems,

(b) while not significantly harming any of the other objectives, and

(c) it shall comply with the minimum social safeguards represented by the principles and rights set out in the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work²⁷

Criterion 1: Thresholds on green investment portfolio and economic activities

Assessment and verification

The applicant shall provide the following documentation showing the minimum percentage to be invested in green activities:

- the green investment policy of the applicant,
- portfolio statement and prospectus including:
 - a) complete listing of the portfolio assets for the financial product, and
 - b) evidence that at least 70% of the listed portfolio assets are invested in green activities,
 - c) an audit report on the latest annual financial statements.

EU GBS certificates shall be accepted as proof of compliance to criterion 1.

Questions to the stakeholders

Relating to green economic activities

- Is there a way to address economic activities not yet featured in the current version of the EU Taxonomy and its technical criteria?

Relating to green investment portfolio value

- How could the revenue for a parent group with number of daughter companies and their share be handled?
- How should assets held in other investment funds be treated within this criteria? Do they require any special form of verification?

Questions to the stakeholders

Relating to green investment portfolio value

- To what extent should real estate also be considered as a specific asset within the portfolio verification? If so, how could its performance be verified?
- Should assets for which verification of greenness is not required be included within the total portfolio asset value?
- Should any type of criteria on trading practices and/or use of funds be applied to derivatives and cash?
- Does the assessment and verification require any specific parts to be tailored to individual products within the scope?

EU Ecolabel for Financial Products

Criteria Area: Environmental Aspects

Criterion 2: Exclusions based on environmental aspects

Overview of this section

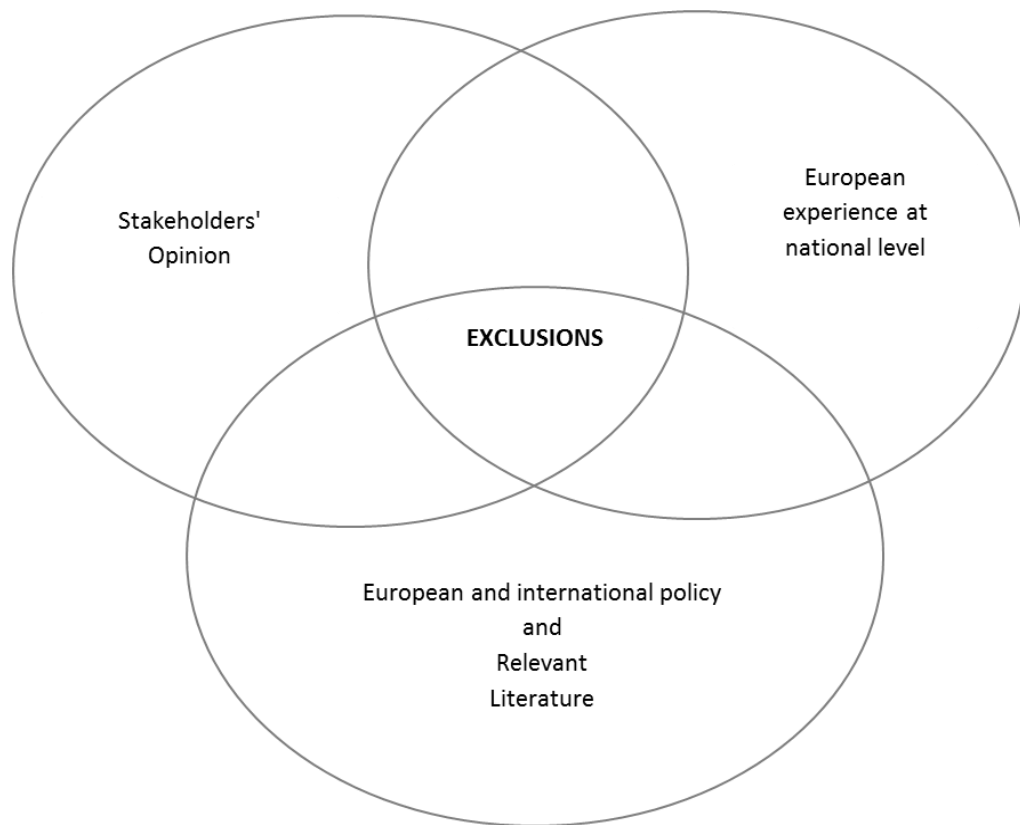
- The concept of exclusions
- Screening of potential exclusions
- Assessment and verification
- 1st criteria proposal for discussion

The concept of exclusions

Precedent investment strategies including '*norm-based*' and '*negative and exclusionary screening*'

- Activities in which investment shall **not** be made
- Existing schemes/labels include exclusions reflecting **legal requirements on environmental performance**
- Strict exclusion criteria **should be applied carefully** as can quickly reduce compliant equities
- Difficult to identify companies completely disconnected from an excluded activity due to:
 - complexity of fund structures
 - diversity of company activities

Analysis and formulation of exclusions

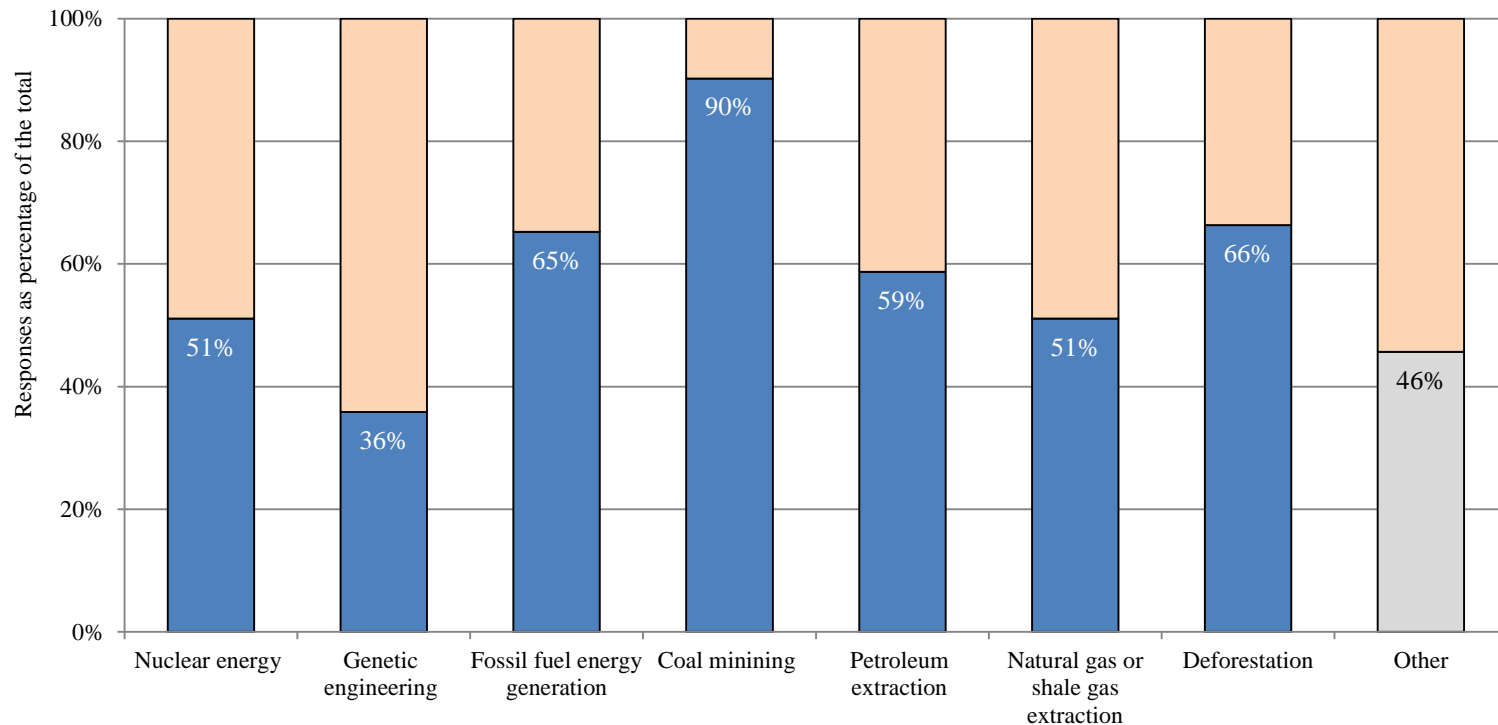


Questionnaire feedback

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

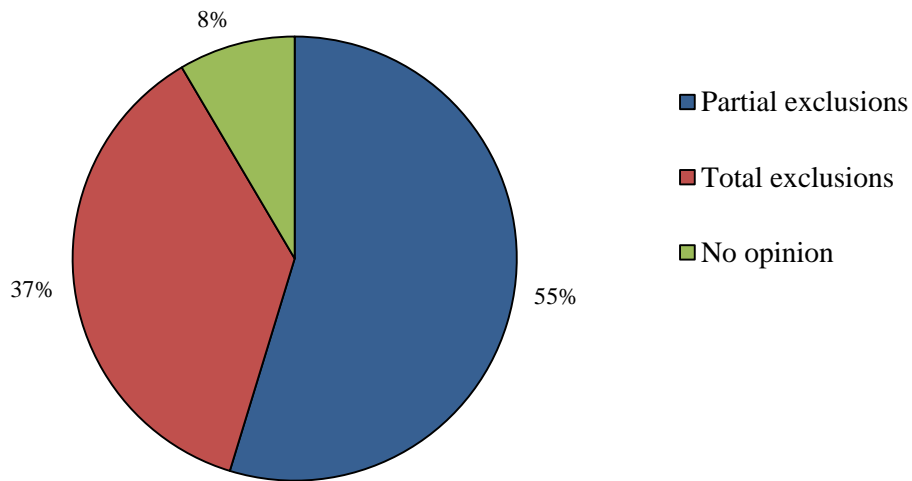
- Yes, 87%
- Responses given to suggested exclusions (see next slide)
- 46% suggested **other sectors** that should be assessed for potentially being excluded.
 - oil sand exploitation
 - pesticides production
 - unsustainable palm oil production
 - mining

Questionnaire feedback



Questionnaire feedback

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



The concept of partial exclusions

Accommodate or allow for a % of excluded activity in a portfolio

- Most common 'safety net' threshold is 5%
 - Revenues of any company in the portfolio, or
 - Total amount invested by the fund
- Threshold of potential presence in any mainstream investment portfolio

Differences in their implementation?

- some schemes do not sum up individual thresholds
- others set strict exclusions and apply a threshold for portfolio value
- one has higher thresholds to encourage transition e.g. fossil fuel sector

Unscreened exclusion list 1

Environmental- related exclusions at sectoral level

- Coal mining
- Fossil fuel energy generation
- Natural gas extraction
- Oil extraction
- Deforestation
- Pesticide production
- Unsustainable vegetable oil production
- Industrial gas production
- Waste management facilities without materials or energy recovery
- Fracking
- Oil sand exploitation
- Nuclear exploitation and energy generation
- GMO crops

Unscreened exclusion list 2

International environmental commitments

- Non ratification of the Paris Agreement
- Non ratification of the UN Convention for Biological Diversity
- Non ratification of international conventions on environmental protection
- Projects that damage valuable and /or protected areas

Screening of potential exclusions

- Screening of **two lists** against
 - current EU environmental policies
 - the EU Taxonomy proposal
- Some activities will have TSC within the EU Taxonomy
 - **9.4 existing forest management**: requires the protection of existing carbon sinks
 - **NACE 'Electricity, gas, steam and air conditioning supply'** may include Combined Heat and Power (CHP) as low carbon transition technology burning fossil fuels such as natural gas.

EU Policy and Taxonomy screening (1)

Fossil fuel extraction and refining, fossil fuel energy generation

- *Possible scope:* decarbonisation of the European economy
- Should not exclude transition fossil fuel power generation

Nuclear fuel cycle and nuclear power generation

- Divergent views amongst Member States
- Final view following further dialogue with stakeholders

Deforestation

- *Possible scope:* illegal harvesting of timber
- Existing forestry management addressed by the EU Taxonomy
- Illegal logging may be linked to deforestation of old growth forests
- EU Timber Regulation legislation

EU Policy and Taxonomy screening (2)

Industrial gases

- *Possible scope:* gases with high relative contribution towards the ozone depletion potential and global warming
- Production of hydrofluorocarbons (HFCs), nitrous oxide (N₂O), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).
 - Halogenated gases: Montreal Protocol (ozone depletion)
 - Fluorinated gases: Regulation (EU) No 517/2014 (F-Gas Regulation)
 - N₂O: European Emissions Trading System (EU ETS)

EU Policy and Taxonomy screening (3)

Pesticides

- *Possible scope:* harmful pesticide production
- Range of adverse effects - human health and environmental eco-toxicity
- EU policy promotes Integrated Pest Management and organic agriculture
- The most harmful pesticides identified by:
 - Rotterdam Conventions Prior Informed Consent (PIC) list
 - WHO classification system
 - EU authorisations

EU Policy and Taxonomy screening (4)

Use of genetically modified (GMO) crops

- Licensed at EU level, authorised at MS level
- No consensus on detrimental environmental impacts now/into future
- Final view to be taken following further dialogue with stakeholders

Waste facilities and resource recovery operations

- *Possible scope:* 'conventional' facilities that do not promote materials and/or energy recovery according to the waste hierarchy
- Currently being investigated for the EU Taxonomy

Unsustainable vegetable oil production

- Contributes to range of environmental issues and impacts
- Complex verification, may not be possible across oil products

How to treat Sovereign bonds?

Challenge: Issuing country doesn't normally specify 'use of proceeds'

- Potential to refer to **international obligations and treaties**
 - **Paris Agreement on climate change**
 - **UN Convention for Biological Diversity**
- Projects that could **damage valuable or protected natural areas**
 - **Internationally funded development projects such as hydroelectric dams**
 - Verification linked to Environmental Impact Assessments (EIAs) carried out for planning and due diligence

Criterion 3: Excluded activities

1st Proposal for Criterion 3: Excluded activities – Environmental aspects

Companies that derive their revenue from the following activities shall be excluded from investment portfolios of the financial product:

- Coal, natural gas and crude oil exploration and extraction
- Coal, natural gas and crude oil refining for fuel
- Forms of energy generation from fossil fuels that are excluded from the EU Taxonomy
- Waste management facilities without materials or energy recovery
- Production of pesticides that are not authorised for use or import to the EU
- Production of industrial gases with a high Global Warming Potential and/or Ozone Depletion Potential
- Illegal deforestation

These exclusions shall apply to all activities within an investment portfolio. A cut off threshold 5% of the total revenue derived from each company may be associated with these excluded activities.

Criterion 3: Excluded activities

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:

- Non ratification of the Paris Agreement
- Non ratification of the UN Convention for Biological Diversity
- Non ratification of international conventions on environmental protection
- Internationally funded projects that could damage valuable and /or protected natural areas

Please note: The environmental exclusions included within this proposal are solely for the purpose of discussion with stakeholders and are to be further checked for their applicability and consistency.

Moreover, the exclusions will need to be further checked against the EU taxonomy to ensure there are no contradictions with the logic of how it is designed.

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.

Questions to stakeholders

- Do you think the proposed environmental exclusions should be expanded to include more economic activities?
- Do you think the partial exclusions threshold should apply to each company's activities or to the portfolio as a whole? If it should apply at portfolio level, should it be set differently for specific sectors?

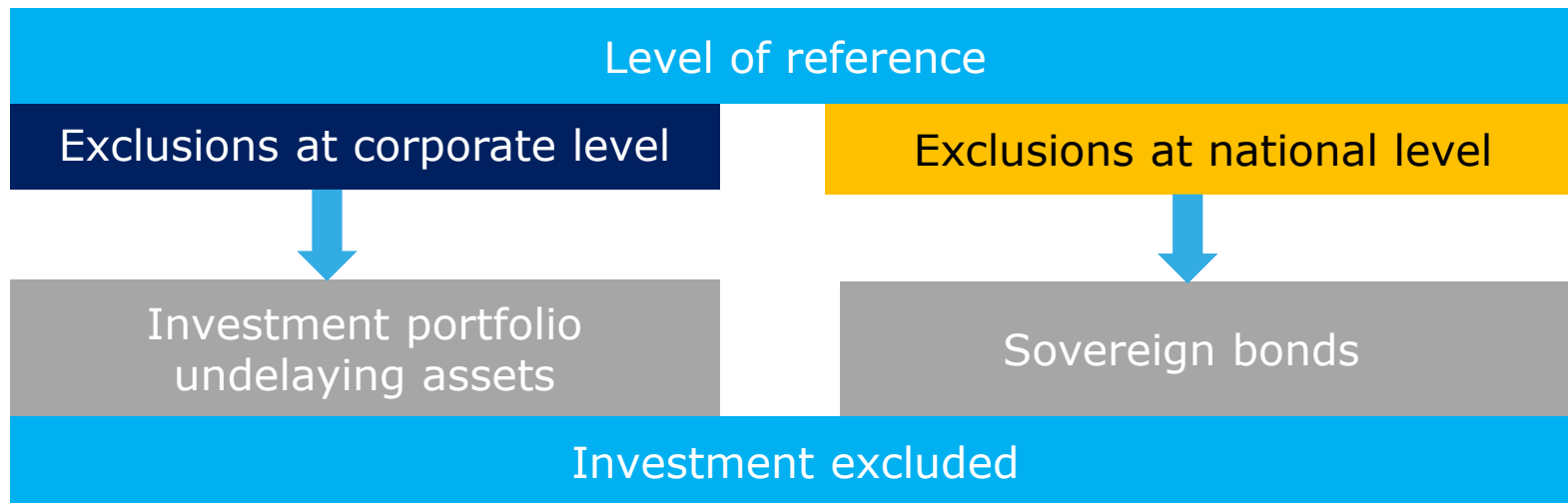
EU Ecolabel for Financial Products

Criteria Area: Social And Ethic Aspects

Criterion 3: Exclusions based on social & ethical aspects

Criterion 3: Exclusions based on social & ethical aspects

This section makes the first proposal for social and ethical exclusions responding to societal concerns. The proposed exclusions are defined at **corporate** and **national** level.



Criterion 3: Exclusions based on social & ethical aspects

Background for identifying possible social & ethical exclusions



Criterion 3: Exclusions based on social & ethical aspects

Social & Ethical related exclusions at corporate and national level

Corporate level

- Human rights violation
- Labour rights violation
- Corruption & Bribery
- Tobacco
- Conventional weapons
- Controversial weapons
- Poor corporate management⁴⁰
- Poor human capital development⁴¹
- Pornography

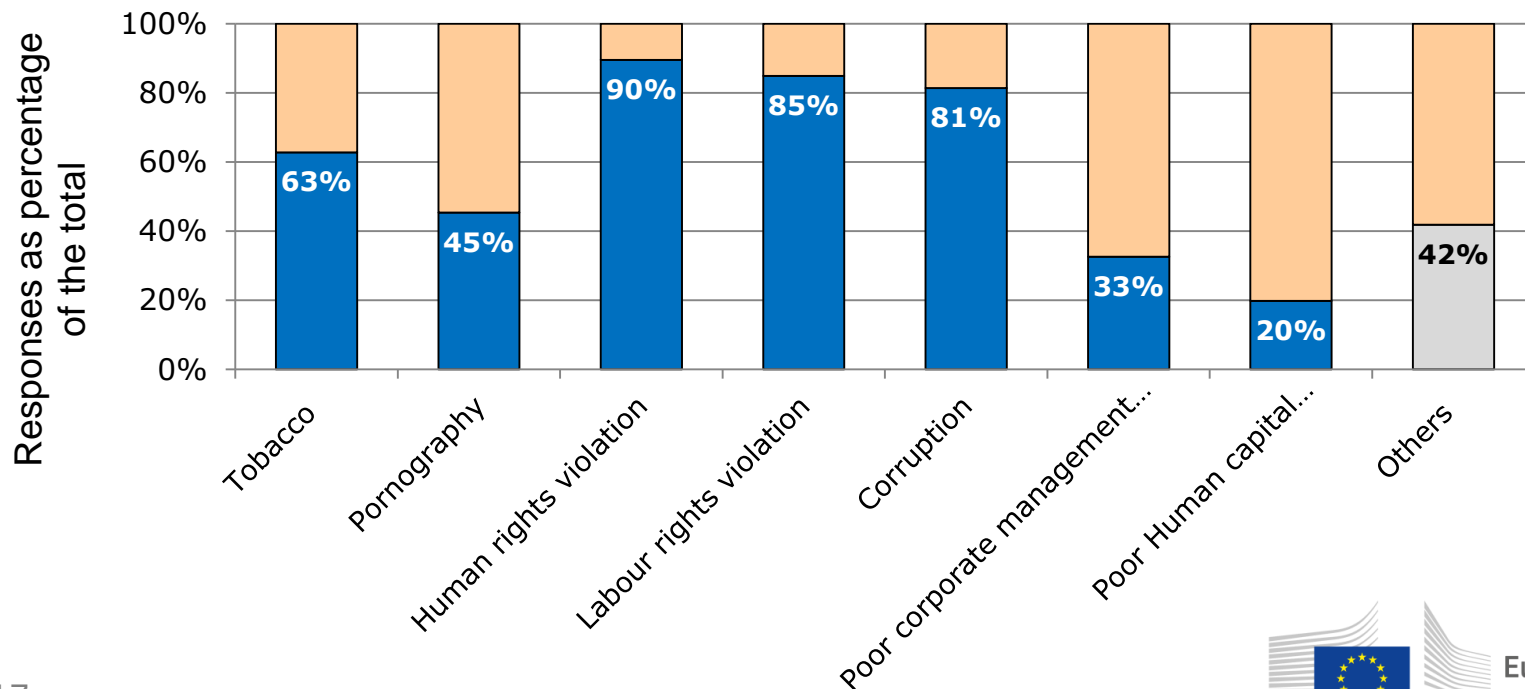
Criterion 3: Exclusions based on social & ethical aspects

National level

- Human rights violation
- Working conditions violation
- Corruption & bribery
- Use of controversial weapons
- 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

Criterion 3: Exclusions based on social & ethical aspects

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



Criterion 3: Exclusions based on social & ethical aspects

1st Proposal for Criterion 3: 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

Criterion 3: Exclusions based on social & ethical aspects

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.

Questions to the stakeholders

- Do you think the **proposed exclusions list** on the basis of social & ethical aspects should be enriched with more activities?
- Do you think it may be appropriate to **also exclude poor corporate management practices and/or poor human capital development**? If yes, how it will be possible to verify such exclusions?

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EU Ecolabel for Financial Products

Criteria Area: Information

Criterion 4: Consumer Information

Need for consumer information

- These requirements will allow consumers to take a well-informed decision and also enhance transparency
- These ensure that the market participants are provided with the right information and that the financial product remains compliant with the requirements of the respective labels. It should be updated regularly and therefore be based on a regular monitoring of the portfolio.
- Consumer information and reporting requirements cover the climate related objectives, transparency, quality and regulatory requirements. Such actions will enhance the credibility of the EU Ecolabel.

Criterion 4: Consumer Information

1st Proposal for Criterion 4: 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 objectives⁴⁵
2. Information on corporate activities and governance structures of the company managing the portfolio detailing how social and ethical issues are managed
3. 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.

Criterion 4: Consumer Information

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.

Questions to the stakeholders

What **will** be a reasonable interval for monitoring and reporting information to the consumers?

Rationale: Information appearing on the EU Ecolabel

- Information on the label is **useful for reinforcing messages that endorse the consumer's choice** of an EU Ecolabelled product over alternatives that are not labelled
- **Three key environmental characteristics** of the EU Ecolabel product may be displayed in the optional label text box
- The sentences proposed for financial products include a reference to the reduced impact on climate change, social and ethical principles respected and transparent reporting on environmental performance

Criterion 5: Information appearing on the Ecolabel

1st Proposal for Criterion 5: information appearing on the EU Ecolabel

The applicant shall follow the instructions on how to properly use the EU Ecolabel logo provided in the EU Ecolabel Logo Guidelines:

http://ec.europa.eu/environment/ecolabel/documents/logo_guidelines.pdf

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.

And the following statements:

- Social and ethical principles respected
- Transparent reporting on environmental performance

Criterion 5: Information appearing on the Ecolabel

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.

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EU Ecolabel for Financial Products

Next Steps

**B5 Unit. Circular Economy and Industrial
Leadership**

Next Steps

- First ad-hoc Working Group Meeting – **4th April 2019**
 - Elicit comments from stakeholders on criteria proposals by **6th May 2019**
- Presentation of progress at next EUEB meeting – June 2019
- Second drafts Technical report and criteria proposals – September 2019
- Second ad-hoc Working Group Meeting – October 2019

Comments using the BATIS system

Written comments on the second criteria proposals are invited and should be posted on the BATIS system at the **latest by Monday 6th May 2019.**

A screenshot of a web browser displaying the BATIS User Login page. The browser's address bar shows the URL 'http://eippcb.jrc.ec.europa.eu/batis/'. The page header includes the European Commission logo and the text 'JOINT RESEARCH CENTRE Institute for Prospective Technological Studies (IPTS)'. Below this, it says 'BAT Information System European IPPC Bureau'. The main heading is 'BATIS > User Login Workspace' followed by 'User Login'. The login form contains the text 'Please enter your username and password to login to BATIS' and a key icon. It has two input fields: 'Username:' and 'Password:'. A blue 'Login' button is to the right of the password field. At the bottom of the form, it says 'Forgot your user login and/or password? Click [here](#)' with a document icon.

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

Thank You for Your Attention

Project functional mailbox:
`jrc-b5-financial-products@ec.europa.eu`

Project website:
`http://susproc.jrc.ec.europa.eu/Financial_products`

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