

Development of the EU Ecolabel Criteria for Financial Products
1st Ad-Hoc Working Group (AHWG) Meeting
Thursday 4th April 2019, 9:30-18:00

Draft Minutes and summary, v1.0

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Agenda

		Schedule
1.	Opening, welcome and tour de table	09:30 – 10:00
2.	Introduction The political context and objectives of the EU Ecolabel for Financial Products	10:00 – 10:30
3.	Process Work programme, project timeline, process description of the EU Ecolabel	10:30 – 10:45
4.	Preliminary findings – presentation and discussion Legislation and standards, questionnaire feedback, market and technical analysis, conclusions and recommendations on the scope and focus	10:45 – 11:15
	Coffee break	11:15 – 11:30
5.	Product Scope and Definitions Proposed retail financial product scope and definitions	11:30 – 12:00
6.	Criteria overview	12:00 – 12:15
7.	Criteria proposals: Environmental Aspects Criterion 1: Thresholds on green investment portfolio and economic activities	12:15 – 13:30
	Lunch break	13:30 – 14:30
8.	Criteria proposals: Environmental Aspects Criterion 2: Exclusions based on environmental aspects	14:30 – 15:30
9.	Criteria proposals: Social and Ethic Aspects Criterion 3: Exclusions based on social & ethical aspects	15:30 – 16:00
	Coffee break	16:00 – 16:15
10.	Criteria proposals: Information Criterion 4: Consumer information Criterion 5: Information appearing on the EU Ecolabel	16:15 – 17:15
11.	Concluding discussion and next steps	17:15 – 17:30
12.	Close of the AHWG meeting	17:30

Participating organizations

ISPRA
European Commission: DG JRC, DG ENV, DG FISMA
ALFI
Meeschaert AM
EACB
European Association of Cooperative Banks
ABN AMRO Private Bank
Better Finance
ABBL
Mirova
2 Degrees Investing Initiative
Autorité des Marchés Financiers (AMF)
Swedish Society for Nature Conservation
Ecolabelling Denmark
Austrian Consumer Association (VKI)
Finans Danmark
German Environment Agency
Forest Stewardship Council
La Banque Postale Asset Management
French Ministry of Environment
World Wide Fund for Nature (WWF France)
Environment Agency Austria
BVI German fund association
GNG
Sveriges Konsumenter (SE Consumers Association)
Int. Association of Oil and Gas Producers (IOGP)
European Investment Bank
EY
Luxflag
Luxembourg Stock Exchange
Amundi Asset Management
Austrian Society for Environment and Technology
European Banking Federation
Dutch Banking Association
Novethic
Spanish Banking Association
Ecolabelling Sweden
Miljömärkning Sverige AB (Nordic Swan Ecolabel)
Ecolabel Competent Body
Danske Bank
Borealis AG
Belgian Federal Public Service Health & Environment
BNP Paribas Asset Management

1. Introduction and background

Political background

The European Commission (EC) welcomed participants to the meeting and a round of introduction of all participants was followed by a presentation on the Action Plan on Sustainable Finance as part of the political context of the project. They also referred to including the links to the EU Taxonomy and the green bond standards under development, mentioning the objectives of the taxonomy and that currently it focuses on climate change mitigation and adaptation. The Technical Expert Group (TEG) is in charge on developing further all the context of the taxonomy. The EU Green Bond Standard (EU GBS) team is progressing with the development of the requirements for green bonds, and the first report on that topic is already published.

The EU Ecolabel scheme was presented. The EU Ecolabel is based on the regulation EU 66/2010 of the European Parliament and of the Council. It was pointed out that financial products fit into the scope of the EU Ecolabel regulation. The Competent Bodies (CBs) of the EU Member States will act as evaluators of the applications for an EU Ecolabel for financial products and will award the EU Ecolabel. The criteria under development should target at selecting the best 10 -20% of the products available on the Community market in terms of environmental performance potentially falling within the scope of the criteria.

An overview of the work programme, the process timeline and how to submit comments in BATIS was presented. It was emphasized that the deadline for comments on the Preliminary report, and on the first Technical report, which includes the Criteria proposal is 6th May 2019, and that comments submitted after the stipulated date will not be taken into account.

Stakeholders asked *whether the EU Ecolabel will consider integration of elements included in other labels* on the market, such as ESG metrics. Another stakeholder asked where, in the criteria, is the link with the environmental performance of the product and what is the impact on the real economy. Another stakeholder wanted to know *how many funds we expect would comply with the EU Ecolabel criteria*. The EC responded that it is not possible to give a precise figure, as it will depend on the criteria. The EU Ecolabel regulation suggests that the share of candidate products should be approximately 10 - 20% of the market but it will depend on the type and strictness of the criteria developed under this process. It is important to strike the right balance between the number of funds to be EU Eco-labelled and the strictness of the criteria in order to avoid focusing on “niche” products while guaranteeing greenness of products. The primary focus of the EU Ecolabel criteria is the environmental performance of the products and other aspects such as social and ethical issues are secondary.

To the request from several stakeholders seeking clarification on *the applicant for the EU Ecolabel*, the EC explained that the EU Ecolabel regulation aims at identifying the best environmental products (“goods or services”) on the market. In this case, the financial products will fall under the category of “services” and therefore the management company of the fund should be considered as the applicant because it is the management company that provides the service. However, it will receive the EU Ecolabel specifically for the management of a green fund, while the EU Ecolabel can figure on the information documents of the fund. The main reason for this conclusion is that we need to apply to financial products an already existing regulation (“the Ecolabel regulation”) that was designed for

good and service for consumers. The EU Ecolabel is awarded to the management of a specific fund, because the manager can be managing awarded and non-awarded financial products. This draws on the approach used for EU Ecolabel criteria for tourist accommodation (label awarded to the hotel company for a specific building). Another stakeholder pointed to the growing trend of third party management, and the need to consider this when determining to whom the label is awarded. The EC responded that the service by the management company would still be specific to the product.

Concerns about the *link between the EU Taxonomy and the EU Ecolabel criteria for Financial Products* were expressed by the stakeholders. These concerns were related to the broad objectives of the EU Ecolabel and the initial focus of the EU Taxonomy on climate change mitigation and climate change adaptation and the mismatches between the timelines for completing the EU Ecolabel criteria and the full EU Taxonomy.

The consequence would be that only economic activities substantially contributing to climate change mitigation and/or adaptation (as defined by the first Delegated Act) would be counted as “green” when calculating the degree of greenness of the portfolio (which determines whether the service linked to the given financial product can receive the label). Looking ahead, the list of green economic activities that can count towards portfolio greenness would be progressively extended to other environmental objectives (in line with the adoption of further Delegated Acts).

This approach would prevent creating a parallel system to the Taxonomy to identify what a green activity is and would guarantee full consistency with the taxonomy work.

Stakeholders asked if the EU Ecolabel criteria would be tested on real products before being launched and published. They commented that there might be difficulties in applying some of the proposed criteria.

2. Summary of the preliminary report

The EC presented a brief summary of the main findings from the preliminary report (PR) which served as the background document to develop the technical report (TR) and the criteria proposals. An overview of the stakeholders who responded to the online questionnaire survey, the financial schemes and labels interviewed, and the technical reviews of the schemes was also presented. The preliminary report indicated that investment funds (IFs) and insurance products (IP) are the most relevant financial products on the Market. Furthermore, an analysis of the existing taxonomies also highlighted the need for a harmonized framework for the definition of green economic activities, i.e., the EU Taxonomy.

A stakeholder commented that there is no evidence that the approach presented (i.e. green thematic investing) delivers reduced environmental impacts, which is the aim of the EU Ecolabel. The objective of the asset manager should be to deliver “environmental impact”, while the objective of optimizing return by integrating environmental factors is clearly a distinct one (under the thematic investing approach, the aim is to change exposure to green and brown assets to reduce risk from energy transition). It is not clear, from the preliminary and technical reports, which approach an asset manager should use to be effective in delivering environmental impact.

It was also pointed out that the impact of green bonds is easily visible because they fund concrete projects that make a tangible and measurable impact in the effort to address environmental challenges. On the other hand, shares are not directly linked to specific projects. The objective could be to invest in companies that develop and manufacture technologies that would help to overcome the environmental challenges that are currently being faced.

The EC clarified that the objective of the EU Ecolabel criteria for financial products is to inform consumers about those products that have an outstanding environmental performance in comparison to the average financial product. Additionally, the EU Ecolabel aims at attracting retail investors and therefore a balance will be needed between attracting retail investors and achieving the outstanding environmental performance of the financial products.

Several stakeholders requested additional information on the following: 1) the profile of the survey respondents and their responses, 2) the environmental analysis of financial products labelled as green by Bloomberg, 3) the quantity of green financial products that are available to households, 4) an analysis on the accuracy of the market data presented and the rationale for the selection of Bloomberg as source of information. One stakeholder mentioned that there are conflicting data on the number of funds labelled as green in the European market, and pointed out that depending on the data set assessed, the results of the market analysis and the importance of the products included in the scope could vary.

3. Scope and overview of the criteria

The EC presented the scope for the EU Ecolabel criteria for financial products. It was stressed that it is proposed to limit the scope of the EU Ecolabel criteria to investment funds, and insurance-based products with an investment component initially. This initial scope is proposed to be expanded in subsequent revisions of the EU Ecolabel criteria.

Stakeholders commented that the largest demand for green investment is coming from *institutional investors* and that it is much higher than that from retail investors, thus it would be better to open the scope to institutional investors too. Additionally, it was mentioned that there are retail investors that invest *via* institutional investors, and a reference to FNG label was made to illustrate this point. Specifically, although the label was initially designed to address retail investors, currently, most of the labelled products target institutional investors. Regarding the legal framework, it was commented that EU Ecolabel targets primarily consumer products. Related to the latter, there was a question on whether the EU Ecolabel can be awarded for B2B products. The EC clarified that this is the case for a few other EU Ecolabel products. However, in the case of financial products, B2B activities can be considered to link issuers with institutional investors. Therefore, this particular point has to be investigated further.

A stakeholder questioned the relation of the scope with the relevant market and how the criteria could pick the 10-20% best performers in the market and the connection of the EU Ecolabel with the EU GBS. The same stakeholder sought clarification on real estate funds and their inclusion in the scope of the EU Ecolabel. This was supported by another stakeholder who pointed out that investments in infrastructure should also be considered as they play an essential role in economic development.

A number of stakeholders asked that additional explanation be provided on the different *financial products such as pension funds, saving accounts, corporate bonds or mortgages and their exclusion from the EU Ecolabel scope*. Particularly strong support was expressed for the inclusion of savings accounts. In this context, it was pointed out that saving accounts can be linked to certain green projects and could make a significant impact on the society and that excluding them would need to be justified. Moreover, it was commented that mortgages for nearly-zero energy Buildings (NZEBS) and infrastructure, which can have a significant impact from investment and environmental points of view, are so far not included in the scope. Finally, stakeholders stated that the most invested products will differ, depending on the member state, and thus the EU Ecolabel for financial products may not have the same impact on each Member State's market.

One stakeholder wanted to know at which level the proposed EU Ecolabel criteria would be applied: at sub-fund level or at fund level. It was explained that the current assumption is that the assessment and verification of compliance to the criteria would be conducted at the fund level but that an improvement of this proposed assessment and verification would be investigated in the next revisions. Stakeholders expressed initial reactions according to which the sub-fund level should be eco-labelled, because the umbrella fund can cover different strategies.

The EC explained that with regards to pension funds, their inclusion in the scope needs further analysis as they are generally considered to be products aimed at institutional investors. A stakeholder enquired if green bonds can be EU Ecolabelled. Responding to that, the EC explained that the current proposal includes bonds only as underlying assets and it would be investigated if they can be included as stand-alone product too. The stakeholders were encouraged to provide ideas on how to verify savings linked to green investments and also propose concrete suggestions along with examples on how to tackle these issues.

A fund which entails other funds as underlying assets (umbrella structure) is a special product that attracted the attention of the participants because they can be used to include a wide variety of underlying assets. The EC sought information on how the proposed criteria applied to this type of product could be verified and if it would be difficult to determine the underlying assets the product consists of. Stakeholders commented that a solution could be that this specific fund can consist only of labelled funds (or of a very high share of these, e.g. the TEEC label uses 95%).

One stakeholder indicated that it is very important to manage expectations on the Ecolabel and its impact. The way the EU Ecolabel is presented assumes that there is a linear relationship between the purchase of a fund and the "environmental" impact on the real economy. This direct link, however, do not exist in reality, as investing in a fund does not generate a direct impact on the behaviour of the underlying assets (companies). The impact of the EU Ecolabel will simply be inflating the price of the assets underlying the fund.

The EC pointed out that the EU Ecolabel is a green label which will also consider significant societal/ethical concerns via exclusion, however it clarified that it is not intended to be a Sustainable Responsible Investment (SRI) label as the latter is more focused on the other pillars of sustainability rather than on environmental matters. Therefore for financial products to qualify for the EU Ecolabel, they should fit in the scope of the EU Ecolabel Regulation. Otherwise, there is no possibility for the specific products to be awarded the EU Ecolabel.

A question was raised on what “retail bond” exactly means. Moreover, a stakeholder asked whether the existing scope differentiates between corporate and sovereign bonds. The EC replied that currently that is not the case. Additionally, there was a question about whether there will be specific EU Ecolabel requirements on different bond types. A stakeholder mentioned that if EU GBS requirements apply then corporate bonds will drop out of the EU Ecolabel. The EC responded that corporate bonds could also contribute to the greenness of the portfolio and that this particular point will be further explored.

It was explained that because of the foreseen difficulties in the implementation and verification of the criteria, it is preferable to start with a narrow scope which could be opened up later on. However, some stakeholders commented that it would be preferable to start from a broader scope and narrow it in the coming revision. In this way, it will be easier for consumers become familiar with the EU Ecolabel criteria for financial products and scale can be achieved more easily.

4. Criteria overview

An overview of the criteria areas and the proposed EU Ecolabel criterion for financial products was presented including a proposal on how the criteria set could work.

A stakeholder stated that by proposing criteria which focus only on green could cut off a significant segment of the funds as many of them might include investments which are compliant with other dimensions of sustainability but not necessarily green. Nevertheless, some stakeholder insisted that the EU Ecolabel is a green scheme, and therefore, the focus should be on investing in green activities.

Stakeholders suggested a criterion for evaluating engagement at fund/company level. Consequently, engagement might also be included in the EU Ecolabel criteria proposal for assessing the degree of commitment towards improving environmental and social issues.. This could be part of the evaluation strategy and inspire companies to drive investments in environmentally sustainable activities. Another stakeholder suggested engagement at fund level should be rewarded in the evaluation, but could be an add-on to the criterion defining the greenness of economic activities as well as the thresholds at the portfolio and company levels.

Another stakeholder pointed out that criteria on green impact and engagement are missing. These will have a significant effect on the market by influencing the companies to be green. Some stakeholders mentioned that engagement should not be integrated into the mandatory criteria because in most cases, this would be difficult to verify at the fund level.

A third one suggested the inclusion of a criterion on how to calculate the return of the portfolio. However, other stakeholders commented that the EU Ecolabel is designed to distinguish companies and financial products according to their performance and not a tool to share best practices.

Some comments on the wording “*social and ethical aspects*” were provided. Stakeholders suggested that it is better to refer to “*social and governance aspects*”. The EC clarified that the word “ethical” is what it is used in the EU Ecolabel Regulation, but agreed that for financial products, the wording “*social and governance*” would be more appropriate.

Split opinions were expressed on the appropriateness of a set of mandatory requirements versus a system of optional requirements with point-based scoring. Some stakeholders suggested a set of minimum mandatory requirements. This brings clarity to the requirements that a financial product has to comply with. It is more easily understood by the consumers and enhances the credibility of the EU Ecolabel while reducing complexity during the verification. However, it might narrow the number of products to be awarded with the EU Ecolabel. On the other hand, the latter is more flexible, but one stakeholder argued it does not fit with the principles of the EU Taxonomy, which provides the framework for the definition of what a green activity is.

Some stakeholders commented that the combination of both systems could be a feasible solution. One stakeholder proposed a transition label with decreasing thresholds along the years, becoming stricter after several years. Another highlighted that at this early stage, green assets are still lacking and the EC should be cautious not to make the label too restrictive – instead it should try to get financial market participants on board, and then gradually restrict the criteria. A stakeholder wanted to have a clearer picture of how the EU Ecolabel criteria could evolve beyond the adoption of the Commission decision in 2020, pointing to the importance of striking a balance between level of ambition of the criteria and market uptake. The EC clarified that the choice of the evaluation system does not affect the strictness of the criteria: both mandatory criteria and a point-based system with optional criteria can be high or low in ambition.

It was highlighted that the EU Ecolabel distinguishes between green and not green. Thus, in this manner, it is a pass/fail scheme. Nonetheless, mandatory and optional criteria could be set defining the appropriate threshold to award the EU Ecolabel. The EC also clarified that the criteria could be revised after their adoption. The revision process can be triggered anytime, yet preferably after an appropriate timeframe and only if there is a need for an update. It is usually a similar process that the one for developing the criteria, unless only minor modifications are made and a shortened procedure is implemented.

One stakeholder commented on the existence of different Environmental, Social, and Governance (ESG) schemes and suggested that there is a need to provide/consider the definition of ESG criteria within the EU Ecolabel criteria proposals, since there could be existing funds with an ESG rating that have no positive environmental impacts. Another stakeholder suggested the necessity of minimum ESG requirements. As a clarification, the EC mentioned that an ESG analysis should be carefully considered, in order not to contradict the proposed environmental and social exclusions.

5. Criterion 1: green activities

The EC delivered a presentation on how the EU Taxonomy should be considered to evaluate environmentally sustainable investments. The presentation contained the proposed thresholds on green investment portfolio and economic activities (both at portfolio and company level) that a fund should comply with to be awarded the EU Ecolabel. Suggestions were sought on how to address investments in activities not covered by the EU Taxonomy.

Clarification was requested about the number of issuers of equity that should comply with the criterion at issuer level and the rationale behind this. Stakeholders commented that it would be

better to define a threshold based on the weighted average (i.e. issuers representing 90% of amount invested by the fund) and not the number of issuers (e.g. 9 out of the 10 issuers included in the fund).

A Stakeholder highlighted the issues with availability and quality of data. Poor quality and in many cases the complete lack of data make it difficult to assess the strictness of the criterion, therefore the same stakeholder asked for clarification on the link to other EU initiatives, such as sustainability-related disclosure, Prospectus Directive and Taxonomy in terms of building up data. A stakeholder referred to sustainability-related disclosures and suggested that they could help increasing the quality and amount of data. .

Other stakeholders wanted to know why the thresholds for equities and bonds were different. As an example, they mentioned that a company that derives 60% of its revenue from green activities, according to the EU Taxonomy, will count towards meeting the threshold for greenness of the portfolio. However, investing the same amount of money in corporate bonds in that same company will not necessarily count towards portfolio greenness.

The absence of requirements for derivatives was also questioned by the stakeholders as this could decrease the quality of the criterion, since this underlying asset class allows the fund managers to reduce the volatility of the funds, differentiate financial products, and increase the liquidity, etc. The EC clarified that the existing underlying assets to be verified for the EU Ecolabel, as included in the current scope, refer only to equities and bonds. Under the current proposal, derivatives would not be excluded (except through the exclusion criteria), but neither could they be counted as green.

A discussion emerged about the point when the criterion should be verified. Stakeholders commented that there is a need to clarify what is the picture date, that is when the assessment and verification of the criteria should be performed e.g. at the end of the fiscal year, at the moment of investing, as an on-going process at several points in time, etc. Related to this was the question of who ensures continuous compliance with the criteria. The robustness of the thresholds proposed was also discussed, with a question on whether a sensitivity analysis was conducted to assess the reliability the results, to determine which parameters are critical for the evaluation, and to understand what would happen if we change these parameters at the margin.

The EC responded that the proposed criteria thresholds are based on extensive research including analysis of the survey results from the questionnaire survey, bilateral interviews with scheme/label operators, technical analysis of documentation of existing schemes and labels as well as relevant information on market coverage.

Additional comments on assessment and verification of the proposed criterion, referred to the unclear role of external verifiers, the need for assessing how parallel schemes could affect the EU Ecolabel, the verification of bonds in line with the EU GBS and the frequency of the assessment and verification (e.g. 1 year, 6 months, etc.). In its response, the EC stated that according to the current status of the report an audit should be carried out annually if the portfolio is in full compliance. In case of non-compliance, the frequency of the assessment and verification should be more intensive.

A stakeholder stated that the turnover of equities is approximately 18 months, so an annual verification would provide incomplete information on how the portfolio is changing over time.

Additionally, the verification relies on information disclosed by the companies/issuers. The assessment by ESG data providers is only available around 2 years after the data was generated within the company. This delay is due to the time needed for companies to disclose information (usually six months after the end of the accounting year) and for ESG data providers to obtain, compile, and analyse the data). There is also a time gap between the assessment of the greenness of a company's revenues and the awarding of the label. With regards to the question on who should carry out the assessment and verification, the EC clarified that the Competent Body in each Member State is responsible for assessing compliance and awarding the EU Ecolabel.

One stakeholder pointed out that the criteria should be specific to each fund or asset class. It is complicated to set a one-fits-all criteria because the requirements for each underlying asset class are very different: 70% greenness can be very ambitious for equities, but not difficult to reach for bonds or infrastructure. For example, if real estate is included, different criteria may be required, as there are different types of buildings which have different function, age, location, etc. The EC emphasised that the EU Taxonomy will develop specific criteria for buildings which should address these issues.

A stakeholder stated that a very large share of “green bonds” on the market are general corporate bonds so that including corporates bonds could result in retail investors being exposed to brown assets.. Additionally, the stakeholders commented that use of proceeds will be a challenging issue, and therefore, a link is necessary to the ongoing work of the TEG on the EU GBS. The EC clarified that the current draft recommendation by the TEG on a EU GBS contains a use of proceeds requirement and stated that the investment in green projects are not merely based on the greenness of the issuer. However, it was acknowledged that criteria for green bonds is a topic to be further explored and stakeholders were encouraged to provide their recommendations on this specific issue.

A stakeholder highlighted the difficulty of establishing a relationship between investment in green activities and turnover based on that specific investment and questioned whether the revenue threshold proposal is an appropriate indicator. The EC replied that a company could track revenues from green activities since the EU Taxonomy will explicitly define what is a green economic activity and consequently a company can link revenues to green activities.

Stakeholders commented on the thresholds proposed for this criterion. They sought clarification on if the 50% of green revenue threshold proposed at the company level is also applicable for corporate bonds which in that case should be green bonds.

Some stakeholders shared the opinion that a 50% revenue threshold proposed at the company level from green economic activities is too high and that it restricts the number of companies that can be classified as green companies and thus the number of EU Ecolabelled financial products. They also commented that it would be very tedious to verify all the companies within an investment portfolio and it was proposed that greenness reporting will be more appropriate if it is based on a range instead of exact numbers (e.g. 50 - 60% revenue from green activities instead of 55.4% revenue from green activities).

The questions on how the EU Taxonomy works and its relation to the minimum requirement of the company turnover from green activities were addressed. The EC explained that the EU Taxonomy will classify activities that are considered environmentally sustainable and defines the criteria that need to be complied with to be considered as such. For a company that performs several economic

activities, the share of revenues coming from the economic activities classified as green in accordance with the criteria of the EU Taxonomy will be the percentage of green revenues of the company.

EU Taxonomy criteria are still under development. For the time being, the Taxonomy is looking at two types of activities: those contributing to reduce the negative environmental impact of other activities (e.g. renewable energy) and those that outperform other activities in the same sector (e.g. an iron manufacturer whose CO₂ emissions per ton of product is much lower than the rest of the iron manufacturers).

Stakeholders expressed concerns on how to ensure that good performing activities in one objective of the EU Taxonomy are not damaging the others. As an example, it was commented that battery manufacturers that use critical materials could perform well as regards climate change mitigation, but have adverse effects on human rights.

Stakeholders suggested the greenness of the company should be handled at the level of exclusions. One stakeholder proposed to decrease the company green revenue threshold to 20% and in the meantime increase the strictness of exclusions. Otherwise, companies that develop new technology (especially low carbon technology) and companies with a substantial market share will not qualify since the revenues due to green innovation will be indicated at a later point in the financial statement. The same stakeholder supported the idea that the EU Ecolabel should encourage companies in transition to be captured in some way by the label.

Other stakeholders proposed a threshold of 100% and suggested that companies, which do not qualify as green could issue green bonds in accordance with the aims and objectives of the EU GBS. Others commented that it was impossible to assess the proposed level of ambition. In responding, the EC suggested the creating of a small stakeholder group to test the robustness and applicability of the proposed thresholds.

Finally, stakeholders asked whether the end users of a specific economic activity will be considered when assessing the greenness of the activity. A stakeholder mentioned that the greenness of a company could also depend on the supply chain. Therefore, although the activities of a company could be green, sometimes they can create social and environmental issues along the supply chain. As an example, they stated that a cable manufacturer could serve nuclear power plants. They also commented that most of the eligible companies would be the ones that have no problems to access the financial markets and the number of funds to be labelled will be lower than 1% of the total investment market. Additionally, some stakeholders pointed out that the proposed EU Ecolabel criteria could create a financial bubble and therefore, these aspects should be further analysed.

Additional comments received were that the proposed EU Ecolabel criteria currently do not distinguish between different types of funds. Therefore, they should be adjusted and thresholds should be defined for specific fund categories.

On verification, one stakeholder pointed out that environmental NGOs have set up verification and accreditation scheme under the umbrella organization I-SEAL, and offered to provide further information.

The session concluded some stakeholders' making proposals some of which include the consideration of different portfolio thresholds depending on the composition of the funds. It was also mentioned, that there is the need to encourage companies in transition. Moreover, pure players should have a different threshold. A stakeholder was of the opinion that the market is extremely conservative as regards sustainability. Hence a balance should be struck between the stringency level of the thresholds proposed and market uptake. The EC proposed the development of a sub-group which will test the proposed thresholds at both the company and portfolio levels.

6. Criterion 2: Exclusions based on environmental aspects

Exclusions based on environmental aspects were presented. The exclusions are drafted taking into account environmental regulations and policies, the current experience at European level, and the questionnaire results. The exclusions are set with consideration for the work of Taxonomy to avoid contradictions. A proposed 5% threshold for partial exclusions was highlighted and it was pointed out that exclusions are set at corporate and national level. Stakeholders were asked to comment if the list of environmental exclusions should be extended and whether they should be applied to company level or the portfolio as a whole.

Several stakeholders suggested that nuclear power should be excluded, as this should not be left to the respective member state, but reflected in the ambition of the EU Ecolabel and meet consumers' expectations. One stakeholder suggested providing an extended list of exclusions that includes the fossil fuel industry and waste management without energy recovery. However, another stakeholder was of the opinion that waste incineration with energy recovery, should be excluded based on the circular economy targets and the waste directive.

Other additional exclusions suggested include GMOs, unsustainable oils, deforestation and forest degradation due to biodiversity losses, unsustainable logging, utilities with emissions higher than a certain level (e.g. not aligned with the 2C pathway, aviation and other sectors which contribute to climate change, and companies with a large environmental impact or those harming other EU Taxonomy objectives. A stakeholder suggested the exclusions should be linked to the EU Taxonomy on the basis of the do no significant harm principle. Moreover, stakeholders also suggested that the production of all hazardous pesticides (even those legally produced or imported in the EU) should be excluded.

Regarding a partial exclusions threshold, stakeholders expressed support for a 5% threshold, while suggesting that it should apply at company level. Furthermore, if a transition period is adopted, then the threshold should be lowered and associated with the level of the company's engagement. One stakeholder pointed out that care should be taken in setting a percentage as a partial exclusions threshold. This is because a company can qualify by having less than 5% investments in excluded activities, but this percentage could also be a significant proportion of the global production. Another stakeholder stated that in the energy producing sector, it would be interesting to link the partial exclusions threshold with the global warming potential impact. One stakeholder argued that the 5% threshold would cut off the majority of the bond issuers and also affect many of the funds and therefore the proposal should be carefully considered.

Other stakeholders suggested that the threshold should vary depending on economic activity. For example, there are economic activities such as the production of hazardous pesticides that should be entirely excluded while for other economic activities such as those in transition a more permissive threshold (10%) could be proposed. A stakeholder requested that the use of pesticides should also be considered along with their production. It was also suggested to consider the case in which one company owns another company which conducts excluded activities. One should bear in mind that financial statements are not always consolidated.

Further analysis will be required about how to deal with the exclusion of companies that do not comply with Taxonomy Delegated Acts for economic activities contributing to non-climate objectives. It was highlighted that the staged approach of the EU Taxonomy (Delegated Acts for non-climate objectives will come later than the Delegated Act for climate mitigation and adaptation) is a temporary issue as the work on the development of the EU Taxonomy is an ongoing process. It was recognised that the simultaneous development of both policy instruments makes their alignment more challenging and therefore, it was recommended not to exclude a high number of economic activities as the EU Taxonomy could include them in a later stage.

Finally, a stakeholder stated that some of the exclusions at a national level could cut off sovereign bonds of countries which are important players in financial markets.

The EC summarized the suggestions and comments of the stakeholders and briefly explained how the research on this particular section would progress.

7. Criterion 3: Exclusions based on social and ethical aspects

The preliminary list of exclusions based on social and ethical aspects which addresses societal concerns were presented. These exclusions are defined at corporate and national level and consider all relevant parameters such as current experience, policies and legislation and stakeholders' opinion and the presentation of the exclusions concluded with a request to the stakeholders to provide their views on the extension of the exclusion list and whether corporate governance should also be considered.

Stakeholders indicated additional economic activities which could complement the proposed list. These include gambling, corruption (based on the perceived corruption index), and trade with weapons, countries that apply a death penalty, animal testing, land activities that do not respect indigenous rights, asbestos and uranium. A debate about the exclusion of tobacco and alcohol took place.

A stakeholder mentioned that apart from the existing exclusions, the EU Ecolabel criteria proposal should consider the ILO convention 169 as the EU Ecolabel will be applicable worldwide. Stakeholders indicated that further information on how to apply social exclusions could be found in the guidelines of the World_Bank. A stakeholder highlighted the case in which a fund manager realises that an exclusion requirement is not complied with. If this requirement is also a matter of legal action, how should he/she deal with that? Exclude on the basis of allegations or wait for a court order? It was also pointed out that the biggest challenge is to examine compliance with these social & ethical criteria.

Another stakeholder mentioned the importance of exclusions, and whether exclusions prevail. If that is the case, sovereign bonds issued by key players might be excluded. The EC clarified that at the current state of the art green sovereign bonds prevail, but that is an issue that needs further investigation. The same stakeholder suggested considering exclusions at regional instead of national level (otherwise, green bond issued by a municipality may be excluded because of the behaviour of the national government).

Some other stakeholder highlighted the difficulties for the Competent Bodies to verify compliance with this criterion and the need to rely on social committees judgements. This could draw on existing frameworks, e.g. OECD guidelines on Multinational Enterprises already have a fora in EU: companies or individuals who believe that a violation has been committed, can report this to the national body. They also suggested that funds should be required to disclose information about these specific issues and to propose an engagement plan (all these will increase the costs of the labelled fund). Stakeholders also commented on the benefits of requiring regular reporting from the companies involved and how to incentivise better reporting behaviour.

It was also pointed out, that the EU Ecolabel is a green label. Thus, any extensive social exclusion list could potentially divert the target of the label, meaning the social exclusion list should be kept precise and focused on the most critical social issues. A stakeholder mentioned the development of the social taxonomy and also suggested to keep social exclusions as focused as possible so as not to risk a contradiction with future social taxonomy requirements.

8. Criterion 4 and 5: Consumer information and information appearing on the EU Ecolabel

In this final session, criterion 4 which focused on consumer information was presented. This criterion aims at enhancing transparency, ensure data reliability, and empower the credibility of the EU Ecolabel while informing consumers about the product's performance. Beyond the criterion definition, a verification procedure was proposed. The presentation was concluded by requesting feedback from stakeholders on their views of a reasonable interval for monitoring and reporting.

A stakeholder mentioned that setting reporting requirements on customer protection issues is crucial and that disclosure requirements need to be strengthened. Otherwise, the EU Ecolabel could be misused. The same stakeholder provided an example of funds that fulfilled ESG requirements and were advertised as sustainable, yet their performances were not sufficient. In that case, reporting has facilitated their identification and highlighted the misleading information they provided. Therefore, it was suggested the EU Ecolabel should strongly take into account consumer protection rules.

Another stakeholder distinguished the impacts into financial and non-financial. Thereafter, potential inclusion of information on financial impacts is suggested along with information indicating quantified environmental impacts.

It is also pointed out that disclosure should take place once per year. It was added that reporting depends on data quality and that the sustainable management strategy also needs to be published. A stakeholder supported the information on the label should be linked to the environmental performance of the financial product and not the investment strategy. A second stakeholder

suggested the EU Ecolabel to indicate the expected environmental benefits of the investment. The stakeholders mentioned that, where applicable, a disclaimer would be needed to explain that there is no clear connection between the money invested and direct environmental impact so that this is perfectly clear to the retail investor and presented the example of the Nordic Swan. It was also claimed that reporting is the right mechanism to motivate investors to address the environmental issues and communicate them with the consumers.

9. Other aspects

A stakeholder mentioned that in their sector, companies are mandated to disclose all the investment in the portfolio once a year or twice a year, and asked if this aspect has been considered in the EU Ecolabel to make the process more transparent towards the customers and have all the whole lines disclosed and not only the top ten in which investment is made. Stakeholders mentioned that the current formulation of criterion 4 is unclear and too burdensome for asset managers as it requests for procedures for controlling aspects that are excluded, and this is not possible as asset managers cannot conduct a risk assessment on excluded aspects. Procedures for risk monitoring already exist, and are being applied in the industry based on the current asset management regulation. Therefore, it is more important that the EU Ecolabel links to the level two work currently being carried out on sustainability risk for AIFMD and UCITS. Finally, the use of external auditors or ethical committees was recommended during the assessment and verification of compliance to the different criteria.

10. Concluding remarks and next steps

The EC thanked all stakeholders for their participation and welcomed input in the form of comments on both the Technical Report and the Preliminary Report by 6th May 2019 through the BATIS platform. The meeting presentation and draft minutes from the meeting are to be made available to all stakeholders in the weeks following the meeting.