

Development of the EU Ecolabel Criteria for Financial Products
1st expert sub-group meeting on criteria 1.1
Tuesday 21st May 2019, 10:00-12:00

Draft Minutes and summary, v1.0

DISCLAIMER: The views expressed are purely those of the writer and are intended to reflect the discussions at the above mentioned meeting. They may not in any circumstances be regarded as stating an official position of the European Commission.

Agenda

		Schedule
1.	Opening, welcome and tour de table	10:00 – 12:00
2.	Discussion of Terms of Reference (ToR)	
3.	Identification of crucial aspects of the ToR Development of work plan (see template Table 1) and reporting structure	
4.	Sub-group Organization (agenda, dates and location) of the next meeting	
5.	Discussion on Report to larger stakeholder working group	
6.	AOB	

Participating organizations

European investment bank
Blackrock
UK Sustainable investment and finance association
VKI
Novethic
Better Finance
Swedbank Robur
BNP Paribas
Amundi
Mirova
Raiffeisen
Development durable
Bourse LUX
Insurance Europe

1. Introduction and background

Background

The European Commission (EC) welcomed participants to the meeting. This was followed by a round of introduction of all participants and a brief summary of the rationale for the development of the EU Ecolabel which included the link to the Action Plan on Sustainable Finance and the EU Ecolabel regulation EU 66/2010 of the European Parliament and of the Council as well as the political context of the project.

The EU Ecolabel criteria 1.1 proposed during the 1st AHWG meeting was presented. The objectives of the expert sub-group was also discuss with the following thresholds related issues highlighted: appropriateness of the level, existence of thresholds for different asset classes, getting data to assess the appropriateness of the levels proposed, etc. The participants were reminded of the “*background paper*” which had been provided in advance where several discussion points were identified by the EC. For the first session, it was proposed to concentrate on the following points:

1. Review green investment thresholds available in existing national labels and schemes, as well as those presented in the draft first technical report on the EU Ecolabel Criteria for Financial Products - to provide an overview of the state of the art.
2. Provide clarity on the parameter (turnover, revenue, revenue breakdown by sales, or sales) applied to thresholds at the holding/company level. Technical documents and labels and schemes refer to the turnover, if the criterion is included. In TR1.0 the term “*revenue*” has been used synonymously. However, with the latter wording, some activities might not be captured because companies are ‘*creative*’ in how they present their incomes from different divisions/sectors and activities.
3. Assess the need for thresholds at both the portfolio level and at the holding level.
4. Evaluate the relevance and feasibility from an operational perspective of the requirement on at least 90% of the direct holdings (in terms of number of issuers) for equities.
5. Assess the need for different portfolio thresholds depending on the composition of the underlying assets of the funds (e.g., threshold for each specific fund category)

An overview of the work programme, the process timeline of the EU Ecolabel project and how to submit information and documents through BATIS or circulate them by email was presented. Additionally, a quick summary of some of the results of the initial analysis of the stakeholders’ comments related to criterion 1.1 received after the 1st AHWG meeting was provided. These comments focused on the level of the thresholds, the need of tailoring the thresholds depending on the asset classes, etc.

2. Discussion on several issues

Comments on point 1: Existing national labels and schemes

One participant commented on the French TEEC label and its characteristics. The French label is much less strict than the proposed EU Ecolabel criteria but even so, the current amount of funds with green label on the French market is only around 0.2% of the total market. It is important to note that the low market share is due to, among other reasons, the difficulties that the fund manager face to fulfil the requirements. It was mentioned that if the purpose of the EU Ecolabel is to

make an impact on the market, strict requirements will have a negative effect because it will be impossible for the fund managers to build up a portfolio that complies with those requirements.

A second participant mentioned that the Nordic Ecolabel includes active ownership as one requirement. It was recommended that the EU Ecolabel adds active ownership into the 'decision' as it has the possibilities to drive investments in a company towards the EU Taxonomy. This would really be the strength for the EU Ecolabel as it would contribute to the purpose of the EU Ecolabel and what the retail market would like to see and how impact is then measured.

Another participant agreed that active ownership, particularly stewardship is very important particularly for ESG products or mainstream products but it has much less of a place in a green fund because what is expected is that asset managers put their efforts in engaging companies that are not performing well (e.g. fossil fuel companies) rather than investing their efforts in those that are considered green and doing well. Therefore, where there is an important role for a mainstream fund or ESG fund where investment would be made in oil and gas, in coal mining etc, there is no place in the current criteria for this but perhaps some points could be considered for voting etc.

Comments on point 2: unit of the thresholds (turnover, revenues, sales, etc)

No comments were provided on this point.

Comments on point 3: Thresholds at company and/or portfolio levels

It was considered that both thresholds are needed for two reasons. Firstly, if there is no company threshold, there is the risk of ending up with a portfolio consisting of few pure green players (e.g. solar power, wind power, etc.) and rest of the portfolio consisting only of other companies that will have only a neutral impact, and this should not be the intention of the EU Ecolabel. Secondly, the threshold at portfolio level ensures that there will be a percentage of investment in certain activities that the EU Taxonomy is not going to cover (e.g. environmental consultancy, environmental supporting). These activities are needed to be green but not accounted in the EU Taxonomy as they are not considered as relevant.

One participant commented that two thresholds at company level are required in other national schemes such as the French label. The first one is set at 10-15% and the second one above 50%. It was stated that having these two thresholds is very good because it fosters investments in pure green players (i.e., those above 50%) but it is almost impossible to have the bulk of funds invested in these kinds of issuers. The threshold related to the investment in pure green players can be discussed if included in the EU Ecolabel (i.e. between 15 and 50%) but it was pointed out that reaching this threshold is very challenging for the fund managers. The participant explained that there are a lot of players on the market that invest in green activities but for these pure players it is almost impossible to have 50% of their investments in only pure green activities. From a fund manager's perspective it is very important to have these non-pure green players in a diversified portfolio (e.g. issuers that invest in isolation or energy efficiency in buildings but that also invest in other building related activities).

The French label requires that 75% of the portfolio is invested in green companies, and the understanding of the label is that green companies are those companies that invest at least 10% in

green activities. Additionally, of the 75% of funds in green companies, 20% of the portfolio should be invested in pure green players, being those companies that invest more than 50% in green activities.

It was considered that this approach is the correct one to ensure that the requirements can be fulfilled by the financial products on the market. Regarding the diversification of the portfolio, the French label offers the possibility of having up to 25% of the funds in non-green companies. This provides flexibility to the fund managers to invest in neutral companies that help to diversify the portfolio. It was noted that with respect to this part of the portfolio, it is important to have good exclusion criteria to avoid investment in activities that can cause significant environmental damage.

Another participant agreed with the previous comments and pointed out that for example new companies that develop/manufacture new green/very specialized technologies will have difficulties in getting a high percentage of their revenues/turnover to come from these new green technologies. Secondly, it was pointed out that there are big players that have large diversified portfolios and that will never invest in certain activities and will never reach such as significant share of their revenues coming from green investments. Finally, the participant highlighted the importance of the environmental exclusion criteria for the proportion of the revenues not complying with the threshold to ensure that they are generated from neutral activities and that the overall environmental performance of the portfolio remains positive.

The thresholds proposed during the 1st AHWG meeting were welcomed by another participant who maintained that the threshold at company level should remain at 50%. It was argued that the threshold is not too strict because there are other existing labels such as the Nordic ecolabel that requires similar threshold levels and they work quite well (e.g. a threshold of 70% at portfolio level in the power generating sector and a threshold of 50% at company level). Therefore, even if there are currently few products that are able to fulfil the thresholds, a pull effect can emerge. This means that, a higher demand of ecolabelled products with strict requirements can incentivise the supply of these types of financial products. The participant warned that lower thresholds (i.e. lower than 50% at company level) might result in more financial products obtaining the EU Ecolabel but would undermine the credibility of the EU Ecolabel and facilitate the number of cases of greenwashing.

Regarding the impact of the label, the participant suggested using EMAS to facilitate the reporting of the environmental impact of companies. EMAS is a scheme that companies and organizations can use to evaluate and report their environmental performance. The objectives of the companies regarding environmental performance should be included in EMAS and therefore it can be communicated to the consumers in this way.

Another participant pointed out that the threshold at company level required by the Nordic label is not based on the EU Taxonomy and that the aim of this threshold is to achieve higher levels of ESG integration in the portfolio. This is an important difference, especially if the possible volume of green financial products on the market is considered.

Finally, another participant observed that setting two thresholds, or even three if the threshold discussed in point 4 is included, offers very little flexibility to the verifiers because it means that any investment will account and that everything should be verified at very high detail. The verification exercise will not simple at all, especially if the information is not available or the company does not have the capability to communicate it. A lower threshold at company level (e.g. at 40 - 30%) will

make verification easier because once the threshold is achieved, there will be no need for checking the remaining revenue in detail. The risk of setting high thresholds for the EU-27 is that unofficial lists of companies that are considered "pre-approved" for the EU Ecolabel can emerge and that there can be subjective approaches when checking the compliance with the EU Taxonomy

Comments on point 4:

One participant considered that 100% of the direct holdings can be assessed, because the whole portfolio should be examined. The Nordic label requires that 100% of the direct holding is assessed.

Comments on point 5: Setting of thresholds depending on the asset classes.

One participant pointed out that it is needed to take into account the nature of the investment products and set different thresholds depending on the types of asset included. Three categories were proposed:

- Companies: including equities and bonds
- Green bonds: issued by governments and companies. Green bonds should be treated differently because the green bonds can be done by grey companies that invest in green activities (e.g. oil companies investing in renewable energies) and it can be issued by government as well.
- Government bonds should also be taken into account somehow. It is not clear how this category should be considered.

Another participant agreed with the previous idea. The basic idea of the EU Ecolabel is to have an impact and it largely depends on the goals and on how they are met (e.g. by issuing equities or bonds). It was proposed to include in the third category bonds issued by international organizations. Setting thresholds based on the nature of the assets will cover a larger proportion of the retail financial products.

A participant initiated a discussion on the strictness and communication bias of the EU Taxonomy. The EC recommended that to achieve the objective of the meeting, it was better to focus on the discussions on criterion 1.1.

3. Working plan and next steps

The subgroup members suggested the importance of creating two groups to address the points proposed for discussions and to test ideas and thresholds against available real life examples. The EC emphasized the need to have information of possible portfolio composition of investment funds and the assets that are included. This information can be used to check the strictness and feasibility of possible thresholds.

The participants confirmed that it is possible to disclose the information on portfolio composition and several of them offer to show the kind of inputs that they check to verify the compliance with the label criteria. One participant emphasized that funding to NGOs should be provided to enable them provide their contribution and to get a balanced view from the different groups of stakeholders. The EC took note of these comments and remarked that this issue cannot be addressed by the conveners of this group.

The participants volunteered to work in one of the two groups' set-up to address the issues outlined in points¹ 1 to 2 or points 3 to 5. Participants included in task 1-2 mentioned that some material will soon be available on national labels and that this could serve as input to the work on tasks 1-2.

The two groups pledged to collect information and provide feedback (either as a draft report or draft presentation) on their respective tasks on the 3rd of June 2019.

Action	Organizations involved.	Deadline (1 st drafts)
Task 1- 2	European investment bank Blackrock UK Sustainable investment and finance association VKI Novethic Better Finance Swedbank Robur	3 rd June 2019
Task 3 - 5	BNP Paribas Amundi Mirova Raiffeisen Development durable Novethic Insurance Europe	

The EC will draft and share an indicative timeline of the next meetings with the participants to check their availability. A forum folder for each group will be created in BATIS. These forums will facilitate the exchange of information between participants and the wider stakeholder quorum. It was also proposed to circulate emails among the action members to share any confidential information.

The EC expressed interest in obtaining more information on the product scope, the possibilities of expanding the scope to introduce other asset classes such as pension plans, institutional plans, etc and the possible impacts of any potential expansion of "scope" on criterion 1.1.

Finally, the EC thanked all participants for their participation and welcomed inputs in the form of drafts in the next meeting. The meeting presentation and draft minutes are to be made available to all stakeholders on the official website in the coming weeks (http://susproc.jrc.ec.europa.eu/Financial_products/documents.html).

¹ Note: the terms 'points' and 'tasks' have been used interchangeably in this meeting minutes.