FESE response Commission consultation on EU Ecolabel

Brussels, 11th December 2020

1. Introduction

FESE welcomes the opportunity to provide input on the third draft of the Technical Report on the product scope and criteria for the EU Ecolabel for financial products.

FESE supports the objectives of reorienting capital flows to sustainable investments, managing financial risk related to climate change and fostering transparency and long-termism in financial and economic activity. We believe that markets are a key leveraging factor when it comes to critical societal challenges, including climate change.

FESE considers that defining standards, labels and classifications is critical as it would bring about three pivotal changes:

- to encourage more rigorous disclosure/reporting to meet clearly defined expectations;
- to improve readability and comparability of performance;
- to reward high performers and thereby incentivising change.

These high performers could be identified based on planned and executed activities, in accordance with the Taxonomy.

Currently there are various national Ecolabels in place with diverging requirements. We believe that having a harmonised Ecolabel for European products would facilitate cross-border trading in sustainable financial products.

We consider that the proposal for an Ecolabel would have the biggest impact if it is achievable by a large number of asset managers. Pressure on companies to match the thresholds will lead to a reorientation of financial flows.

We consider that the link to the EU Taxonomy in the Technical Report overall appears understated, whilst the expectation would be for the Ecolabel to build on this framework, at least for those activities that are currently covered and refer to the DNSH criteria and social safeguards in the exclusion criteria. As specified in the footnote on p. 36 of the Technical Report, the criteria for “Companies investing in Transition”, “differs from the definition of a ‘transitional’ activity in the EU Taxonomy, which relates to specific activities (not companies) that are not inherently low carbon, whereas in this criterion the reference is to companies whose revenue may be generated by transitional and enabling activities”. The criteria that apply to (i) companies investing in transition [and (ii) companies investing in green growth] are relatively new, not aligned to other similar criteria and partially based on forward-looking ambitious commitments by companies. We consider that this approach is likely to confuse the market and that further clarification is needed to ensure that the approach is anchored in existing frameworks.

Further clarity is also needed regarding whether sustainability-linked bonds are within scope of the Ecolabel or not, as these are not explicitly mentioned.

2. Detailed views on Ecolabel draft report

The criteria for the EU Ecolabel for different assets classes, is more even between bond funds and equity (or mixed) bonds in this updated version of the report. This is an improvement. Equity criteria have been strengthened and bond criteria have been somewhat relaxed. In an earlier version, there was an overreliance on EU GBS aligned bonds which was not realistic, at least not at this stage. The criteria now overall look more suitable for a broad (non-niche) application of the Ecolabel. It is also positive that the requirements of the external review/yearly reporting requirements, along with criteria for the investments is not covered by the threshold. In addition, the current draft criteria include transition bonds/activities as well as the general eligibility of general corporate purpose bonds. However, regarding the bond funds criteria, rather than reducing the threshold to 50% and only allowing EU GBS, it would be better to have a grandfathering period for other green bonds, as EU GBS is not yet in place and we expect that they will only cover a minimal part of the market for many years.

Regarding the equity funds criteria, the 40% threshold is still highly stringent compared to existing green labels that are already considered hard to obtain (e.g. Greenfin, LuxFLAG Climate). This is because the criterion requires the calculation of assets under management (AuM) invested in green revenues/CapEx, which is not common practice. An accurate calculation is unfortunately not yet possible, as companies only know approximately what their revenues split is. It would be preferable to calculate the AuM invested in green companies (and then define green companies depending on their approximate green revenue share). It should be noted that investment opportunities in taxonomy-aligned activities is currently limited.

For listed equity, the expected five-year outcome plans seem unrealistic depending on holding period. Companies typically change the way they report their revenues from one year to another and, depending on the fund, one company will be in the fund at time T and be out of the fund at time T+1 (this time period can be very short). In addition, it would be more helpful to speak of number of companies than the percentage of companies in the portfolio.

In section 2.2 ‘Companies investing in Green Growth’, in the criterion for investment in companies investing in transition and in green growth, further clarification on where ownership starts and stops would be helpful.

In section 7.1 on retail investor information, the criteria for ‘Equity: Bonds and mixed funds’ appear suitable. However, the report seems to imply that the information will be given at the activity level rather than the fund. It would be important to have further clarification of this point.

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