INVESTMENT ASSOCIATION RESPONSE TO EU ECOLABEL TECHNICAL REPORT

Introduction

The Investment Association ("IA") thanks the Joint Research Centre ("JRC") for the opportunity to participate in the development of EU ecolabel criteria for retail financial products.

As an industry, we work hard to serve our clients' diverse objectives through the delivery of responsible investment approaches. We appreciate more efforts are needed to articulate these various investment approaches and investment products, especially to retail clients. We, therefore, welcome the Commission's efforts to bring greater clarity and comparability to investors.

Mindful of the proliferation of labels that exists across Europe, we are also very keen to help the JRC achieve success with its label through the criteria it develops.

Below we set out what we consider to be key priorities for the development of a successful financial services product label for consumers.

Key Priorities for Industry on the Development of an Ecolabel

1) Clarity of Goals and Scope

The JRC needs to set out clearly what the label is trying to achieve; what the label seeks to bring to investors' attention; its intended scope; and a clearly articulated cost-benefit rationale for the consumer.

Given the wider context of the "Ecolabel" and its existing application outside of financial services, it makes most sense that the label should be used to demonstrate environmental sustainability above all else. As such, aspects pertaining to a product's social and governance-related sustainability should be considered only in the context of having minimum safeguards to avoid harm.

Against this backdrop, we would also welcome clarification of any future plans to develop additional labels on other aspects of sustainability. In particular, we would be interested to hear whether the Commission plans to develop an overarching "ESG" label, or perhaps a targeted "social label".

2) High Standards for Transparency

It is imperative that the development of criteria for a label includes high standards for transparency.

This should include clarity as to how the Ecolabel will connect to stated investment objectives in fund literature and, importantly, to reporting against those objectives. Transparency plays a very significant role and is preferable to an overly prescriptive approach to behaviour or investment approach.

3) Pre-launch Testing and Feasibility Study (JRC-led)

It is important that the JRC has a thorough understanding of the impact that the EU ecolabel criteria is likely to have on the market, including how many products and issuers would likely be eligible for the label, and customer understanding of such a label. We would therefore ask the JRC to investigate the number of products currently available that would be able to fulfil the criteria as scoped, as well as the number of issuers that would stand up to the scrutiny of the proposed exclusions. To provide a full picture, it will be important to gather feedback from both investors and issuers.

Such a testing and feasibility study is necessary to ascertain how much of the market would currently be eligible for the label in order to make informed decisions regarding the parameters of the label on this basis. It will be important to know whether the Ecolabel as scoped will serve a small niche of existing products or cover more of the mainstream. In particular, given the target audience of retail investors, it is important that such a label has sufficient flexibility to be applied to products that have the appropriate risk level for retail consumers. It will not help bring sustainable finance into the mainstream if the Ecolabel can only be applied to a handful of private equity/venture capital style relatively high-risk ventures.

4) Support for Mandatory Criteria for the EU Ecolabel

In principle, industry supports mandatory criteria for the parameters of an EU Ecolabel on a pass/fail basis, whilst acknowledging that scoping the label in such a way could result in it capturing too limited a part of the funds universe. However, such an approach could go a long way to solving the problem of "Green washing". It could also help to bolster the clarity of goals and scope which we advocate earlier in this list.

What really matters is how these mandatory criteria are defined. More work needs to be done to ensure that the mandatory criteria are appropriately scoped and that they bring about the particular objectives that the JRC and the Commission seek to achieve.

Comments on the Proposed Criteria

Whilst we are not in a position to provide a consensus industry response to the specific questions, we would like to take this opportunity to share with the JRC some helpful messages that have come from consultation with members in relation to each of the criteria.

- Criterion 1: Thresholds on green investment portfolio and economic activities

Some members are supportive of the thresholds as proposed. Many of these members urge that the Commission wait for the Taxonomy to categorise a certain economic activity before a decision is made about it in relation to the Ecolabel. Others argue that whilst waiting is ideal, in the meantime, the JRC should adopt existing market practice in its stead, for example the French EETC label as a reference.

Yet another group of members does not support thresholds as they are scoped. They have concerns around absolute thresholds, arguing that they could prevent the construction of well diversified, risk-appropriate investment products for retail investors. It is argued that, instead of absolute thresholds, a labelling system should allow investors to compare one mainstream product with another on the basis that the one with the label has, for example, x% *less* greenhouse gas emissions than its unlabelled counterpart. This would result in the focus being more about a comparison to a benchmark together with improvement in greenness over time, rather than absolute measurements.

Some firms also feel strongly that the label should include criteria relating to stewardship's contribution to environmental sustainability (not only reflecting the level of investment in environmentally sustainable economic activities at any one time). This could take the form of a requirement for a minimum level of stewardship or perhaps additional credits on top of reaching a threshold (whether absolute or relative) on environmentally sustainable economic activities.

- Criteria 2 and 3: Exclusions based on Environmental Aspects, Exclusions based on Social and Ethical Aspects

The extent to which social and ethical exclusions are featured in the Ecolabel will clearly have a significant impact on the number of products that will be eligible able to carry the label. As such, the decision to include/exclude social and ethical exclusions and to what extent, must therefore be taken in line with the desired objectives and scope of the label. Typically, firms fall into two broad camps on the application of exclusions.

On the one hand, there are those who support the exclusions proposed in the criteria. In particular there is strong feeling from such members that firms should not be funding activities that cannot demonstrate their adherence to human rights and labour rights standards, irrespective of their contribution to the environment.

On the other, there are members who believe that the exclusions as currently scoped, in particular, in relation to social and ethical aspects, are too extensive and would likely result in only very few existing products being able to carry the label. Such an approach is thought to be likely to limit the label having a wider impact outside of the green "niche". A more inclusive approach may be to support the inclusion of social and ethical aspects only to the extent that they provide minimum safeguards to avoid harm.

Some firms are even of the opinion that the only exclusions should be those that are enshrined in law (and that any other exclusions should be at the discretion of the individual client).

- Criteria 4 and 5: Retail investor Information, information appearing on the EU ecolabel

Industry is supportive of meaningful disclosures. Transparency is considered a key aspect of a successful label. Key concerns in this regard tend to stem from the possibility of duplication on reporting that the label may bring which spells increased cost to the consumer.

In this context, it will be important for the JRC to consider carefully any potential overlap between disclosure requirements related to the ecolabel and those elsewhere in the Sustainable Finance Package, two notable examples being the new Disclosure Regulation and the Shareholder Rights Directive.

Future Collaboration

We appreciate the opportunity to be an official stakeholder in this process and look forward to working closely with the JRC as the criteria are developed further.