PRESS RELEASE

BETTER FINANCE WELCOMES THE SUSTAINABLE FINANCE ACTION PLAN BUT WARNS THE COMMISSION AGAINST ITS PLANS REGARDING TAXONOMY, BENCHMARKING AND AN ECO-LABEL

BETTER FINANCE is happy to see that the Actions proposed by the European Commission should bring about more transparency for investors and favour sustainable long-term value creation for end-investors and savers.

As pointed out at several occasions by BETTER FINANCE[1], EU citizens as savers are by nature mostly long-term driven, evidenced by the fact that 67% of their total assets are deployed in long-term investments (versus only 37% for pension funds - despite their purely long-term horizon - and 10% or less for insurers), and their main saving goals are long-term (retirement, housing, children's studies, transmission of wealth, etc.). For these reasons EU citizens as savers have a great need for "sustainable finance" products. Therefore, BETTER FINANCE strongly supports Actions 4 and 7 which should ensure that sustainability preferences of long-term and pension savers are taken into account in the suitability assessment. BETTER FINANCE hopes that the Action plan will also encourage the finance industry to apply ESG criteria to their own activities in particular in terms of governance and transparency (information and disclosure).

The HLEG rightly stressed that Finance must ensure "*long-term and sustainable value creation*"[2], meaning decent returns for long-term savers. To this end, the financial industry and EU regulators must adjust their goals, metrics and disclosure requirements to the mostly long-term horizon of EU savers and investors. In this respect, we welcome "Action 10" which is aimed at attenuating short termism in capital markets.

The Commission should therefore start by reinstating the mandatory and standardised disclosure of long-term past performance (10-year minimum in funds' KIIDs for example; BETTER FINANCE asked for 20 years minimum or since the inception of the products for the PEPP KID), alongside their benchmark past performance.

BETTER FINANCE nevertheless raisers concerns regarding the following Actions:

- **Taxonomy**: the classification of sustainable finance would be extremely difficult to achieve with such a large and diverse scope. In fact, agreeing on a single worldwide taxonomy for climate change and other environmental issues is already difficult. Social and governance issues (unfortunately not mentioned in "Action 1") represent an even larger scope and the divergence of views would make it even more difficult to set up an EU-wide taxonomy.

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[1] See BETTER FINANCE Press Releases:
Sustainable Finance Products must fully comply with Consumer Protection Rules and really create "long-term and sustainable value"
& BETTER FINANCE welcomes EC Roadmap towards a more Sustainable Economy but once again deplores failure to take the interests of EU citizens as Pension Savers and Individual Investors into account

[2] HLEG Interim report, page 26

- **Benchmarks**: BETTER FINANCE pointed to the need to measure and clearly inform EU savers about the impact of applying ESG criteria on the actual long-term real performance by allowing for the comparison between the actual performance and the corresponding mainstream capital markets' benchmarks. Before developing sustainability-specific benchmarks ("Action 5"), an internationally recognized taxonomy should first be agreed. This is the only way to design reliable and trustworthy sustainability benchmarks. Adding yet another set of more complex and difficult to understand benchmarks and indices would add to the complexity of retail investment products, which – on the contrary – need to be simplified.
- **Green bonds and Eco labels**: BETTER FINANCE supports the idea of a green bond standard. An EU wide (preferably worldwide) standard is badly needed to assure investors that green bonds are not a mere marketing tool and to regain their trust. However, BETTER FINANCE has major reservations with regards to an ECO label for retail financial products. As part of its research into "Closet Indexing"[3] (falsely active funds), BETTER FINANCE found out, amongst others, that a fund that was not only advertised as an SRI fund (using ESG criteria to select stocks), but that also boasted an official government "SRI" Label, was actually highly suspected of being a closet index fund, and, over the long-term, a very poorly performing one at that. To ensure their relevance, BETTER FINANCE therefore asks, first, that any ESG label ensure exemplary compliance with EU investor protection and information rules and, second, that those ESG funds are benchmarked against objective mainstream benchmarks to allow investors to check whether the ESG approach made any difference over the long-term and whether they created any long-term and sustainable value for EU savers.

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[3] See BETTER FINANCE press release: Sustainable Finance Products must fully comply with Consumer Protection Rules and really create "long-term and sustainable value"