Ref: Technical Report 2.0: Draft proposal for the product scope and criteria

Link to consultation: https://susproc.jrc.ec.europa.eu/Financial_products/index.html

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BETTER FINANCE's feedback on the Development of EU Ecolabel criteria for Retail Financial Products

Technical Report 2.0: Draft proposal for the product scope and criteria

Background information

The consultation is based on the Second Technical Report drafted by the Joint Research Center (JRC) that sets the criteria for the EU Ecolabel. This technical report provides updated information and the revision of criteria which include product scope, thresholds for investment activities, excluded activities related to environmental, social and governance aspects, engagement, and retail investor information.

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About BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users, is the public interest non-governmental organisation advocating and defending the interests of European citizens as financial services users at the European level to lawmakers and the public in order to promote research, information and training on investments, savings and personal finances. It is the one and only

European-level organisation solely dedicated to the representation of individual investors, savers and other financial services users.

BETTER FINANCE acts as an independent financial expertise and advocacy centre to the direct benefit of European financial services users. Since the BETTER FINANCE constituency includes individual and small shareholders, fund and retail investors, savers, pension fund participants, life insurance policy holders, borrowers, and other stakeholders who are independent from the financial industry, it has the best interests of all European citizens at heart. As such its activities are supported by the European Union since 2012.

Executive Summary

The creation a of well-designed ecolabel can be extremely important to address pitfalls of existing national labels being granted to products not complying with existing investor protection and disclosure rules.

As primary scope, the Ecolabel should acquire and retain the trust of EU citizens, as they are the main source of long-term funding for the EU economy. This is a challenge given the current very low confidence of EU consumers in finance as a whole. This is why, we call for a reassessment of the EU Ecolabel thresholds in order to provide a label that ensures high level of compliance with the expectations of individual investors and investor protections rules.

The ecolabel needs to set the criteria for the future generation of sustainable financial products that:

- Represent the reorientation of the capital market into sustainable investments, preventing any form of greenwashing.
- Have a high-level of standards regarding thresholds, environmental/social aspects, and engagement.
- Are exemplary in complying with EU investors protection rules
- Do not mislead individual investors with non-reliable impact claims, thus preventing impact-washing.

In addition, in order to achieve a higher level of ambition and compliance with consumer expectations, the EU Ecolabel needs to move towards the setting of criteria for impact investing. We need more financial products that quantify and measure the impact of the investment. This can guarantee that what we invest in has an impact in the real economy.

Product group scope

a) JRC proposal on product group scope

The product group shall comprise the following products that are provided as a service to retail investors:

- The service of managing an investment product that has been packaged for retail investors in accordance with the requirements laid down in Regulation (EU) No 1286/2014 on packaged retail and insurance-based investment products (PRIIPs). This shall include:
  - Equity, bond and mixed investment funds, (UCITS)
  - Alternative Investment Funds (AIFs)
  - Insurance-based products with an investment component, (unit linked life insurances)
- The service of managing a fixed-term deposit or savings deposit product as referred to in Article 2(1) point 3 of Directive 2014/49/EU on deposit guarantee schemes.

Assessment and verification

- The 'financial product' shall meet all legal requirements related to the place of product manufacture, registration and authorisation.
- Competent bodies shall give preference to attestations that are issued by bodies that are accredited under the relevant harmonised standard for bodies certifying products, processes and services.
- Accreditation shall be carried out in line with Regulation (EC) No 765/2008 of the European Parliament and of the Council.
- Competent bodies may require supporting documentation and may carry out independent checks.
- After being awarded the EU Ecolabel licence, the applicant is required to inform the relevant competent body of any changes pertaining to their licensed products.
- The applicant is required to provide updated information on their licensed products every 6 months.
- The competent body may perform follow-up assessments of the applicant's financial product up to once a year during the award period.

b) Better Finance's comments on Product group scope

We welcome the product scope of the Ecolabel, but **we regret that additional product categories are not taken into consideration. We regret that pension schemes are not covered.** These products are already very important for EU savers who by nature are mostly long-term driven since 67% of their total assets are deployed in long-term investments (versus 37% for pension funds and 11% for insurers.

It is not clear if structured products are excluded by the Ecolabel criteria. Considering the complexity and the lack of transparency of these products, it would be difficult to perform a verification of criteria. Therefore, if structured products are excluded, this should be made explicit. Otherwise, a different set of criteria and verification needs to be established if this kind of product is included in the scope of the Ecolabel.

In addition, we believe that the Ecolabel should be open also for professional AIFs (like in the case of Austrian ecolabel). This would facilitate to increase the scope and the target market of the ecolabel.However, for these specific products a prominent warning for individual investors esp.

regarding costs must be included: If an Ecolabel retail fund invests in an Ecolabel professional AIF, it will generate two layers of fees for the EU saver: the retail fund ones plus the AIF's ones. The total costs have to be clearly disclosed to the saver, which is the case currently for UCITs funds, but not the case when the PRIIPS KID will replace the UCITS KIID in 2021.

Criterion 1: Investment in green economic activities

a) JRC proposal on Criterion 1: Investment in green economic activities

Definition of green economic activity: a 'green economic activity' is an environmentally sustainable economic activity as defined by the Taxonomy Regulation, i.e. an economic activity that complies with the relevant technical screening criteria adopted under the Taxonomy Regulation.

Investment funds

A. Equity funds

- At least 60% of the total portfolio value in terms of assets under management (AuM) shall be invested in companies whose economic activities comply with the following threshold:

i. At least 20% of AuM shall be invested in companies deriving at least 50% of their revenue from green economic activities.

ii. The remaining proportion of AuM (0-40%) shall be invested in companies deriving between 20% and 49% of their revenue from green economic activities.

The remaining proportion of the total portfolio shall consist of

- companies deriving less than 20% of their revenue from green economic activities and not excluded by criteria 2 or 3, or
- other assets or cash.

B. Bond funds

At least 70% of the total portfolio asset value shall be invested in bonds that comply with the EU GBS. If the bond fund comprises sovereign and sub-sovereign bonds, these shall not be excluded by criteria 2.2. C.

C. Mixed funds

For mixed funds, the equity part shall comply with the requirement for equity funds in (A), and the bond part shall comply with the requirement for bond funds in (B).

D. Funds of funds (FoFs)

For funds of funds (FoFs), at least 90% of the AuM shall be invested in funds that have been awarded the EU Ecolabel. E. Feeder funds Feeder funds shall have a master fund that has been awarded the EU Ecolabel.

E. Feeder funds

Feeder funds shall have a master fund that has been awarded the EU Ecolabel

Derivatives

A UCITS or Retail AIF may invest in derivatives according to its investment objectives. The use of derivatives shall be in line with the funds environmental investment policy.

Assessment and verification

A. Equity funds

The applicant shall provide

i. documentation showing:

- complete listing of the portfolio assets, and
- evidence that the fund complies with the respective minimum percentages for the equity fund and bond funds as specified in A and B.

ii. An audit report on the latest annual financial statement.

B. Bonds funds

The applicant shall provide the following:

- Documentation showing that at least 70% of the total portfolio asset value complies with the EU GBS,
- The EU GBS certificates for the bond funds as proof of projects financing in green economic activities

C. Mixed funds

The applicant shall provide documentation showing that the fund complies with the respective minimum percentages for the equity and bond shares as specified in A and B of this section, based on monthly averages for the 12 months preceding the application for the EU Ecolabel.

D. Fund of funds (FoFs)

The applicant shall provide the portfolio statement and prospectus indicating that:

- at least 90% of FoFs have been invested in funds already awarded the EU Ecolabel.

E. Feeder funds

The applicant shall provide the portfolio statement and prospectus indicating the following:

- portfolio's composition showing that the underlying fund has been awarded the EU Ecolabel Derivatives.

The applicant shall provide the following documentation on the derivatives included in the funds:

- The investment or management policy governing the use of derivatives and outlining clearly how the derivatives are to be applied including information about the counterparty.
- A statement on the strategy applied addressing how the use of derivatives is in line with the fund environmental policy and how the derivatives comply with the EU Ecolabel criteria, including on environmental and social exclusions.
- A listing of the types of derivatives and other assets used during the last 12 months preceding the application for the EU Ecolabel, including their nature, average total amount invested (i.e. share of the portfolio) and their average duration/frequency of use shall be demonstrated.
- For OTC derivatives, compliance with the EU Ecolabel criteria on environmental and social exclusions, and consumer information on all of the counterparties used over the last 12 months preceding the application for the EU Ecolabel.

<u>Unit-linked insurance products</u>

Unit-linked insurance products consisting of a UCITS or Retail AIF shall, on a look-through basis, comply with the requirements set out in sub-criterion 1.1.

<u>Assessment and verification</u>

The applicant shall provide documentation showing that the monthly averages for the 12 months preceding the application for the EU Ecolabel request comply with the respective minimum percentages for the equity and bond shares as specified in A and B assets, as well as for derivatives and other assets, in sub-criterion 1.1.

<u>Green fixed-term and savings deposit accounts</u>

Requirement 1. Green loan to deposit ratio

At least 70% of the value of the total deposits shall be used to make green loans and/or to invest in green bonds. The value of both the loans and the deposits shall be calculated based on the annual average for the time that the product has been on the market. For new products the target ratio shall be stated and after a minimum of one year on the market. The licence-holder shall declare the ratio achieved to the Competent Body.

Requirement 2. Green loans made using the deposited money

Loans contributing to the green loan to deposit ratio shall only be granted to green economic activities. The applicant shall provide annual updates on the implementation status of the funded projects or activity. The list of projects and green economic activities funded shall be disclosed in a dedicated EU Ecolabel report to be provided to the retail customer and/or a dedicated web-based portal to which retail customers will be provided access.

Requirement 3. Internal ring fencing of the deposited money

The money held in deposit and granted as loans shall be strictly ring fenced within the accounts of the Credit Institution. The structural solution and/or internal procedures used shall allow for the traceability of each retail customer's deposited money and their contribution to the total value of the green loans granted.

b) BETTER FINANCE's Comments on Criterion 1: Investment in green economic activities

BETTER FINANCE believes that the thresholds for **Equity Funds** are extremely weak. They enable funds with a total weighted revenue of 18% from taxonomy compliant activities to be awarded with the EU Ecolabel. Thus, we regret that the JRC has decided to lower the thresholds compared to the first technical report.

The level of complexity of the proposed thresholds does not help the individual investors to understand the composition of the product and its "greenness". Considering that the Ecolabel is not addressed to professional investors, it needs to comply with consumer expectations, therefore high environmental standards/thresholds. In addition, the portfolio composition of the ecolabel needs to be easily explained to individual investors who need to know what they are investing in.

As mentioned by the High-level expert group in the report Financing a Sustainable European Economy*:* *"The Commission should develop a voluntary EU green label for green themed funds. These should include specifications based on the use of the EU sustainable taxonomy* ***and include a high proportion of green activities in the portfolio of invested companies****, exclusion of incompatible business (such as the fossil fuel sector), an ESG risks screening (human rights, governance, etc.), as well as strong and understandable impact indicators on environmental issues."*[1] On the contrary, the formulation of the criterion 1 completely misses the target to set high and ambitious parameters that allow to label financial products with high proportion of green activities in the portfolio and avoids greenwashing.

In addition, the taxonomy already provides a greater level of flexibility including activities in economic sectors that have a negative impact on the environment as long as they reduce the negative impact substantially. This include low carbon technologies, enabling and transitional activities. Thus, flexibility in terms of portfolio allocation is already provided by the taxonomy that includes non-pure green players. Therefore, such lower thresholds at holding level may help generating a misleading product for consumers who believe to invest in green companies.

Why these thresholds are not enough?

The scope of the Ecolabel is mainly intended to support retail investors in their decision-making process targeting specific financial products (PRIIPs) which are typically offered to retail investors. As PRIIPs are at the core of the retail investment market, it is therefore crucial that the setting of thresholds represents the consumer preferences in terms of greenness of the product.

[1] https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

Recent research on product labelling suggests that "green" has become an important retail strategy and more and more products on the market are labelled as environmentally friendly. Corporate social responsibility and pro-environmentalism has gained importance among consumers providing strong incentives for producers to brand unsustainable products as green or environmentally friendly[2]. Therefore, green labels may lead consumers to assume by default that the products are "green" even if they are not or do not comply with rigorous environmental standards. Allowing to label funds with 18% of weighted revenue from taxonomy compliant activities will undermine the credibility of the EU Ecolabel and the sustainable initiative of the European Union.

Another problem is linked with one of the fundamental scopes of the EU Ecolabel. The label wants **to target a potential market share of 10-20%** of all available retail financial products within the defined scope. This objective obviously requires readapting the ambition of the Ecolabel by allowing low thresholds in order to capture the biggest share possible of the current market instead of encouraging a new generation of sustainable finance products.

The Commission action plan on sustainable finance specifically sets as objective: "*to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth."*[3] This can be only possible via the creation of a new generation of sustainable financial products. By pursing the objective to target 10%-20% of the market of ESG products with low standards and misleading environmental claims, the Commission is deviating from the main scope of having an EU Ecolabel. Therefore, we call for a revaluation also of the scope of the Ecolabel. As designed at the moment, the EU ecolabel risks to be used only as a marketing gimmick.

Reorienting the capital market to products with an environmental impact

In addition, BETTER FINANCE regrets that the Commission did not consider creating an Ecolabel based on impact investing, i.e. a specific investment strategy that uses indicators to measure and asses the environmental /social impact of the investment.

Even if most of impact investing products in the market are far from being effective, we see that there can be a big potential on this type of sustainable strategy. Therefore, the setting of criteria for impact investing can be extremely important to create a common definition of sustainable products that effectively deliver an environmental impact.

The Ecolabel captures the investments funds that use traditional positive and negative screening in their investment policies which are far from providing any concrete environmental or social impact.

This is the reason why we call for a review of the Ecolabel in 2023 allowing to design a new type of Ecolabel that would set new market practice on impact investing.

In addition, BETTER FINANCE would like to warn against the use of some definitions and claims. The technical report continues using the exposure to green activities as a proxy for the environmental impact of the asset management service. This claim could be extremely misleading as there is no evidence that exposure to green activities would generate any significant impact.

As these products are exchanged in the secondary market, they have very little impact (or none) on the companies in which they invest. The only instrument that could be used (in theory) to generate and

[2] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4585300/

[3] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN

assess the impact of the Ecolabel is engagement. But as explained in the section of Criterion 4, this criterion lacks specific targets and monitoring.

Criterion 2: Excluded activities – Environmental aspects

a) JRC Proposal on criterion 2: Excluded activities- environmental aspects

The investment portfolio shall not contain equities or corporate bonds issued by companies that derive more than 5% of their revenue from the excluded activities listed below. The investment portfolio may contain use-of-proceeds bonds issued by such companies, provided that the proceeds are not used to finance excluded activities. For fixed-term and savings deposit accounts, corporate loans shall not be made to these companies and project loans shall not finance the excluded activities.

List of exclusions:

Agriculture

- Production of pesticides, including plant protection products, that are not approved for use in the EU.
- The development, distribution and cultivation of food or feed from genetically modified varieties of plants that have not passed a risk assessment carried out according to the criteria in Annex II to Regulation EN 503/2013 or equivalent.
- Production of agricultural products, including vegetable oils, on land obtained as a result of deforestation of primary forest or the drainage of peatlands or wetlands after the year 2000.
- Production of agricultural products without the use of integrated pest management systems and procedures.
- Production of agricultural products using water for irrigation in areas where there is severe water scarcity.

Forestry

- Timber production and exploitation, unless the economic operator can demonstrate the following: - that the timber is covered by valid FLEGT or CITES licences and/or is controlled by a due diligence system which provides the information set out in Regulation (EU) 995/2010 55, or - that the harvest is not from the clear felling or unsustainable exploitation of old growth, primary forests that have a high biodiversity value and/or carbon stock.

Energy sector

- Solid, liquid and gaseous fossil fuel exploration, extraction and refining for fuel, including unconventional sources such as hydraulic fracking and shale deposits.
- Use of solid, liquid or gaseous fossil fuels for electricity generation.
- All activities relating to the nuclear fuel cycle, including power generation.

Waste management

- Waste management facilities and services that do not operate any form of material segregation for the purposes of preparation for reuse, recycling and/or energy recovery, as well as the processing or stabilisation of organic waste.
- Landfill sites without leachate and methane gas capture.

- Incineration not equipped with flue-gas treatment that complies with Directive 2000/76/EC on the incineration of waste or equivalent internationally recognised standards and without a high level of heat recovery and/or power generation.

Manufacturing

- Production of hazardous chemicals that are not authorised or registered for use in the EU and which are identified in the Rotterdam Convention Prior Informed Consent (PIC) procedure.
- Production of fluorinated greenhouse gases with a Global Warming Potential (GWP) of >150.
- Production of substances with a high Ozone Depletion Potential (ODP) listed as controlled and as prohibited by the Ozone Regulation (EC) No 1005/2009.
- The mining, processing and production of asbestos and asbestos-based products.

Transitionary exclusions:

Transportation

Production, distribution and sale of new passenger cars and light commercial vehicles, unless the company undertaking the activity complies with the following requirements:

- For new passenger cars: Manufacturers shall have made available to consumers at least one zero- and low-emission vehicle (ZLEV) model with tailpipe emissions of <50g CO_2/Km and the average tailpipe emissions of all models that they have registered in the last calendar year shall be 5% lower than the respective EU target applicable at the time.
- For light commercial vehicles: The average tailpipe emissions of all models that a manufacturer registered in the last calendar year shall be 5% lower than the respective tailpipe CO_2 emissions target.

Assessment and verification

The assessment of the holdings or loans shall be identified on company basis. The applicant shall provide a declaration of compliance for the fund or deposit account as a whole for each of the specific exclusion. For the transitional exclusions a company report or specific technical reports which show overall compliance with the thresholds shall be required for each company in which equity is held or to which loans have been granted. Further to the initial verification, internal checks shall be performed at least once per year and any changes communicated to the Competent Body who also retains the right to make random checks on compliance.

Exclusions relating to sovereign and sub-sovereign bonds

The investment portfolio shall not contain sovereign and sub-sovereign bonds excluded by the conditions below, except if the bonds comply with the EU GBS.

Ratification of the Paris Agreement

Bonds held by the portfolio shall be excluded if the issuer has not ratified the Paris Agreement on climate change. An exception shall be made where a sub-sovereign, which may include municipal authorities at regional, city or local level, has a formally adopted political commitment to meet the same targets and requirements.

Climate or environmental risk rating

Bonds held by the portfolio shall be excluded unless they are accompanied by a climate risk rating of the issuer or an environmental risk rating that addresses climate change. The risk rating aspect addressing climate shall include, as a minimum, a transition risk assessment of economic actions or structural progress in the economy to implement the Paris Agreement.

Ratification of other international environmental agreements

Sovereign bonds held by the portfolio shall be excluded if the issuer or the country has not ratified the following international agreements:

- the UN Convention for Biological Diversity;
- the Convention on International Trade of Endangered Species of Wild Fauna and Flora
- the United Nations Convention to Combat Desertification in those Countries (CITES); Experiencing Serious Drought and/or Desertification (where applicable);
- the Ramsar Convention on the conservation and wise use of wetlands of international importance and their resources;
- the Basel Convention (transboundary movements of hazardous wastes and their disposal);
- the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade;
- the Stockholm Convention on Persistent Organic Pollutants.

<u>Assessment and verification</u>

The applicant shall provide a list of the sovereign and sub-sovereign bonds held and their issuers. The applicant shall then provide a declaration of compliance for the fund or deposit account. For sub sovereign bonds, additional information on equivalent commitments shall be provided. An additional declaration shall be made for each bond of the climate risk rating obtained and the agency that made the rating. Further to the initial verification, internal checks shall be performed at least once per year and any changes communicated to the Competent Body which also retains the right to make random checks on compliance.

b) BETTER FINANCE comments on Criterion 2: Excluded activities- environmental aspects

Energy- Nuclear

BETTER FINANCE believes that the decision of excluding nuclear from the list of investment activities of the Ecolabel need further analysis and assessment. The TEG came to the conclusion that Nuclear is not included in the taxonomy as a green activity but it is not excluded a priori either.

BETTER FINANCE believes that the Commission should provide a scientific assessment on the “do significant harm” to other environmental objectives of Nuclear Energy vs. its contribution to fight global warming.

CRITERION 4: Engagement

a) JRC proposal on Criterion 4: Engagement

The fund manager shall have a documented engagement policy describing at least:

1. clearly identified key environmental issues on which to engage with companies;
2. the method and reasons for selecting companies and specific key issues on which to engage;
3. submission and voting of resolutions at AGM to address these issues;
4. regular monitoring and evaluation of companies and the achievement of specific environmental outcomes.

The fund manager shall engage regularly with at least half of the companies that have less than 50% green activities. Engagement activities shall include voting at general assemblies and other related actions such as communication and dialogue with the company and other shareholders/stakeholders (to push a climate resolution, for instance), with a clearly stated aim of improving the environmental performance of the company, notably to encourage companies to:

- upgrade, improve the quality (from an environmental point of view) or change their existing economic activities to make them compliant with EU Taxonomy criteria;
- expand their existing economic activities that are already EU-Taxonomy-compliant;
- reduce and stop economic activities that are not EU-Taxonomy-compliant by selling or closing those activities; - measure and assess the impact on the environment of their activities and change their behaviour with respect to environmental issues;
- take steps to respond to shareholders/stakeholders' engagement with respect to the companies' environmental strategies.

The fund manager shall set specific key topics raised via engagement with the companies in planning actions in terms of environmental strategies and green activities within a specific period of time, failing which the fund manager may decide to sell (some of the) shares from the company (or reconsider inclusion of the company within the fund).

Assessment and verification

The fund manager or product provider applying for the EU Ecolabel shall provide the verifier with the following information:

- Evidence showing the percentage of companies with which the manager has engaged.
- Specific key environmental topics raised via engagement.
- Voting behaviour in compliance with the engagement policy.
- Use of other engagement mechanisms with the companies, such as evidence of a constructive company dialogue developing a business case for change and keeping up a good level of interaction with companies.
- Other engagement practices with other shareholders/stakeholders (e.g. cooperating with other shareholders to push a specific climate resolution.

b) BETTER FINANCE Comment's on Criterion 4: Engagement

BETTER FINANCE welcomes the inclusion of an Engagement policy on the Ecolabel. in particular we welcome that the *" fund manager shall engage regularly with at least half of the companies that have less than 50% green activities. Engagement activities shall include voting at general assemblies and other related actions such as communication and dialogue with the company and other* *shareholders/stakeholders (to push a climate resolution, for instance), with a clearly stated aim of improving the environmental performance of the company."*

Engagement can be an important measure to address issues affecting the companies and as well improving their environmental, social and governance dimension. However, we recommend to clearly identify the indicators that are needed to monitor the results of the engagement policy. Otherwise, engagement can become another element in the check list of the fund managers. The fund manager should not limit his actions in setting key topics to be raised via engagement, but it is necessary to set a series of concrete objectives and targets that the company needs to achieve.

The monitoring and reporting phase of these objectives is very important, this represent concretely the results of the work of the fund manager engaging actively with the companies invested in the fund. The information on achievements (and missed target) should be publicly reported and archived, so that individual investors can compare and see what progress on engagement may or may not have been made.

In addition, we would refrain to define engagement as "impact". This can be misleading, and it could lead to assume that because the ecolabel has an engagement policy it can be considered as an impact investment. Engagement is an important means to exercise the impact on the company but it cannot be considered as the sole measurement of the environmental impact for the fund, in particular if the engagement policy does not allow to effectively measure the work of the fund manager in engaging with companies. Contrary to the engagement on aspects as remuneration and compensation policy which has a concrete and measurable impact on the company, there is still lack of evidence of the environmental impact stemming from the engagement policy and it could be very limited if not accompanied by clear objectives and targets. Therefore, an abstract engagement policy on environmental aspects is not yet enough to ensure that the fund delivers an impact. The engagement policy needs to include concrete targets and should include the exercise of shareholders' rights including the actions referred to in the JRC proposal, i.e. (responsible) voting at AGMs, communication and dialogue with the company and other stakeholders.

The JRC proposal to describe in the engagement policy the submission and voting of resolutions at AGMs is not sufficient.

Asset managers largely rely on vote recommendations of (US) proxy advisors like ISS and Glass Lewis. Experience shows that whenever ISS/Glass Lewis recommends a negative vote, the voting outcome at this specific resolution decreases significantly. This shows the impact proxy advisors have on voting. It would therefore be necessary to also enhance transparency regarding

a) the fund manager's use of proxy advisors
b) how often the fund manager has deviated from the proxy advisor's recommendation
c) a description of the fund manager's process to ensure that the proxy advisor'S recommendations are scrutinized/cross-checked and not followed by default.

In addition, the documented engagement policy should describe as well:

- *Regular exchanges directly with the companies (if the fund manager directly exchange with the company).*

Criterion 5: Retail investor information

a) JRC Proposal on Criterion 5: Retail investor information

Equity, bonds and mixed funds: As a minimum the following information shall be made available annually by the fund manager to the consumers:

- Information about the percentage of the total portfolio value in terms of assets under management (AuM) invested in companies whose economic activities comply with the requirements of criterion 1, i.e.:
  - share of AUM in shares of companies with >50% green activities;
  - share of AUM in shares of companies with 20%<x<50% green activities;
  - share of AUM invested in green bonds;
  - share of AUM going (indirectly) to green activities.

- Information on how the fund manager actively engages with companies on sustainability issues.
- Information about the type of exclusions considered. In the case of environmental exclusions, the applicant shall specify if they are total or partial exclusions and report the percentage.
- Information the main principles for the selection of the companies.
- An electronic link to the full annual report described below.

Where the financial product is required to publish a prospectus, key investor information document (KIID) or key information document (KID) in accordance with European or national laws, only such information which is additional to that contained in the abovementioned documents needs to be disclosed separately or as additional information in the prospectus, KIID or KID.
As a minimum, the financial product manager shall issue a report annually to be uploaded on the financial product's manager website describing the environmental, social and engagement aspects as well as the activities and environmental performance of the financial product. The report shall be published on the fund manager's website. The report shall include at least the following:

- A description of the green economic activities in which the money held by the financial product was invested in during the reporting period, including the investment policy and how the companies are selected.
- A description of the main engagement activities (including voting and cooperating with other shareholders) and results within companies.
- A description of the methodology used for estimating the most relevant indicator (e.g. carbon footprint (GWP)) of the financial product and of the financial benchmark product. In the event that the GWP is the most relevant indicator, this description shall include the scope of the GHG emission covered. Additionally, the rationale for choosing the selected indicator and why it is relevant for the financial product shall also be included.
- The report shall include the engagement policy followed by the fund manager or an electronic link to it.

- Information on management and internal control procedures to identify and correct any non-compliance with EU Ecolabel criteria.

Sovereign bonds *(where held)*
As a minimum, the following information shall be made available annually to consumers by the fund or deposit manager:

- A climate or environmental risk rating for each sovereign issuer for which bonds are held.

Deposit accounts
As a minimum, the following information shall be made available annually to consumers by the deposit manager:

- An itemised list of projects and green economic activities for which loans have been approved, including their value. This may take the form of a selected list in a report together with a link to a website where a full list can be consulted.
- An annual report that as a minimum includes: details of the projects to which loans have been granted, their implementation status, the deposit account balance sheet showing the annual and historical deposit to loan ratio and the auditor's qualification of the ring fencing procedure for the deposited money.

In the event of any observed deviations from any of the following the fund or deposit manager shall without delay communicate and publish the updated information and/or the updated report:

- changes in the methodology of computing the portfolio or deposit ratio;
- changes in the objectives / investment policy of the fund;
- relevant changes in the investment portfolio.

Monitoring
The consumer information should be updated regularly and therefore be based on regular monitoring of the portfolio.

Assessment and verification
The applicant shall provide a sample of the information to be provided to the consumers that clearly complies with the requirements of the criterion. The information can be added on the prospectus, KID or KIID or be provided as a separate information brochure.

b) BETTER FIANANCE's comments on Criterion 5: Retail investor information

BETTER FINANCE welcomes that the information on the share of economic activities is disclosed in the communication material for the individual investors. We believe that it is an important step to inform the individual investors on the composition of the portfolio and its "greenness", but additional requirements should be included. As previously mentioned, we believe that the thresholds proposed are too weak and the percentage of green activities should be adjusted and disclosed together with CAPEX. In addition, due to the complexity setting of the thresholds, it is difficult for individual investors to understand the composition of the Ecolabel; this is quite evident from the JRC proposal for criterion 1 on equity funds.

Last but not least, that the Ecolabel should translate **into products that are exemplary in complying with EU investors protection rules**. It is crucial that the retail reporting requirements – comparable to MiFID - are based on fair, clear and non-misleading investor information which are the core of sustainable finance principles. As we have already flagged in the HLEG interim report in July 2017, BETTER FINANCE research reveals that some products already labelled as "sustainable" by Public Authorities do not comply with these basic EU investors rules. For this reason, we believe that the design of the Ecolabel should learn from experience and not repeat these serious flaws. What should be avoided at all cost for ecolabel products is to be misused in order to circumvent investor protection rules or worse, engage in falsely active management. Ecolabel must be provided only to retail financial products that ensure long-term and sustainable creation.