Comments to the EU Ecolabel for Retail Financial Products, Technical Report 2.0

The Commission is currently developing the EU Ecolabel for Retail Financial Products within the framework of the Sustainable Finance Action Plan. The Joint Research Center (JRC) has presented a proposal discussed at the stakeholder meeting on 25 and 26 March to which we provide comments in this paper. The current climate and environmental crises plead for an ambitious approach of this initiative.

Labelling of financial products can help driving private capital towards the investments needed in those sectors and activities that can contribute to the sustainability and transition of our economy. It is crucial that the requirements set by the Ecolabel match the ambitions of the European Green Deal to achieve the Paris Agreement targets and the Sustainable Development Goals.

However, the current JRC proposal does not correspond to the above vision because it allows investment funds deriving only 18% of total revenue from environmentally sustainable activities to obtain the label. We find that such an extremely low level of ambition would not have an impact in driving private capitals towards sustainable activities at the scale required. Moreover, it undermines the credibility of the label as a scheme of environmental excellence, making it difficult to convince citizens and creating the risk of greenwashing of financial products.

The above concerns have also been raised by MEPs Bas Eickhout and Sirpa Pietikäinen, Co-rapporteurs of the European Parliament on the Regulation on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation), in a letter addressed to Vice President Dombrovskis, Commissioner Sinkevičius and Commissioner Gabriel.

We consider that increasing substantially the ambition of the proposal is possible based on the agreement reached by the European Parliament and the Council on the Taxonomy Regulation in December 2019. The EU Ecolabel builds on the Taxonomy framework to assess the underlying assets of financial products linked to environmentally sustainable economic activities and to establish whether the financial products are sufficiently green to be awarded with the label.

The Taxonomy agreement is a game-changer for the EU Ecolabel, as it provides for disclosure of key indicators (revenues, capital and operational expenditures) from large listed corporates and for financial products. These elements are not sufficiently integrated into the JRC proposal, published shortly after the Taxonomy agreement. Moreover, as acknowledged at the Stakeholder dialogue on Sustainable

Finance, the universe of investable activities has considerably been expanded since enabling and transitional activities are now also part of the Taxonomy. Consequently, a much larger spectrum of economic activities than foreseen initially can be included in an ecolabelled financial product.

We are aware of the fact that reliable information on taxonomy-alignment of companies is not yet available. The absence of aggregated data makes it challenging to define a meaningful threshold that strikes the right balance between level of ambition and practical feasibility for fund managers. Therefore, we have included a proposal that can help reduce the information asymmetry and enable a robust process to regularly update the criteria to tighten them over time. We have suggested a conservative proposal to set the green revenue threshold at 70% of the total portfolio.

In addition to increasing the ambition as regards the investment in green economic activities, it is necessary to ensure that consumers will not be exposed to environmentally and socially harmful activities and that the verification requirements are robust enough. Although we acknowledge that the current proposal is more comprehensive than the previous draft, there are still important shortcomings to address for which we make concrete recommendations in this paper.

CRITERION 1: Investment in green economic activities

As stated above, the new context calls for a significant improvement of this criterion. To raise the level of ambition of the proposal, simplify the criteria and be fully consistent with the new Taxonomy Regulation, we would like to propose a more ambitious and more flexible approach for fund managers. The following proposal deletes the “pocket approach” and ensures that at least half of the aggregated revenues of the investment fund is derived from sustainable activities instead of the 18% currently proposed.

The current calibration of thresholds proposed by the JRC has been based on a draft version of the Taxonomy Regulation that did not take into account the fact that the investment universe has widened significantly because of the inclusion of transition and enabling technologies in the Taxonomy. In general, the standards should not be calibrated to reach a pre-defined desired market coverage of 10-20% of all financial products available on the market. Instead, the criteria should be defined to allow the financial market to develop over the long run to comply with strict sustainability standards.

The indicative threshold of 10-20% for the best products available in the market in terms of environmental performance was introduced in the Regulation to help guide users towards products of environmental excellence. In the case of the financial sector, the Regulation would aim to label 10-20% of the best products in each asset class (product group). But given that the sector is still at an early stage in the integration of sustainability considerations, a comparison against this indicative threshold would only be relevant if the product scope is limited to products which are marketed with sustainability goals[1].

Our proposal below proposes a review in 3 years, striking a balance between legal certainty for issuers of Ecolabelled products and the need to recalibrate the criteria in time for any revised rules to be able to have a meaningful impact on the EU’s 2030 Climate targets and the Sustainability Development Goals.

[1] The recently adopted EU Regulation on sustainability-related disclosures in the financial services sector specifies the disclosure requirements about the sustainability-related impact of financial products with environmental or social characteristics or financial products which pursue sustainability objectives. It should be used as a reference to define the market of products that are marketed as environmentally sustainable.

A. Equity funds

Portfolio level

- At least 70% of the total portfolio shall be constituted from activities contributing to sustainability objectives according to the Taxonomy Regulation, including sustainable activities, transitional activities and enabling activities.
- We propose that both revenues and CAPEX indicators are considered when assessing the portfolio's 'greenness'. Revenues should however be rewarded higher, by applying a weighted average, where revenues are counted four times higher than CAPEX. (Example: a company with 25% green revenues and 100% green CAPEX has a 40% total green activity (25% x 80% + 100% x 20% = 40%)[2]. It is critical to include CAPEX as forward-looking indicator largely determining how far the company will green its future business model.
- At least 30% of the total portfolio revenues shall be derived from sustainable economic activities[3] , other than transition and enabling activities[4].
- Taxonomy-related data from companies that are subject to the NFRD and the new disclosures requirements under the EU Taxonomy Regulation shall only be based on company-disclosed data, and not on estimates (if no data is disclosed, in spite of a legal requirement, the datapoint should be counted as zero).

Company level

In order to qualify for inclusion in the investment portfolio, each company must have at least 5% of its revenues derived from taxonomy-compliant activities.

The remaining proportion (30%) of the total portfolio shall consist of:

- companies that are not excluded by criteria 2 or 3, or
- other assets such as Money Market Funds or cash for the sole purpose of liquidity/short term risk management.

B. Bond funds

- For bond funds it should be **100% green bonds**, and **not 70%** green as in the current JRC draft proposal. An **exception should be allowed for 'pure play' green companies** that have at least 90% green revenues and 100% green CAPEX: in that specific case, issuing green bonds is arguably not necessary.
- Green bonds where proceeds are used to *expand* an excluded activity under criterion 2 and 3 should not be allowed in the fund (e.g. a green bond used for the expansion of an airport should not be allowed, if aviation expansion would become excluded by the EU Ecolabel. This was a recent case in Sweden where several investors boycotted a green bond used for expanding the Stockholm Arlanda Airport).

2 CAPEX is included as an incentive for companies to invest in acquiring, upgrading, or maintaining green economic activities. It is critical to incentivize green capex for greening the future business model of the company, but it is not necessarily enough in order to ensure the full sustainability of the company – which depends on other factors, notably the potential need to address existing assets and decommission high-carbon assets with a long lifespan, in some sectors at least (e.g. existing coal plant). Since greening the CAPEX is relatively easier and faster than greening the revenues, the degree of importance given to CAPEX in our proposal is 20% in the weighted average vis-a-vis revenues generated by the company (80%).

3 "**Sustainable economic activities**" as defined in **Article 3** of the Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment.

4 "**Transition activities**" as defined in **Article 6.1a** of the Regulation on the establishment of a framework to facilitate sustainable investment. "**Enabling activities"** as defined in **Article 11a** of the same Regulation.

By 31 December 2023, the Commission shall publish a report that evaluates the need to revise and complement the thresholds and criteria set out above for the purposes of ensuring that the Ecolabel for financial products is promoting sustainable economic activities and is coherent with the work of the Platform on Sustainable Finance. More specifically, the Platform should compile and publish, on an annual basis, average data on the taxonomy-alignment of the revenues, capital expenditure and operational expenditure of a broad investable universe of European companies. The percentage thresholds (%) under criteria 1 should be revised, upwards, to ensure that the level of ambition of the EU-Ecolabel is increased, at least as fast as the overall market.

In addition, the Commission should also evaluate the need to introduce measures allowing the EU Ecolabel to contribute more significantly to impact investing and have real impact on the economy.

Moreover, it should be noted that certain European companies have already started to disclose taxonomy-related information in their annual reports on a voluntary basis[5]. The EU Ecolabel should provide an incentive for companies to become early-adopters of disclosures. Conversely, wherever possible, the calculation of the percentage of taxonomy-alignment by companies should be based exclusively on disclosure data, where disclosures are mandatory.

Last but not least, criterion 1 should also take into account the minimum requirements for benchmarks that the Technical Expert Group developed (i.e., Paris-Aligned Benchmark and Climate Transition Benchmark) to ensure consistency of EU policy measures. Over time, a market might develop for exchange-trade-funds (ETF)-type products tracking green indexes that might wish to apply for the EU Ecolabel. It should be made clear to which extent the criteria for the EU Ecolabel are equivalent or not. At the very minimum, a correspondence table that contrasts and compares the differences should be developed.

Verification and assessment of criterion 1

The verification criteria only require "evidence" of fulfillment of the minimum level of green activities. This provision is ambiguous and open for interpretation. We see a **special risk regarding the underlying analysis of green activities**, i.e. that companies' level of green activities may be inflated or may not properly consider the do-no-significant-harm and minimum social safeguard criteria. This goes especially for non-EU companies which are not covered by the taxonomy reporting requirement and supervision. We expect that data used by the fund managers will be provided by major ESG research providers. The verification criteria should require that the underlying data has been reviewed and approved by at least one of the Ecolabel Competent Bodies.

CRITERION 2: Excluded activities based on environmental aspects

Energy Sector

1. We appreciate that electricity generation based on fossil fuels cannot be part of the investment fund. However, this **exclusion should be extended to all energy generation based on fossil fuels including heat**, not only electricity.

2. We welcome the exclusion of exploration, extraction and refining for fuel (including unconventional sources such as fracking and shale deposits). The criterion should however be extended to **exclude**

[5] https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en

also fossil fuel exploration, production, transport, distribution and storage (i.e. pipelines, LNG plants and storage are not currently excluded).

3. **We recommend to exempt fossil fuel companies** only if they **meet each of the following four criteria**: (i) they have adopted and published climate science-based measurable and time-bound emission reduction targets to ensure alignment with a 1.5°C Paris-compliant scenario and zero emissions by 2050 at the latest; (ii) they have adopted and published credible transition plans, including zero capex in fossil fuel expansion; (iii) their reported GHG emissions decrease annually. (iv) they meet the emission reduction criteria recommended by the Technical Expert Group (TEG) for companies to be included in Paris-Aligned Benchmarks (PAB) and Climate Transition Benchmarks (CTB) indices (I.e., -7% decrease of CO2 equivalent emission, year-over-year). Fund managers shall disclose the names of these companies, so that Competent Bodies can carefully review the investments and compliance with the above conditions The information should also be disclosed to retail investors (e.g. in the annual report).

4. **We propose to add a criterion explicitly excluding banks that provide more than EUR 1 billion annually in finance to fossil energy *expansion* activities.** Financing is a fundamental supporting activity to fossil energy companies and projects and as such banks play an important role in driving climate change. According to the Fossil fuels finance report card 2020, the 35 largest financiers provided 2,7 trillion in financing of fossil fuels since the Paris Agreement. We therefore propose that banks that provide more than EUR 1 billion in financing (lending, bond issuance, underwriting) to companies and projects that *expand* their fossil energy activities (upstream, midstream, downstream, power production and distribution) should be excluded. This would otherwise be a loophole where EU Ecolabelled funds could get exposure to the fossil fuel industry without investing directly. An absolute threshold is necessary since the financing can account for a relatively small part of a bank's total financing and lending, but it can still be a major financier of the fossil fuel sector. Even the bank with the largest fossil fuel financing, JP Morgan, the fossil fuel sector accounted for only 7,6 per cent of its total financing in 2016-2019.

Agriculture

5. Currently an **exclusion of GMOs** is proposed, but GMOs authorised for use in the EU, based on a risk assessment would be allowed. However, we recommend that they should be fully excluded following the precautionary approach (potential risks of GMOs on human health and environment have been the subject of scarce scientific research which until now failed to ensure that GMOs are safe, see e.g. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3791249/), and similarly to other eco-labelling schemes for investment products. With research showing that an overwhelming majority of EU citizens (71% at least) reject GMOs, their including in the Ecolabel would be inexplicable for most citizens and would severely undermine the credibility of the label and its marketing potential.

Forestry

6. In line with the EU Communication on Stepping up EU Action against Deforestation and Forest Degradation, forestry should be excluded unless managed in a sustainable manner under control of certification schemes (referred to in other product groups of the EU Ecolabel). Rather than allowing wood from legal sources, the focus should be on preventing deforestation and forest degradation**.** The current draft allows forestry activities managed under the following optional conditions:
    - *timber covered by valid FLEGT or CITES licenses **and/or** is controlled by a due diligence system which provides the information set out in Regulation (EU) 995/2010.*
    - ***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.*

Given that between the first and the second bullet is written “or”, conformity with the first condition would be a sufficient to award the EU Ecolabel. Yet, FLEGT/CITIES licenses means legal compliance which does not imply sustainability and should not be a sufficient condition to award the EU Ecolabel. Financial support to forestry should only receive an Ecolabel if that forest is managed sustainably, in line with the approach followed in other EU Ecolabel product groups.

We propose to replace “Or” by “and”, between the two bullet points, to combine legal and sustainability requirements. In line with other product groups, we propose to introduce a reference to responsible management certification schemes as tools to demonstrate the forestry requirements.

Waste management

7. **Facilities for incineration, with energy recovery or without, should be excluded** to be consistent with articles 9 and 12 of the Taxonomy Regulation calling for the waste incineration to be minimized and categorizing significant increase in incineration as harmful to the circular economy. Incineration also undermines the goals of the Circular Economy Action Plan and the Waste Management Framework Directive with a clear priority to maximize material recovery. Finally, the CO2 emissions from waste incineration have increased by around 50% since 2010, suggesting that CO2 emissions from waste incinerators are intensifying, undermining the EU climate neutrality goal by 2050. With this context we propose the following changes in the wording:
    - “*waste management facilities and services that do not operate any form of material segregation for the purposes of preparation for reuse, recycling* ***(Delete)*** ~~**and/or energy recovery**~~ *as well as the processing or stabilisation of organic waste included in mixed or residual waste*”.
    - **(Add) Non-hazardous waste** *incineration* (add) **with or without energy recovery** (delete) ~~*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

8. We welcome the proposal to exclude hazardous chemicals and call for the addition of a **clear exclusion of all substances of very high concern,** to be consistent with the EU Ecolabel Regulation.

Transport

9. **Add a criterion to exclude airport expansion**. CO2 emissions alone from flights within Europe have increased 26% since 2013. Aviation emissions have more than doubled in the last 20 years and the sector is responsible for an estimated 4.9% of man-made global warming. In 2018, Ryanair was the tenth largest emitter in Europe, only surpassed by nine coal plants. Any investment in airport expansion should be excluded from funds eligible for the EU Ecolabel.

10. **Exclude “biofuels” from the scope of the criteria.** The increased demand for food-based fuels leads to an increased use of agricultural land for energy. Since most agricultural land is already being used to produce food for people, new areas need to be found to meet the ever-increasing demand for food and animal feed. This leads to deforestation and draining of rich ecosystems, releasing tons of greenhouse gases. Currently, around 80% of the EU biofuels market is made of biodiesel, mainly produced from vegetable oils, and 20% consists of bioethanol. In addition, EU car and truck drivers are the top consumers of palm oil – more than 50% of all EU imports of palm oil end up in EU cars and trucks. It is crucial that such fuels are not eligible for the EU Ecolabel.

11. **Exclude gas use in transport.** Gas (LNG/CNG) has been shown to contribute to climate change on a Well-to-Wheel basis the same amount as conventional fossil fuels. For biogas, currently 0.5% of gas supply is biomethane. Even if we assume the maximum sustainable potential is produced and all of it is allocated to transport - which is unlikely in practice as it would mean no biomethane for heating or industry – such biogas could only cover 6.2-9.5% of transport's energy needs. As such, gas should not be promoted as environmentally friendly under the EU Ecolabel for Financial Products.

Environmental norms

12. We encourage the JRC to add a criterion that companies must comply with the **environmental principles in the UN Global Compact and the OECD Guidelines for Multinationals**. This will ensure a broader scope of the environmental criteria across sectors, in addition to the sector-specific criteria listed above. It will also make the environmental criterion consistent with the social criterion which also includes normative criteria (UNGP, OECD Guidelines) as minimum safeguards.

Verification and assessment

We have similar concerns as under criterion 1. The stringency of the exclusion criteria depends on a reasonable interpretation and application by the fund managers, which require clear incentives for them to conclude that a company violates the Ecolabel criteria. This is especially a risk related to the criteria that prescribe "how" a business activity should be conducted, e.g. criteria under agriculture and forestry.

In the second proposal, it has been added that fund managers should "communicate any inconsistencies to the Competent Body", and that the "Competent Body retains the right to perform random checks on compliance". But this sample check process must be quite extensive, in order to create strong incentives for fund managers to address issues voluntarily and not just follow the company's perspective regarding allegations. In order to strengthen the incentives, the reporting requirement must be stricter, by adding these criteria:

- **The fund manager should report on all cases of allegations against companies in the fund that could indicate a violation of the environmental exclusion criteria.** For each allegation the fund manager must describe its conclusions and possible actions, including engagement (in this case the fund manager should report according to the proposal outlined under criterion 4 on engagement). The reporting should be part of the annual reporting to the Competent Body and preferably also in a publicly available document, since this will increase incentives for fund managers to minimise and address problems in its portfolio

- **The Competent Body should annually sample review 5% of the funds' holdings** to check if the fund manager has reported all severe allegations. For this an ESG research provider can be used. If the Competent Body finds severe allegations which have not been reported, the fund manager receives a warning. After x warnings the label is withdrawn.

The public complaint mechanism should also be a source for the Competent Body to identify possible violations. It is important that the mechanism is communicated clearly in connection with the EU Ecolabel.

CRITERION 3: Social and governance aspects

- **Change the criterion's heading to "Exclusions based on social and governance aspects".** It will make clearer to the reader that the type of criteria is similar to the environmental criteria in the previous chapter.

- **Add the UN Guiding Principles on Business and Human Rights to the list of normative criteria,** as it has been included in the agreement of the Taxonomy Regulation on minimum social safeguards and it is more prescriptive on what is expected from a company regarding human rights.

- **Add humanitarian law to the list of normative criteria.** It covers the issue of illegal occupations and annexations, to which corporate activities can contribute or exploit the situations. This is not always considered human rights violations, but rather violations of international (humanitarian) law.

- **Expand the scope of business activities in the criterion on human rights**, so that it encompasses supply chains in general, not just when sourcing raw materials. We propose to clarify this by adding "[…] of the country in which companies or their subcontractors operate any activity of their supply chain, including the sourcing of raw materials".

- **Move the World Bank Social Safeguards to the previous section with normative criteria (OECD Guidelines for Multinational Enterprises, UN Global Compact…).** It is weird to group it with controversial sector criteria.

- **Change the criterion about weapons to: "The production and trade of weapons and military products used for combat, and their key components."** Indeed, the term "weapons" risks leaving out military products used in combat, such as weapon platforms like military ships that carry weapons, supporting systems like radars and flying command centers that identify and guide to targets, and key components like engines to fighter aircraft and tanks that are specially fitted for this deployment.

- **Add exclusions relating to sovereign and sub-sovereign bonds (as proposed in the Austrian Ecolabel)**: in particular for States where the death penalty is still applied (use of the death penalty within the past ten years) and States that have not ratified all the international conventions on human rights.

Verification and assessment

We have similar concerns as under criterion 1 and 2, but we would like to highlight higher risk under social exclusions since there are many normative criteria, e.g. on human rights etc. The stringency of the exclusion criteria depends on a reasonable interpretation and application by the fund managers, which require clear incentives for them to conclude that a company violates the Ecolabel criteria.

In the second proposal, it has been added that fund managers should "communicate any inconsistencies to the Competent Body", and that the "Competent Body retains the right to perform random checks on compliance". But this sample check process must be quite extensive, in order to create strong incentives for fund managers to address issues voluntarily and not just follow the company's perspective regarding allegations.

In order to strengthen the incentives, the reporting requirement must be stricter, by adding these criteria:

- **The fund manager should report on all <u>allegations</u> against companies in the fund that could indicate a violation of the normative criteria (UN Guiding Principles, OECD Guidelines and Global Compact).** For each allegation the fund manager must describe its conclusions and possible actions, including engagement (in this case the fund manager should report according to the proposal outlined below under criterion 4 on engagement). The reporting should be part of the annual reporting to the Competent Body and preferably also in a publicly available document, in order to maximize incentives for fund managers to minimize and address problems in its portfolio.

- **The Competent Body should annually sample review 5% of the funds' holdings** to check if the fund manager has reported all severe allegations. For this an ESG research provider can be used. If the Competent Body finds severe allegations which have not been reported, the fund manager receives a warning. After x warnings the label is withdrawn.

CRITERION 4: Engagement

We welcome this new criterion but believe that it should be tightened to make it meaningful and truly bring added value. A major concern we have is that the critical issue of demands/targets for such engagement are not specified. We therefore recommend adding:

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

(Add) '2a. the specific demands/objectives raised with each engaged company, and whether these demands are climate and environmentally science-based and consistent with public policy goals, like the climate Paris Agreement'.

It is also needed to change the criteria for engagement accordingly with criterion 1 (see above), in the following way:

'The fund manager shall engage regularly with ***at least half*** *of the companies in the portfolio* ***having the lowest green performance, measured by their taxonomy exposure*** *(as assessed for Criterion 1: weighted average of 1) 80% revenues and 2) 20% CAPEX expenditure).*

In addition, more generally, engagement should be required by the fund manager when companies in the portfolio are linked to environmental and social problems. This means that whenever there are allegations against a company implying negative environmental or social impacts, the fund manager should engage with the company to ensure compliance with the Ecolabel requirements. If the issue is not resolved in a reasonable time period, divestment should follow. In its annual reporting the fund manager must describe for each engagement case why it believes that there is a promising outlook to resolve the issue through engagement, and report on its actions and time-bound objectives. By this, the eco-labelled fund will potentially achieve more impact than if it divests directly. This approach is similar to addressing issues arising in a company's supply chain, where best practice is to work actively with the problematic supplier in order to achieve improvements, rather than just dropping the contract directly.

CRITERION 5: Retail investor information

This criterion is critical to ensure retail investor's confidence. We believe that it needs to be tightened in the following ways:

- Need to disclose the CAPEX and revenue on the prospectus so that they investors can better understand the product (dark green or transition).

- Make it transparent to consumers which sectors the fund invests in. It should be expressed in terms that can be easily understood by consumers, e.g. mining instead of extractives, airlines instead of transportation etc. There should be a standardized list of sectors with high sustainability impacts that the fund manager must disclose if it invests in, to ensure that the retail investor truly understands where his/her money is invested concretely. Asset managers could use a standardized mapping between NACE sector codes and simplified terms for sectors to help consumers.

- The EU Ecolabel does not require to measure the environmental /social impacts of the certified investment funds, due to the type of investment strategies, and particularly if a process for engagement is not integrated. A disclaimer to inform retail investors in this regard should be included in the prospectus such as: "*"Please note that this product invests mainly on secondary market and it is not required to measure the environmental/social impact of the investment. Therefore, no evidence regarding the environmental/social impact of the investment can be provided"* (the comprehension alert in the PRIIPs Regulation - Key Information Document would be a good template in terms of minimum size and visibility of the disclaimer/warning). We acknowledge that for deposit accounts, if the loans are properly ringfenced from the rest of the bank's balance sheet, this warning would not be necessary.

- This warning is necessary to avoid any misleading information provided in the marketing communication materials. Any mention of an environmental or social impact would be misleading, as not in line with the investment objectives (as the ecolabel is not designed for impact investing) and against the Article 27.2 of the MiFID I implementation directive and article 44.2 of MiFID II delegated regulation which requires:
    - *"a fair and prominent indication of any relevant risks",*
    - *not to "disguise, diminish or obscure important items, statements or warnings",*
    - *and to present such information "in a way that is likely to be understood by the average member of the group to whom it is directed, or by whom it is likely to be received"*.

CRITERION 6: Information appearing on the EU Ecolabel

- Add to the list that the EU Ecolabel product does not invest in socially harmful activities.

SCOPE

In addition to the above recommendations on criterions, we have several concerns and recommendations on the scope of the EU Ecolabel:

Savings accounts

We welcome the inclusion of savings accounts. As reported in Technical Report 2.0, savings/deposit accounts are a mainstream non-complex financial product that could ensure high visibility for the EU Ecolabel and diversify the current scope of financial instruments beyond equities and bonds to also include loans, which play an important role in supporting economic activity as well. It also avoids creating a transparency bias which could push consumers away from savings accounts into more complex and higher fee investment products.

Pension schemes

We regret that pension schemes are not covered, as they represent high volumes of investments and are accessible to a vast majority of households. Especially personal pensions products could be a good starting point (whether EU PEPPs or national products under Pillar 3). Many of the individual pension products can be labelled already, as they are often investment funds.

We acknowledge that further criteria for pension schemes would be needed, especially regarding real estate. If not possible to address them within the timeframe of this criteria development, we highly recommend an explicit commitment to expand the scope in the near future.

Structured products

It is unclear if structured products are excluded by the proposed criteria and such an exclusion should be made explicit. The lack of transparency associated to these products makes the application and verification of the criteria very challenging. Awarding the EU Ecolabel to such products may give them a qualitative competitive advantage, despite being less consumer-friendly in terms of accessibility, fees, and risk/return profile.

Professional AIFs

Products marketed for consumers should be the starting point for criteria development. However, the EU Ecolabel should be open also for professional AIFs (like in the case of the Austrian Ecolabel). This would help labelled retail products in finding other packed investment products that fulfill the label criteria, which they could invest in. It would also contribute to extending the use of the label. Regulations in place prevent that non-retail client products are offered directly to retail clients, avoiding the risk that the EU Ecolabel would imply that the professional products are marketed to non-professional clients.