

January 2021

Position Paper on the EU Ecolabel

Summary



DUFAS fully supports the initiative for the development of a uniform pan-European Ecolabel or ESG label for investment products distributed across the EU.



We believe that this EU Ecolabel, if properly structured, should at the long term replace labels on a national member state level. Apart from uniformity this also reduces the undesirable effect of 'greenwashing' practices and promotes cross border marketing of investment products within the European single market.

Product level rather than product services level

DUFAS is of the opinion that it is essential that an EU Ecolabel should be awarded on an individual specific investment product level rather than on a product manufacturer or financial service provider level. Many asset managers are currently offering sustainable investment funds, which eventually may meet the ESG criteria as currently developed by the EU Taxonomy. However, not all investment funds offered by such asset managers will meet such criteria. The 'pass or fail' system as envisaged under the EU Ecolabel for financial products applied to the asset manager instead of the specific funds they offer may have the result that only a few asset managers may be eligible for the Ecolabel, whilst almost all asset managers are offering number of sustainable investment funds.

Pass or fail system and choosing the threshold

The system of the EU Ecolabel is based on a pass or fail system. Either you meet the criteria for the Ecolabel or you don't. This creates a dilemma as to the threshold of Taxonomy aligned sustainable investments which are required. On one hand setting the threshold too high may result in a limited market of financial products which may carry the EU Ecolabel. It limits the universe of investment products significantly. The question arises whether the EU Ecolabel should only be intended for niche financial market parties, i.e. pure players. On the other hand, by setting the threshold too low this may not meet a sound ambition level for the EU Ecolabel, considering the need for a shift to a sustainable economy. Moreover, it may also be potentially misleading to retail investors if the extent of Taxonomy aligned activities is not well explained.

Different shades of green

In order to overcome above mentioned dilemma , and in order to be able to strike the right balance between the interests of both pure green players and mainstream asset managers, **we believe that the solution for this dilemma should be sought in differentiating in the shades of green once the Ecolabel is being awarded.** This could be achieved by indicating the percentage of Taxonomy aligned investments, application of a point system or the use of a star range from one to five. It provides therefore in our opinion for a solution for the dilemma of setting the appropriate threshold for the proposed pass or fail system. The threshold chosen in such case does not have to be too high, whilst at the same time the pure players can distinguish themselves in the Ecolabel by an ambitious level of greenness.



Proposed threshold

As said a shades of green system will be helpful in finding a compromise of a threshold. **Although, we do find it quite important that there are sufficient financial products available from the date the EU Ecolabel comes into force, we are of the opinion that threshold of Taxonomy aligned activities should not be chosen too low, particularly in the absence of any shades of green system.** We therefore welcome the proposal of the Joint Research Centre of the European Commission to increase the thresholds for UCITS equity funds in their last report of October in comparison to their previous proposal.

Retail investor transparency

Needless to say, **but we believe that having more shades of green included in the Ecolabel, creates more transparency towards the retail investor about the level of environmental greenness of the investment product.** Retail investors/consumers are used to see different label on products, such as the energy labels on washing machines etc. A similar transparency expressed in the label itself should also be sought for sustainable investment products, as we believe that this would really better enable the retail investor to base his sustainable investment decision upon. We do realize that based on the SFDR financial market participants investors have to be informed to a certain extent about the level of environmental greenness of the investment product in product disclosures, but we do think this should also reflected in the EU Ecolabel itself.

Distribution perspective

At the end of the day, pursuant to MiFID II, distributors also need to take ESG factors into account, when providing investment advisory or portfolio management services. Where a client asks his investment advisor to recommend an advisory portfolio consisting of a certain percentage of sustainable investment funds (with emphasis on the “E”), say e.g. 50%, the Ecolabel may be more helpful for such advisor and his client where such label already indicates the level of greenness of the investment product.

In other words, we believe that an investment fund awarded with the Ecolabel without further differentiation may not provide sufficient information for the distributor to establish the client’s sustainable portfolio. Whereas an EU Ecolabel with sufficient granularity as to the greenness of the investment fund might.

Questions or suggestions?

A lot is happening in the field of sustainability. We are constantly adapting our positions accordingly, where necessary. For questions or suggestions, or our latest opinions on sustainability, please feel welcome to contact Randy Pattiselanno, DUFAS manager strategy & regulatory affairs, at rp@dufas.nl.

