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EACB position paper on the EU Ecolabel for Financial Products

Background:

The European Association of Co-operative Banks (EACB) is the voice of the co-operative banks in Europe. Co-operative banks form decentralized networks which are subject to banking as well as co-operative legislation. Democracy, sustainability and proximity are the three key characteristics of their business model.

The European Association of Co-operative Banks considers the work on EU ECOLABEL for Financial Products as an important step and welcomes the possibility to comment on the Draft technical report of the JRC. The EACB has already expressed the co-operative banks' point of view answering to the first consultation on the preliminary report that was closed in May 2019 and welcomes some of the novelties proposed in the second version of the report.

Given the fact that Co-operative Banks are typically retail banks, who interface mostly with households and SMEs clients, we are answering to this specific consultation from the point of view of "distributors". Please find below our detailed comments.

EACB comments on the JRC Technical Report on the Development of EU Ecolabel criteria for Retail Financial Products:

1. Green Bonds and the ECOLABEL: One of the financial products included in the scope of the EU Ecolabel is represented by "Green bonds", which finance or re-finance in part or in full new and/or existing eligible green projects. Another initiative under the umbrella of the Action plan on Sustainable Growth will create in the next months an EU Green Bond Standard, in order to define a common language for those products. According to the additional research of the JRC to further investigate the current situation, **the European green bond market is still very small in size compared to the market of conventional bonds**, corresponding to approximately 2.5% of the total bonds market in 2018 (p. 6 of the report). The alignment with the EU GBS will become an essential requirement for the Bond Funds, in order to fulfil the criteria of the Ecolabel as it is stated in the technical report (p. 32): *at least 70% of the total portfolio asset value shall be invested in bonds that comply with EU GBS.*

EACB view: From a cooperative banking perspective, the Ecolabel could allow banks to develop sustainable products in general, including bonds, and increase consistency. If there is a mandatory need for green bond funds to have at least 70% of bonds labelled under GBS to receive the Ecolabel, this might limit the amount of "Ecolabelled" green bond funds as we might not see enough bonds issued under GBS to have a working Ecolabel green bond fund, at least in the beginning. At the end of 2017 (latest available data) just the best-in-class approach

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totalled EUR 585bn with approximately 40% invested in bonds. That number still exceeds by far today's EUR 120+ issued in green bonds. We would suggest a transition period of at least 3 years, allowing to count the current and different green bonds frameworks in the number of the eligible products for the Ecolabel.

2. New Ecolabel for savings and deposits: The JRC has introduced a new proposal to verify the greenness of a deposit account, aiming to test its possible inclusion in the scope of the Ecolabel. Green saving accounts were initially developed as niche products by regional banks, especially in the Netherlands as a result of the Dutch Green Funds scheme (pp. 22-23 of the report). According to this, *what makes savings or deposit account 'green' is the earmarking of 'green loans' (credit) to green projects or companies engaged in green economic activities. Not all money in the account is used at all times for loans as there must be some liquidity to cover withdrawals, but a specific percentage of that which is assigned to loans should be used for green projects/activities. The minimum percentage that can be used as the basis for an EU Ecolabel criterion is therefore to be determined.*

EACB view: The EACB supports the proposal to define a green savings or deposit account in relation with the credit provided to green projects or companies engaged in green economic activities. However, the EACB suggests to further investigate the feasibility and practicability of this proposal in order to avoid the creation of a framework that could not work for all the financial market participants. Essential to being able to verify the extent to which a deposit account is 'green' is the possibility to identify and trace the link between the money that is placed in deposit and how that money is then used by a credit institution to provide (green) loans to applicants for credit. We need to test and define how this could function in practice. It would be worth thinking about the implementation of a transition period in this regard. For example, in the first year of the application of the EU Ecolabel for financial products the green loan to deposit ratio for green fixed-term and savings deposit accounts could be set at 50%. This ratio could be raised to 70% in the subsequent years. Especially at the beginning, this could facilitate the application of the EU ecolabel in relation to fixed-term and savings deposit accounts.



3. Assessment and Verification: Each criterion proposed in the technical report indicates also the specific assessment and verification requirements to be certified in order to obtain the Ecolabel for financial products (pp. 30-31). According to the Regulation 765/2008 on the *requirements for accreditation and market surveillance*, 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*.

EACB view: The EACB would like to highlight the importance to better clarify the verification and accreditation process, ensuring transparency and identifying the competent bodies that will be appointed for the verification of the requirements, ensuring at the same time that the body in question employs sufficient financial sector expertise.

4. Assessment and Verification: The Technical Report of the EU Ecolabel currently requires all investment funds to demonstrate compliance with all the requirements **for a period of 12 months before** application. (p. 33)

EACB view: Such a conversion period is common for organic farming, for example. In our view, however, this does not make any discernible sense in the case of financial products, as a new sustainable strategy can be launched in a very short time if necessary. Such a conversion period would only unnecessarily delay the application of the Ecolabel. We therefore recommend to reduce it substantially.

5. Ecolabel and disclosure: The link between the EU Ecolabel criteria for financial products and the EU Taxonomy was already contained in the Action Plan on Sustainable Growth. The Impact Assessment accompanying the Taxonomy proposal also recognises that the *use of the EU taxonomy for (financial) product standards and labels would improve environmental integrity of green investments within as well as outside the EU*.

The Taxonomy Regulation will establish an EU-wide classification system intended to provide firms and investors with a common framework for identifying to what degree economic activities can be considered to be "environmentally sustainable". Together with the Disclosure Regulation, the Taxonomy Regulation will require firms to **disclose the degree of environmental sustainability of mainstream funds** that are promoted as environmentally friendly, or to **include disclaimers where they do not**.

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EACB view: The EACB warns about the possibility that the new disclosure requirements under the Taxonomy regulation (art. 4 alpha, beta and gamma) would possibly create a lack of clarity when applying also to EU Ecolabel products. Indeed, those funds that are not promoted as environmentally sustainable should include disclaimers stating that *the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable investments.*

6. Retail investor information: The Technical Report requires in the context of (Ecolabelled) deposit accounts *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. (p. 83).*

EACB view: Despite the fact that, as already mentioned, the association is answering to this consultation from a “distributors” perspective, we would like to emphasize that such a requested list of eligible project with very granular information should not be feasible to be provided by entities like retail banks, especially when volumes become significant.

7. Additional remarks:

- It is **essential to have reliable and available data**. The EACB highly recommend to give financial institutions free access to already existing environmental and social data (eg. available in CDP). For this reason we would like to suggest **a Commission initiative that will allow to start collecting & providing the ESG data as already available in the market and reported by corporates in the EU in an electronic form**, based on both aggregate and individual basis, **under one of the main statistics centers in the EU** (i.e. EUROSTAT). Such a database shall be open to non-financial corporates which can insert – on a voluntary basis – ESG raw data. Moreover, those data should be provided to users for free or at a reasonably affordable cost. The availability of high-quality ESG data should be regarded as a major strategic infrastructure investment project, which would enable more efficient work for mitigation of the climate change. Any database must enjoy public credibility especially towards supervisory authorities.
- We also wish to highlight attention to other regulation, which may clash with the criteria and thresholds, as well as the requirements relating to pre-contractual information to clients. Under PRIIPs Regulation, for example, there are currently certain restrictions on the number

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of pages (maximum 3) of information that can be provided to clients. We must ensure not to add more layers of information to an already complex body of (pre-) contractual information that has to be provided.

- Dealing with the exclusion of companies that violate certain criteria is of central importance for the Ecolabel. As there are some uncertainties it is important for us that **the process clarifies more precisely from when on such an exclusion applies** (the underlying fact is often only known afterwards) and for how long (when is it considered "expired").

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