

OVERVIEW OF EUROPEAN SUSTAINABLE FINANCE LABELS



European sustainable finance labels: heterogenous frameworks delivering mixed promises

In just over a decade, sustainable finance has led to the creation of about ten specialized labels. Granted to less than 500 financial products out of over 60,000 funds on the European market, they are used as points of reference by responsible investment practitioners. Designed to provide guarantees on the asset allocation in portfolios, they should gain access to a larger public thanks to a better distribution in retail banking and insurance, for example in France following the “PACTE law” (loi PACTE).

Labels cover a range of practices as large as the concept of sustainable finance, which encompasses different methods for the integration of ESG criteria in asset management, as well as green finance and thematic environmental funds.

Some labels are managed by financial centers, a few by professional responsible investment associations, and others by specialized environmental labelling organizations. France is the only country in which the government has created and supports two public labels: the SRI label, dedicated to responsible investment; and the Greenfin label for more committed environmental funds.

All labels aim to guarantee a quality level regarding sustainable asset management. The stellar growth of responsible investment in Europe, which now covers about a quarter of assets under management (€14,000 bn), has indeed relied on voluntary commitments without a true standardization of practices.

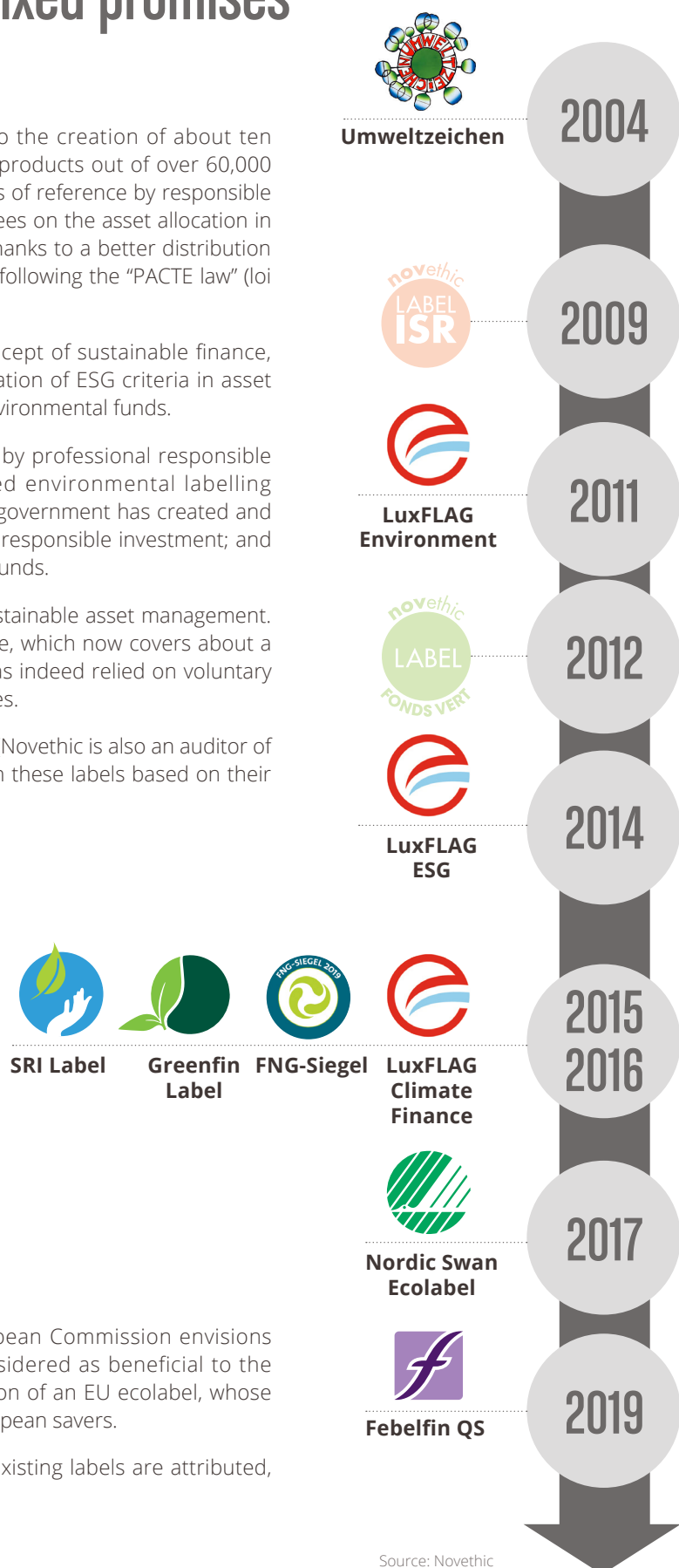
This overview was drafted by Novethic’s research team (Novethic is also an auditor of the Greenfin label). It allows for a comparison between these labels based on their attribution criteria and their impact requirements.

There are two categories of labels: on the one hand, labels focusing on ESG; on the other hand, labels focusing on green. Each of them combines positive criteria relative to the assets selected in portfolios with negative sectorial screenings. Yet, the boundary between the two can be vague for a retail client. Some ESG labels include environmental criteria such as coal exclusion, while green labels exclude companies with controversial ESG records.

The variety of terminologies (SRI, ESG, Greenfin, Climate) and distribution processes further complicates the readability of the approach. This might partly explain the low number of labelled funds, which account for less than 1% of assets in European asset management.

The action plan on sustainable finance of the European Commission envisions the implementation of a taxonomy of activities considered as beneficial to the environment. It should serve as a basis for the creation of an EU ecolabel, whose objective will be to deliver on the pledges made to European savers.

In the meantime, it is important to understand how existing labels are attributed, which is what this overview aims at detailing.












Source: Novethic

8 labels & 1 standard for European sustainable financial products

The Luxembourg Green Exchange (LGX) platform, launched in 2016 by the Luxembourg Stock Exchange, references 8 labels. A distinction is made between ESG and green labels. The former must guarantee that financial products rely on an integrated ESG strategy. The latter are awarded to so-called “green” thematic environmental funds (*see chart below*).

Additionally, Febelfin, the Belgian Financial Sector Federation, recently launched a label designed as a norm or quality standard which all funds claiming to be sustainable, socially responsible or responsible should abide by. The first certified funds in accordance with this standard will be announced in the fall of 2019.

	Label	Governance	Attribution	Type of label	Annual cost	
ESG	 SRI Label (France)	Standalone stakeholder committee, supported by the Ministry of Finances	Accredited auditors	SRI/ESG investment process	Fee including the audit and promotion costs	
	 FNG-Siegel (Germany, Austria & Switzerland)	Expert committee under the stewardship of FNG ¹	GNG (FNG's labelling entity) & Uni. Hamburg	SRI/ESG investment process with climate exclusions. Point system	€3500	
	 LuxFLAG ESG (Luxembourg)	LuxFLAG ²	LuxFLAG	SRI/ESG investment process	€3000	
	 Febelfin QS (Belgium)	Febelfin ³	External auditor	Quality standard combining requirements on the investment process and exclusions	-	
	 Umweltzeichen (Austria)	Austrian Federal Ministry for the Environment	Ministry	SRI/ESG investment process with climate exclusions. Point system	Variable annual fee	
	 Nordic Swan Ecolabel (Nordic countries)	Nordic Ecolabelling Board ⁴ , on a mandate from Nordic governments	Nordic Swan	SRI/ESG investment process with climate exclusions & green reporting. Point system	€3000 + fixed charge	
	«Green» labels	 LuxFLAG Environment (Luxembourg)	LuxFLAG ²	LuxFLAG	Thematic investments and ESG criteria	3000€
		 LuxFLAG Climate Finance (Luxembourg)	LuxFLAG ²	LuxFLAG	Thematic investments and ESG criteria. Climate exclusions	3000€
 Greenfin Label (France)		Standalone stakeholder committee, chaired by the Ministry for the Ecological and Fair Transition	Accredited auditors	Thematic investments and ESG criteria. Climate exclusions	Depending on auditor	


¹ Sustainable investment forum (German-speaking countries)

² Standalone labelling agency for the financial sector in Luxembourg

³ Belgian Financial Sector Federation

⁴ *Nordic Ecolabel* is a voluntary label created by the Nordic Council of Ministers in 1989 and available for about sixty categories of retail products. The “Financial Products” category was introduced in 2017.

Source: Novethic







 **Disclaimer:** the information on labelling criteria contained in this document is based on eligibility criteria documents available online on May 31st, 2019. They might further evolve.

Asset classes covered in the different labels

Most of the existing labels apply at the minimum to UCITS-type equity and bond funds, marketed in the country of the label's governance body. To date, only the Umweltzeichen and Greenfin labels can certify real estate funds, with the SRI label expected to join the list by the end of the year. Additionally, the Greenfin label also allows for certification of venture-capital and infrastructure funds during the launch phase. For the purpose of brevity, this overview does not cover in depth this type of funds.





Varied ESG requirements

ESG analysis of portfolio assets is mandatory for all labels, but derogatory thresholds may vary considerably. The formulation of this minimum coverage for ESG analysis is a telling example of the disparity of standards at European level. If most labels use a “pass or fail” system with predefined limits, some combine it with requirements on exclusions and/or a point system. These requirements regarding ESG screening ensure that a large majority of assets in portfolios have been analyzed, and whenever possible, picked not only on financial but also ESG criteria. Some labels also require a regular update of the ESG analysis.

Label/standard	ESG analysis coverage requirements
 SRI label	- ESG screening of more than 90% of the portfolio - 20% reduction of the investable universe, or “significantly” better average ESG score than initial universe
 FNG-Siegel	ESG screening of 100% of the portfolio
 LuxFLAG ESG	100% portfolio screening, in compliance with an ESG strategy (e.g. best-in-class)
 Febelfin QS	100% ESG screening, with temporary derogations
 Umweltzeichen	- Mandatory integration of ESG selection criteria - Less than 50% of the total investment universe can be investable
 Nordic Swan Ecolabel	- ESG screening of more than 90% of the portfolio - More than 50% of the fund must be invested in holdings with “strong ESG practices”

Source: Novethic

● Exclusions combined with ESG analysis

ESG exclusions		 FNG-Siegel	 Umweltzeichen	 Nordic Swan	 Febelfin QS
Norm-based exclusions framework	Corporate bonds	Global Compact	“In house” framework	“In house” framework	Global Compact
	Government bonds	Based on various norm-based country exclusion lists (Freedom House, biodiversity, corruption)	Based on various norm-based country exclusion lists (human rights, death penalty, military budgets, nuclear energy expansion policy)	Sanctions and conventions (sanctions, Paris agreement, biodiversity, corruption)	Countries on sanctions lists and Global Compact
	Unconventional weapons	P	R / P	R / P / C	R / P / C
	Conventional weapons	P	R / P	R / P	P / C
	Tobacco	-	-	P	R / P
	Genetic engineering	-	V / P	Part of the point system	-

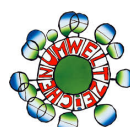
Four out of six labels centered on ESG analysis apply exclusions to companies and sovereign issuers alike. There are two types of exclusions. On the one hand, some exclusions target “controversial” companies known for breaching international conventions on fundamental human rights or from the International Labor Organization (ILO). The reference framework used here is the Global Compact of the United Nations, listing the 10 “commandments” of a responsible company. On the other hand, enforced sectoral exclusions might affect “controversial” activities such as GMOs and anti-personnel mines. For the two other labels, the definition of exclusions is left up to the discretion of the fund manager.

R: resale – P: production – C: components

Source: Novethic

Point systems: a way to highlight best practices

Three ESG labels use a point system, either to ensure that minimum requirements are met (Nordic Swan & Umweltzeichen), or to distinguish funds whose ESG practices are more holistic (FNG). Additionally, the FNG label also rewards “institutional credibility”, entailing that the asset management company takes and upholds company-wide ESG/SRI commitments. Besides these three labels, point systems are not commonly in use.



Points for:	FNG-Siegel	Umweltzeichen	Nordic Swan
Additional ESG analysis & selectivity of ESG filter	Yes , a selection strategy score assesses and rewards positive & negative screening	Yes , high selectivity rates are rewarded (via 3 thresholds of 50, 33 & 25% of initial investment universe remaining)	Yes , if 100% of the portfolio (in number of issuers) has undergone ESG analysis
Stringency of ESG processes	Yes (qualitative)	Yes (quantitative)	No (assessed in minimum requirements)
Voting policy (equity funds)	Yes , a dialogue strategy grade rewards funds that can show evidence of an active dialogue on sustainability with a large proportion of issuers. A policy on formal engagement processes with issuers is also mandatory.	Yes , the exercise of voting rights in general assemblies is rewarded	Yes , rewards regular voting (at more than 10 or 50% of general assemblies) and the funds able to demonstrate a past track record and future strategy of regularly putting forward shareholder proposals
Engagement and dialogue	Yes , a dialogue strategy grade rewards funds that can show evidence of an active dialogue on sustainability with a large proportion of issuers. A policy on formal engagement processes with issuers is also mandatory.	Yes , an engagement criteria rewards solution-oriented dialogue with portfolio corporations	Yes , points are attributed if the fund manager regularly engages on ESG issues with at least 5/10% of portfolio companies. Another point is awarded if specific resources and objectives are allocated for the engagement and dialogue process
Additional exclusions	No	No	Yes , GMO crops
Environmental focus	No . Thematic funds are treated separately	No . Thematic funds are treated separately	Yes , based on a simplified environmental taxonomy (see page 7)
Additional reporting	Yes , if ESG KPIs at fund level are made public	No	Yes , if one or several of the following are publicly available: detailed engagement list, voting records showing company-specific voting, environmental performance indicators (see on page 8), holding list with ESG brief
Reporting verification (3rd party)	No	No	Yes
Barème de notation	Graded from 0 to 100. “Basic” label between 0 and 24,9%. Stars awarded when grades exceed 25, 50 or 70%	Weighted points sum must exceed 65 % of the maximum amount of points (differentiated by category of products)	Graded from 0 to 16. A minimum score of 6 points must be achieved

Source: Novethic

The exclusion of fossil fuels, a common feature of all labels?

Environmental labels intend to offer the guarantee of not investing in sectors detrimental to the environment. On the negative screening side, this approach consists in the exclusion of fossil fuels, coal in particular, with varied thresholds. While this exclusion seems logic for green labels or those that are the scheme for financial products of an eco-label for consumption goods (Nordic Swan & Umweltzeichen), interestingly two ESG standards (FNG & Febelfin) also encompass stringent criteria on coal. Beyond coal, each set of label guidelines comes with rather technical policies on different types of fossil fuel production and extraction. These criteria openly target oil and gas activities (*upstream and downstream*), energy or mining companies highly involved in coal, as well as the nuclear industry, but the way they affect electric and diversified utilities is less straight-forward. For most labels, the criteria apply to the revenue share of a company directly related to an excluded activity, except for electricity production where installed capacity (in GW) may also be considered.

Criteria specifically written for electricity generation from fossil fuels are not yet a common feature. Three out of the six labels detailed below do not enforce them, but they are in practice very selective in the case of the Greenfin and Nordic Swan labels. A different approach was chosen with the Febelfin standard, which bases its energy generation exclusion on a maximum carbon intensity factor. It will evolve over time according to a 2°C scenario from the IEA.



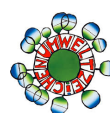
Greenfin label¹



Nordic Swan Ecolabel²



LuxFLAG Climate Finance



Umweltzeichen



FNG Siegel



Febelfin QS²

		Greenfin label ¹	Nordic Swan Ecolabel ²	LuxFLAG Climate Finance	Umweltzeichen	FNG Siegel	Febelfin QS ²
Exploration & extraction	Coal	Yes (5%)	Yes (5%)	Yes (30%)	Yes (5%)	Yes (5%)	Yes (10%), with expansion criteria ³
	Non-conventional O&G	Yes (5%)	Yes (5%)	Yes, internal criteria apply	Yes (5%)	Yes (5%)	Yes (10%), with expansion criteria ³
	Conventional O&G	Yes (5%)	Yes (5%)	Exploration only (30%)	No	No	Oil only (60%)
Electricity generation	Fossil fuels	Yes (5%)	Yes (5%)	No	No	No	Based on carbon intensity of the energy mix (gCO ₂ /kWh) ⁵
	Coal			Yes (30%), with expansion criteria ³		Oui (30%)	
	Nuclear energy ⁴	Yes (5%)	Yes (5%)	New projects only	Yes (5%)	Oui (5%)	

¹ Additional partial exclusion criteria apply to activities listed in this chart. Service companies and companies involved in the distribution / transportation and the production of equipment and services are excluded in so far as 33% or more of their turnover comes from clients from excluded sectors.

² Exceptions apply to companies that can demonstrate an ambitious low-carbon transition strategy (see below).

³ A specific exclusion criterion targets companies which have announced "expansion plans". Assessment is based on physical assets (building or modernizing coal plants, in the case of LuxFLAG) or on corresponding revenue growth (Febelfin).

⁴ Besides the generation of nuclear energy, FNG & Umweltzeichen labels also exclude companies who supply components to nuclear plants, while Nordic Swan excludes uranium extraction. The Greenfin label excludes all the related value chain.

⁵ Criterion based on energy mix projections as per the Energy Technology Perspectives 2017 scenario of the IEA. If data in gCO₂/kWh is not available, thresholds of 30% fossil fuels, 10% coal and 30% nuclear energy apply.

Source: Novethic





● Fossil fuels: push towards a gradual phase-out rather than exclude?

Beyond the "black or white" aspect of exclusion lists, the Nordic Swan label and the Febelfin standard allow for exceptions in the case of companies whose energy transition strategy meets certain criteria. In the case of Nordic Swan, companies qualify for the exception if at least 75% of their energy sector investments (actual or committed and budgeted) in new capacity, on average for the last three years, are in renewables, and if renewables generate more than 50% of their revenue from power generation. For Febelfin funds, companies that don't comply with exclusion criteria might account for up to 5% of a portfolio if selected among the best performing companies on sustainable energy transition (on a "phase out" approach) within their peer group ("best-in-class" filter).

A systematic use of taxonomies

● What share of green activities in labelled equity funds?

To ensure that investments are directed towards environmental activities, labels combine two strategies. They are supported by a taxonomy of eco-activities and define, directly or indirectly, a minimum share of green activities that a labelled portfolio should include. This minimum share is computed based on two thresholds, one at company level and the other at portfolio level.

	Taxonomy used to define eco-activities	Thresholds at holding level («green company»)	+ Thresholds ¹ at portfolio level	= Minimum threshold of aggregated turnover ² from eco-activities in portfolio
 LuxFLAG Climate Finance	Common Principles for Climate Change Mitigation and Adaptation Finance Tracking (IDFC)	Company with a turnover of at least 50% from eco-activities	75% of green companies	37,5%
 LuxFLAG Environment	Environment related sectors as defined in the main classification systems	Company with a turnover of at least 20% from eco-activities	75% of green companies. Within this pocket, companies must derive 33% of turnover from eco-activities in aggregate	24,75%
 Greenfin Label	Based on CBI's taxonomy (Climate Bonds Initiative), slightly modified	Three types of companies: I: more than 50% from eco-activities II: between 10 and 50% III: less than 10%)	Portfolio made up of at least 20% of Type I companies and no more than 25% of Type III companies	15,5%
 Nordic Swan Ecolabel³	Based on categories used for the Green Bond Principles (ICMA)	No threshold at holding level	No mandatory threshold, but the point system rewards portfolios that can demonstrate a share of 10 / 22 / 35 or 50% of aggregated turnover from eco-activities	At least 10%

¹ Thresholds measured in holding weight, not by number of holdings.

² For concision purposes, "revenue" and "turnover" are used as synonyms here.

³ Label which both ESG and green characteristics but listed among ESG labels on LGX.

Source: Novethic

According to the first work documents released by the European Commission, a similar system will be used for the future European Ecolabel for financial products. The challenge will be to determine where to set the threshold for aggregate green turnover in portfolio. With today's labels, it varies between 15,5 and 37,5%.

● Environmental exclusions: early examples of a « do no significant harm » principle

Two green labels, Greenfin and LuxFLAG Climate Finance, entail particular environmental exclusions aimed at ensuring that the choice of technology comes with limited negative impact. This principle is currently part of the works of the *Technical Expert Group* which will set the basis for the future European taxonomy.



**LuxFLAG
Climate
Finance**



**Greenfin
Label**









Environmental exclusions	Restriction apply to geothermal plants, mining, as well as biofuel and biomass (related to food security and deforestation issues)	Companies generating 33% or more of their turnover from forest exploitation, except if sustainably managed, and peatland agriculture are excluded
Hydro power restrictions	Exclusion of hydro-electric dams above 20MW in capacity, except if built according to high precautionary standards, such as Gold Standard	Large dams (above 15MW) are not viewed as an eco-activity, but are not strictly excluded

Source: Novethic

Transparency criteria are based on investment processes and portfolio allocation

The European labels presented in this overview detail their criteria in documents whose length ranges from a single page to several dozens. They all entail transparency requirements related to financial management practices (aiming in particular at limiting the use of derivatives and other “speculative” financial products, as well as disclosing inventories of portfolio holdings) and specific transparency criteria with respect to ESG and climate investment practices. Only three labels do not require reporting on the impact of investment policy on climate or ESG performance.









This table summarizes the different reporting requirements:

	Portfolio disclosure	ESG transparency	Climate transparency	Impact reporting
 SRI Label	Frequency as stated in the transparency code	Voting policy published online & annual report on ESG processes	-	General indicators of ESG performance
 FNG-Siegel	Frequency as stated in the transparency code	Official document on engagement policy & annual report on results	For thematic funds, the definition of sustainable activities must be publicly available	Quarterly report on the fund's sustainability performance. ESG KPIs compared to a baseline
 LuxFLAG ESG	Annual (full portfolio)	-	-	-
 Febelfin QS	-	Engagement report on company or on product level	Official document detailing the policy on exclusions and other material issues with regards to ESG and climate	Via a standardised “Sustainability ID” document
 Umweltzeichen	Monthly (full portfolio)	Main ESG characteristics of product	Presentation of a top 5 of selected sustainable assets in portfolio	-
 Nordic Swan Ecolabel	Quarterly (full portfolio)	The point system rewards annual reporting that contain a detailed review of engagement & voting statistics	The point system rewards thematic funds that describe how they identify, assess and include companies that promote the transition to an environmentally sustainable future	The point system rewards the publication of physical indicators (avoided CO ₂ emissions, renewable energy generated, clean water supplied, etc.) and of the impact analysis of the 10 largest fund's holdings
 LuxFLAG Environment	Annual publication of financial data & other relevant information for investors		-	-
 LuxFLAG Climate Finance	Annual	General information on ESG policy	Description of environmental & financial objectives linked to climate finance. Breakdown of portfolio per category of climate financing	Monitoring, evaluation and reporting of fund climate impact, with indicators to choose from three lists: adaptation, mitigation and REDD (forest protection).
 Greenfin Label	Annual (full portfolio)	Information on resources put in place to monitor and manage ESG controversies	General or environmental objectives sought by the investment policy	Description of effective performance for at least one domain of reporting (climate, water, natural resources, biodiversity). Publication of at least one mandatory indicator to choose from a list

Source: Novethic

Labels: a leverage effect yet to be demonstrated

With less than 500 funds and under €100bn in assets under management, labelled products remain a niche in Europe. As of March 31st 2019, Novethic identified a market of **396 funds labelled according to ESG criteria and 22 labelled according to green criteria**¹. Among them, 46 funds, totaling about €14bn in assets, were awarded two different labels. Green bond funds (12, of which 7 are labelled with green criteria, 4 with ESG criteria, and one with both) accounted for €1,92bn.

	Number of funds	AUM as of 31/03/2019 (€bn, Morningstar & LuxFLAG ³ data)	Number of "dual label" funds
 SRI Label	200	51,30	13
 FNG-Siegel	65	9,87	33
 LuxFLAG ESG	46	12,77	8
 Umweltzeichen	104	11,6	29
 Nordic Swan Ecolabel	23	8,20	4
 LuxFLAG Environment	7	6,03	0
 LuxFLAG Climate Finance	4	0,61	0
 Greenfin Label ²	11	2,55	4
Total	414	94,03	46

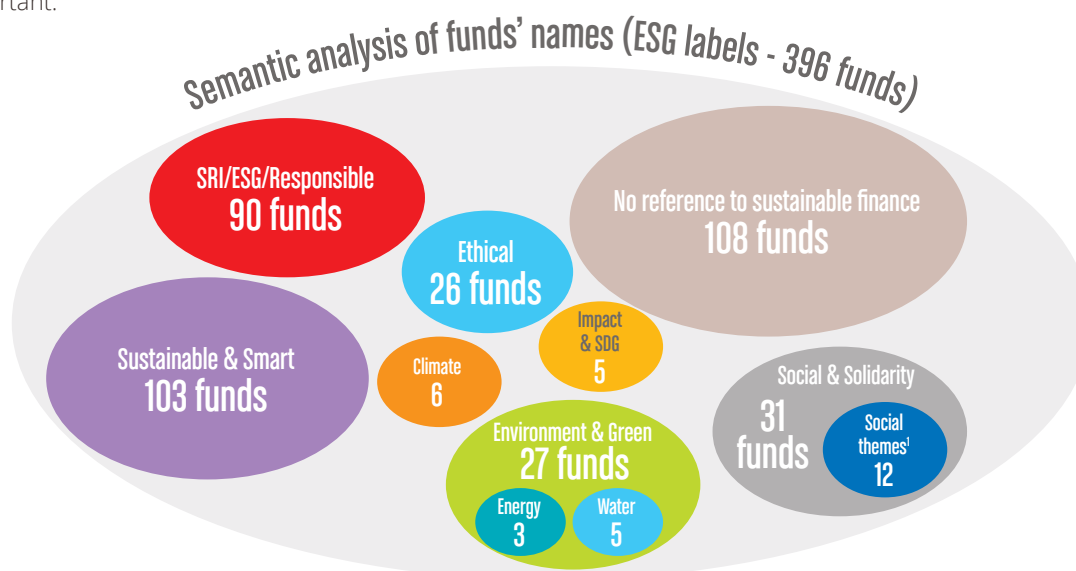
¹ Including 4 funds awarded with both the SRI and Greenfin label

² Unlisted funds are not counted here (18 funds and approximately €4,5bn in AuM).

³ The latest LuxFLAG data was used in the absence of available data from Morningstar

Source: Novethic

The diversity of names and concepts associated with sustainable finance products complicate their distribution, along with geographic restrictions imposed on most of them. At a time when sustainable finance is gaining traction and enjoying growing client interest, as shown by numerous studies, a harmonization of the framework and requirements for impact measurement seems important.



Source: Novethic

¹ employment, education, health, silver economy, gender equality

SRI & ESG funds as well as the labels which have assisted their growth could paradoxically be adversely affected by a larger development of sustainable finance. To establish their legitimacy, they need credibility based on a clear pledge and trustworthy delivery. Yet, the great diversity of approaches and denominations in use, not always in accordance with the label names, impedes the intelligibility of the offer and its ability to answer increasingly concrete client expectations.

Another pitfall arises from the risk that the promises of responsible investment will be perceived as not kept. The use of impact indicators and references to social objectives or even the Sustainable Development Goals (SDGs) create an expectation around environmental and/or social impact, which the assets picked in the funds must deliver on accordingly.

The training of financial advisors and massive communication efforts towards savers are crucial to build up the credibility of sustainable finance products. A label, however stringent, cannot make up for their absence.



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Study carried out by Nicolas Redon,
Green Finance Expert,
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