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European sustainable finance labels in the context of the European regulation

Sustainable Finance

More complex exclusions of fossil fuels, integration of the concepts of double materiality or shareholder engagement criteria… Novethic unveils the broad trends on the European market of sustainable finance labelling.

The European labels establish their legitimacy alongside the development of European regulation

The assets under management of labelled funds have nearly doubled between the end of 2020 and the end of 2021, while their numbers have been multiplied by 1.5.

This dynamic has been maintained despite the self-declaration of sustainable funds under Article 8 and 9 of the Sustainable Finance Disclosure Regulation (SFDR) being introduced.

Europeans labels nonetheless capitalize on the European regulation: 6 of the 9 have adopted self-declaration as an add-on criterion for candidate funds, and 4 of them (Nordic Swan, Towards Sustainability, FNG-Siegel and LuxFLAG ESG) have revised their criteria to better articulate them around SFDR and Taxonomy.

	Number of funds		AuM in €bn	
	12/31/2021	Growth in 1 year	12/31/2021	Growth in 1 year
SRI Label (France)	950	+ 301	777	x 2.1
FNG-Siegel (Germany, Austria & Switzerland)	257	+ 88	115	x 1.9
LuxFLAG - ESG - Environment - Climate Finance (Luxembourg)	290	+ 46	151	x 1.2
Towards Sustainability (Belgium)	642	+ 200	578	x 2
Umweltzeichen (Austria)	206	+ 83	60	x 1.7
Nordic Swan Ecolabel (Nordic countries)	74	+ 20	34	x 1.3
Greenfin Label (France)	74	+ 45	31	x 2.2
TOTAL	2 119	+ 701	1 337	x 1.9

Source: Novethic - Morning Star and LuxFLAG data

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Fossil fuel exclusion, both mainstreamed and complexified

The French SRI label is the only label without any exclusion, while coal remains the most widely excluded sector. Since the last edition of Novethic's overview, label guidelines on exclusion have been complexified, both in terms of types of excluded sub-sectors and transition strategies of the companies involved, none of the labels applying the same method. At this point, no label has so far revised its exclusion of nuclear energy, despite its possible introduction in a Complementary Delegated Act of the Taxonomy.

Labels are still looking for the best approach to exclusion criteria. Nordic Swan and Towards Sustainability have adopted their own sophisticated method for companies in transition; the first one by having corporates prove that over 90 % of their investments are channeled to renewable energies, and that they represent over 50 % of their revenue, the second opting for a different requirement by focusing for example on validated Science Based Targets. On the other hand, Greenfin chose in October 2021 to tighten its exclusions on the fossil fuel value chain.

Label criteria reviewed to include double materiality and shareholder engagement

Double materiality and shareholder engagement have become essential criteria for European labels. Double materiality implies both an assessment of the expected impact of ESG risks on product returns, but also of the adverse impacts of the portfolio on ESG factors. Since 2021, label guidelines have introduced nuances, regarding material ESG risks, but also new minimum requirements in relation to environmental analysis.

Considered to be a true improvement lever for the performance of investee companies, shareholder engagement has gained prominence in label guidelines, which require a formalized approach, as well as the exercise of voting rights by the asset management company marketing the fund.

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