Our position

Response to the Stakeholder Questionnaire on the EU Ecolabel for Financial Products

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Speaking for American business in Europe

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The American Chamber of Commerce to the European Union (AmCham EU) Sustainable Finance Task Force is grateful for the opportunity to respond to the European Commission's Stakeholder Questionnaire on the EU Ecolabel for Financial Products.

AmCham EU represents over 150 companies of American parentage – from a wide range of sectors – committed to and invested in Europe. We have followed the EU's Sustainable Finance initiative closely since late 2016, including the Commission's March 2018 Action Plan, and believe that industry must take up the challenge alongside policymakers. A number of our members were also members of the High-Level Expert Group on Sustainable Finance or the ongoing Technical Expert Group on Sustainable Finance.

AmCham EU believes that there is great potential in harnessing capital flows for sustainable investment. The goal of our Sustainable Finance Task Force is to leverage the expertise and experience of businesses from across our membership with the technical insight of the transatlantic financial services sector. This uniquely cross-sectoral group of businesses intends to act as a trusted and valuable partner for policymakers throughout the implementation of initiatives laid out in the Commission's Action Plan.

The AmCham EU Sustainable Finance Task Force includes:

- Banks and insurance companies
- Investment firms
- Benchmark providers
- Financial providers
- Energy companies
- Automotive manufacturers and suppliers
- Consultancies and law firms

We believe that there are three key principles which are crucial to the lasting success of the EU's sustainable finance project:

1. Regulatory certainty and economic stability

It is essential that the EU ensure a coherent, holistic and long-term framework to promote sustainable growth, including clear and objective definitions of "green", without which investors would lack regulatory certainty. In the interests of financial and economic stability complex default or market risk must be taken into account as a pre-requisite for sound action.

2. Evidence based policy

Businesses are uniquely placed to provide expertise on the real-world challenges associated with climate change and on the impact of transition orientated policy initiatives. Policymakers should ensure that evidence drives decision making and that all stakeholders are able to provide meaningful and substantive input.

3. International openness

The EU's leadership is critical to building international momentum on sustainable finance. However, the ambitious energy transition targeted in the Paris Agreement will require the mobilisation of global financial markets.

In line with the principles of the Capital Markets Union (CMU), we recommend that EU initiatives take an open, flexible, and outward-looking approach to ensure equal and non-discriminatory access for third country financial institutions, businesses and investors – all of whom can and do make a critical contribution to the European economy.

Comments on the stakeholder questionnaire on creating an Ecolabel for Financial Products

A labelling system for Green products has potential merit because it could help investors choose products that are right for their needs, and because it could reduce the risk of miss-selling by helping firms determine which of their products can and should be marketed as a Green product.

However, the Commission consultation appears to confuse environmental/Green products (implied by 'Ecolabels') with broader Environmental, Social, Governance (ESG) considerations – such as human rights – and even going beyond ESG to include executive pay (for example in Question 4.5). For the sake of clarity for investors and financial market participants, and to facilitate implementation for EU and national regulators, we suggest that the regime should focus, at least initially, on defining products related to environmental/Green. This is after all the approach taken by the Commission in its draft regulation 2018/0178 on the establishment of a framework to facilitate sustainable investment.

The basis for defining whether a product is Green should primarily be its investment objectives. The Commission consultation states that PRIIPs should be eligible for Ecolabels and the PRIIPs Regulation requires product manufacturers to clearly state their product's objectives. If a product intends to target environmental outcomes, this will be stated in the investment objectives. Global standards such as the UN Global Compact and the ISDA Green Bond Standard help define what an 'environmental outcome' is and will also ensure that the EU's approach is consistent with global agreements.

Focusing on the investment objectives also means that the Ecolabel can capture a spectrum of environmental investment strategies (see Q4.7).

Currently, most of the green labelling regimes are based on use of proceeds (Green Bond Principles) or demonstrating the process by which ESG is incorporated in investment objectives and actual implementation e.g. the French SRI label.

The Commission further suggests that the Ecolabel should apply to the top 10-20% performing products. We disagree with this proposal because it is practically very difficult to achieve and it distracts from the original aim: to help investors identify products that meet their environmental objectives (with financial return perhaps a secondary, but an essential consideration).

The consultation appears to confuse 'market share' with 'performance' (in Section 3). We consider performance to be synonymous with investment return. It is perfectly possible to have a large investment fund that underperforms by generating sub-market returns. It is difficult to measure returns in a way that is sufficiently stable and comparable to be meaningful for investors. Some examples will illustrate:

- What is the correct time horizon in which to measure the average return? This debate has been contentious in reference to the PRIIPs Regulation. There will also be a large amount of new Green products brought to market with no track record and ability to benefit from this regime.

- Products that seek Greener outcomes may charge higher fees because there are costs associated with identifying Green activities and investments. This could lead to a counter-intuitive situation in which products that have Greener outcomes are excluded from the Ecolabel because they do not achieve top 10-20% financial performance, relative to products that are less Green but have better returns net of fees.

It is important that investors are able to assess returns and fees, but this issue is separate to labelling Green products. Any consideration of an Ecolabel for financial products should focus on clearly labelling Green products, as expressed through their investment objectives in the Key Information Document and other disclosures. The PRIIPs Regulation already requires firms to make separate disclosures about performance, fees and costs within the same document.

We share the Commission's view that it will be critical to leverage the private sector and in particular the financial sector to support the transition to a sustainable economy. We believe that the best way to do this is by empowering investors through ensuring they have options that suit their ESG and risk appetite as well as the tools they need to pursue these goals. By contrast, constructing inflexible and complex regulatory frameworks around sustainable finance which limit investors choice and remove investor tools will curtail the reorientation of investment towards ESG solutions. We remain at your disposal to further discuss this in the context of the legislative proposals.