

Towards Sustainability

Quality standard and label for sustainable and socially responsible financial products

*Two-yearly review 2020
Consultation document*

Introduction

In November 2019, the Central Labelling Agency of the Belgian SRI label (CLA) vzw/asbl, awarded the first 'Towards Sustainability' labels to financial products that were compliant with the Quality Standard for sustainable and socially responsible financial products.

Since then more than 460 products, including investment funds, index products, insurance funds and saving products, have obtained the label amounting to more than 230 billion EUR that is managed respecting the criteria of the Quality Standard.

More than 70 financial institutions from over 10 countries are currently involved in the Towards Sustainability Initiative, making it the most comprehensive and inclusive labelling initiative for financial products in Europe.

The label and the underlying Quality Standard were developed at the initiative of Febelfin, the Belgian Financial Sector Federation, with the objective to grow and safeguard the quality and integrity of the market of sustainable financial products on the one hand, and to provide more transparency and guidance to retail and institutional investors on the other hand.

The Quality Standard is a normative framework that stipulates a number of criteria that a product which claims to be sustainable should minimally meet. At the same time, it encourages product managers to go beyond these minimal criteria and be more ambitious. The minimal criteria concern ESG due diligence processes, sustainability policies and screening criteria, exclusion of harmful activities and transparency.

A quality standard in the field of sustainability can however not be static: it can only be dynamic and evolutive to keep pace with changing consumer expectations, societal needs, scientific research, data availability and new regulatory initiatives. Especially on the regulatory level, the European Commission has been very active: e.g. in developing a taxonomy defining green economic activities and a new regulation requiring extensive ESG disclosures from companies and financial market participants. As these regulations gradually come into effect over the coming years, they will provide a further foundation for the Towards Sustainability initiative to build upon.

For that reason, the Quality Standard is reviewed every 2 years in a multi-stakeholder context. The review process gives an opportunity to all relevant stakeholders, financial and non-financial, to express their views on the direction in which the Quality Standard should evolve.

The review will be discussed in the CLA Advisory Commission made up of representatives of the main stakeholder groups involved: asset managers, banks, insurance companies, investors, industry, civil society organisations, sustainability experts and the supervisory authorities. In addition, all stakeholders are invited to respond to the survey in the current consultation document.

Approach

Guiding principles

When reviewing the Towards Sustainability Quality Standard the following basic principles will apply:

- The Towards Sustainability Initiative wants to encourage and support diversity and innovation in the integration of ESG in financial products but at the same time safeguard the quality and integrity of the market by setting a number of strict minimal requirements for the investment process, policies and portfolio composition.
- The Towards Sustainability Initiative does not want to create a limited niche of products dedicated to a specific client profile. It wants however to gradually raise the level of sustainability of all financial products and create a broad and qualitative offer of sustainable financial products that is suitable for clients of all types and risk profiles.
- The Towards Sustainability Quality Standard is evolutive. The requirements are based on meaningful indicators that are currently available for the majority of the investment universe. The choice of indicators and the thresholds will be adjusted when more and better data become available.
- The Towards Sustainability Quality Standard implements and builds upon the future EU legislation and initiatives on sustainable finance.

Topics for review

The current review will focus on the following topics:

- Requirements and clarifications on sustainability strategies (E.g. best-in-class, thematic, normative, engagement, solidarity)
- Requirements and clarifications about investments in specific sectors (E.g. energy, electricity generation, financial, other)
- Requirements and clarifications about investments in specific asset classes (E.g. derivatives, green bonds, sovereign bonds)
- Requirements and clarifications about specific types of financial product types (E.g. fund of funds, structured notes, hedge funds, branch 21 product, savings products)
- Requirements for disclosure on websites and pre-contractual documents (E.g. about policies, environmental and social indicators)
- Alignment and complementarity of the Towards Sustainability Quality Standard with future EU legislation and initiatives on sustainable finance (Esp. the Sustainable Finance Disclosure Regulation (SFDR) and its draft Regulatory Technical Standards, the Taxonomy Regulation, the revision of the Non-Financial Reporting Directive (NFRD), and the draft EU Ecolabel proposals)

Process and timing

Respondents are requested to send their feedback and responses to the survey questions below to info@towardsustainability.be by **1 November 2020**.

Based on the conclusions of the discussion in the CLA Advisory Commission and based on the analysis of the feedback to the written consultation, an updated version of the Quality Standard will be drafted in January 2021.

After approval by the Board of Directors of the CLA, the updated Quality Standard is expected to be published on the CLA website in February 2021.

The updated Quality Standard will be effective for labels awarded as of November 2021.

Survey

This is an extensive consultation that contains a large number of questions. In many cases, a question is actually a set of multiple sub-questions that outlines a topic we would like your view on.

All questions are optional. We are aware that many questions may not be relevant for you. Do not hesitate to only answer the questions or sub-questions you feel most strongly about.

Because we are convinced that the concept of sustainability and the practical implementation of it in the management of financial products can be very diverse and must leave room for nuance, all questions in this consultation are open questions.

The questions in this consultation are divided in 2 parts:

- a first list of questions on the market of sustainable financial products in general and
- a second list that contains more technical and detailed questions on the Towards Sustainability Quality Standard.

All individual responses to this consultation will be treated confidentially. However, after the review process a summary report will be published.

Useful links

- The Towards Sustainability website: <https://www.towardsustainability.be/>
- The list of currently labelled products: <https://www.towardsustainability.be/en/Investment-Product>
- Full text of the Quality Standard – February 2019: <https://www.towardsustainability.be/sites/default/files/files/Quality%20Standard%20-%20Sustainable%20Financial%20Products.pdf> (English)

A. Introductory questions¹

1. Please provide your name
2. If you represent a company or another institution, please specify?
3. Can we contact you about your feedback? If yes, please provide your e-mail address.

B. Questions on the market of sustainable financial products

On your investor profile

4. What type of investor are you (retail, professional, institutional)?
5. How would you describe your risk profile or appetite (defensive/low, moderate/medium, dynamic/high)?
6. Have you already invested in sustainable financial products (ESG, SRI)?
7. Is it probable that you will invest in sustainable financial products in the coming year?

On the definition of a sustainable financial product

8. What would you consider essential characteristics of a sustainable financial product? E.g. what do you consider to be minimal requirements regarding the investment objectives, policies and/or the composition of the portfolio?
9. Would you make a distinction between degrees or levels of sustainability? If yes, what would be the distinguishing factors to determine the degree of sustainability of a financial product?
10. Different types of sustainable products balance environmental, social and governance ('ESG') factors in different ways. The environmental aspect currently receives the most attention: Do you think that a sustainable product must always be a 'green' product, i.e. environmentally focussed?

On the offer of sustainable financial products

11. Do you consider the current offer of sustainable savings and investment solutions sufficiently broad, diverse and suitable for different investor profiles?
12. What would you prefer: a) a broader offer of sustainable financial products with basic requirements, b) a smaller offer of products with strict requirements or c) a combination of both types with transparency about the actual level of strictness?
13. Do you agree that financial institutions are sufficiently proactive and supportive in providing sustainable savings and investment solutions? If not, what could be done better?

On product information, transparency on investment policies and reporting

14. Which of the following sources of information would you most likely use when you consider investing in a sustainable financial product: your financial advisor, the product's commercial factsheet, the product's KIID (Key Investor Information Document), the product's prospectus, previous annual reports, the website of the financial institution, other websites, etc?

¹ Your personal information will only be processed in the context of this consultation.

15. Is there sufficient information available on the sustainable characteristics of financial products? If not, what do you think is missing?
16. Does the current information on the sustainable characteristics of financial products have the appropriate level of detail and understandability?
17. On what issues do you think it is important that the portfolio manager has a formal policy? (Currently Towards Sustainability requires policies on human rights, labour rights, environment, anti-corruption, weapons, tobacco, coal, un/conventional oil & gas, nuclear energy, biodiversity, water use, taxation, oppressive regimes, death penalty and forward contracts on agricultural commodities)
18. Is it important to you that these policies are published on the website of the financial institution?
19. Is it important to you to have the detailed composition of the product's portfolio available? If yes, what breakdown would you consider most useful: by individual investee company or by economic sector?
20. Among the economic sectors to which the portfolio can be exposed or in which investments can be made, which ones would you like to be informed about?

On environmental factors

21. Would you find it useful to know the portfolio's total carbon emissions or carbon intensity? Are there other indicators you would consider informative?
22. Would you find it useful to have a separate category of 'fossil free', 'low fossil' or 'low carbon' sustainable financial products? If yes, how would you define such a product?

On supervision of sustainability claims

23. How important is it to you to have independent supervision of the sustainable characteristics and claims of a financial product?
24. What form should that independent supervision take? Who should be responsible for this supervision?

On client demand for sustainable financial products

25. What would you consider reasons not to choose for sustainable financial products but instead to invest in 'traditional' financial products?
26. What would help you in finding and choosing sustainable financial products? What role could an independently awarded sustainability label play in your decision process?

On the Towards Sustainability Initiative

27. Are you familiar with the Towards Sustainability label or quality standard? If yes, in what way or in what capacity?
28. If you are familiar, what do you consider its strengths and weaknesses? What needs to be improved?
29. Have you, as an investor, already used the Towards Sustainability label as a factor in your investment decisions?

30. Have you, as a financial service provider, already used the Towards Sustainability label to increase investors' awareness about the existence of sustainable investments?
31. How important is it to you to have a specific label for the Belgian market, when there also exist labels in other countries and in the future, there may be an EU label?

C. More technical and detailed questions on the Towards Sustainability Quality Standard (QS)

On the sustainability strategies requirements

32. When a product manager uses a best-in-class strategy, he selects only the best performers on the level of sustainability per sector or subsector. Should the Quality Standard set a minimal threshold for determining the 'best performers'? If yes, what should it be? (QS 1.1.1.1)
33. When a product has a thematic focus (e.g. an SDG or other specific ESG theme), what minimum percentage of the assets in the portfolio should fit the theme? (QS 1.1.1)
34. Some labelling frameworks require that the ESG screening process results in a minimal reduction of the investable universe? Do you agree with this approach and, if yes, what should that minimal reduction be?

On the sectoral requirements

35. Do you have any comments on the investee company-level involvement thresholds or on the evolution of these thresholds (QS 2.2.5 and Appendix 1)?
36. The Quality Standard criteria for conventional oil & gas extraction companies take into account the company's transition towards low carbon and renewable energy by referring to their sources of revenue (QS 2.2.5.5). What additional quantitative requirements for this sector would you propose?
37. The Quality Standard criteria for electricity generation companies are based on the company's alignment with the a below 2 degrees scenario measured by carbon intensity or by limiting the energy mix (QS 2.2.5.6). Are there alternative quantitative requirements for this sector that you would propose?
38. How would you define the 'fossil fuel sector' (see also Question 22)?
39. The Quality Standard focusses on eligibility criteria on the investee company level (maximum allowed percentage of revenue) (QS 2.2.5 and Appendix 1). Should the Quality Standard also include sectoral exposure limitations on the portfolio level (allowed percentage invested in a sector)? If yes, what limitations on which sectors would you propose?
40. To support energy companies in transition, the Quality Standard currently allows up to 5% of the portfolio to be invested in energy companies that do not yet meet the Quality Standard criteria but are nevertheless best-in-class (QS 2.2.5.7). What is your view on this transition margin?
41. Should the Quality Standard, in addition to the existing sectoral criteria (QS 2.2.5), also add specific criteria on other sectors, e.g. mining, real estate, etc? What could those criteria be?
42. Some types of products (e.g. structured products, savings accounts, branch 21 insurance products) are to a large degree exposed to the overall financing activities of a financial

institution (on-balance) (QS 1.1.3.8). The Quality Standard requires that the product manager performs an ESG due diligence of the financial institution to determine its eligibility (QS 1.1.3.2). Should the Quality Standard stipulate specific eligibility requirements for financial institutions and, if yes, which?

On specific asset classes and management techniques

43. When a portfolio contains derivatives with the aim of generating performance, the Quality Standard requires that use of derivatives is not at odds with the ESG character of the product and that the indirect exposure generated by the derivative is compliant with the Quality Standard. (QS 1.1.3.1). Does the Quality Standard need to specify additional criteria, e.g. for specific types of derivatives (e.g. index futures, interest rate futures, credit derivatives, currency forwards)?
44. Some portfolios use a long/short strategy in which the manager takes a short position on companies that fail the ESG selection criteria and that are considered unsustainable, expecting share prices to fall. Under which conditions could this strategy be in line with the principles of the Quality Standard?
45. Are there specific asset classes that you would consider a priori ineligible for investment by a sustainable financial product? If yes, which and why?
46. Do you have any comments on the current Quality Standard requirements for green bonds and other use-of-proceeds bonds (QS 1.1.3.3)?
47. Do you have any comments on the current Quality Standard requirements regarding fund of funds (QS 1.1.3.5)?
48. Do you have any comments on the current Quality Standard requirements regarding government-issued instruments (QS 2.2.6)? Would you propose additional metrics? Should sovereign bonds issued by EU member states be considered eligible/sustainable by default?

On transparency and disclosure

49. Do you have any comments on the list of mandatory policies on material ESG issues in the Quality Standard (QS 3.1) (See also question 17)?
50. Should the Quality Standard prescribe the detailed information on ESG policies that should be mentioned in pre-contractual information (e.g. prospectus), given that the content of these documents is in most cases prescribed by law (QS 4.1)?
51. Which indicators would you propose to disclose the climate impact of a sustainable portfolio, taking into account the availability of high-quality data? E.g. total GHG emissions, carbon intensity, fossil fuel sector exposure, etc.
52. Do you have any comments on the content, the level of detail or the complexity of the Sustainability IDs of labelled products published on the Towards Sustainability website (QS 4.1.1)?