BlackRock

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Submitted online https://ec.europa.eu/jrc/en

Re: BlackRock's comments on JRC's Technical Report v1.0 – Draft criteria proposal for the product scope and ecological criteria

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Executive summary

BlackRock sees merit in standardising a potential sustainability product label on a pan-European basis. We welcome the European Commission's objective to bring greater comparability of investments and restore investors' confidence. A pan-European labelling scheme that is compatible with appropriate product and distribution regulation (e.g. UCITS regime) should also allow a product provider to scale cross-border investment products. We would recommend focusing on the following aspects when further developing the criteria of EU Ecolabel for financial products.

Clarify the objective of the EU Ecolabel
We would welcome more clarification on exactly which sustainability-related aims the Ecolabel is trying to achieve. To us it would be more logical to focus on environmental aspects while recognising that basic ESG expectations will also need to be met so that funds carrying the EU Ecolabel can be acceptable to sustainable investors. Based on the existing EU Ecolabel and market practices, we believe investors are most likely to primarily expect a "green" product when referring to any Ecolabel. Defining the broader concept of "sustainable" criteria, should be a distinctive process.

View the developments of EU Ecolabel criteria from the lens of the end investor and issuers
We believe that a key piece of realising the potential of the EU Ecolabel for financial products will be receiving input from end investors and crafting product rules around their needs and expectations. While the EU Ecolabel has undoubtedly been successful with many consumers across Europe for many types of products, it's not immediately clear that those same consumers will immediately recognise or understand what the Ecolabel signifies or denotes in the context of investment products.

Issuers should also be consulted to ensure that they are able to comply with the relevant requirements – it would not be a good result if SMEs were excluded due to an inability to report in a way that would allow for their inclusion in portfolios for instance.

Take an inclusive and flexible approach to contribute to the objective of mainstreaming sustainable finance
We would recommend completing a feasibility study to assess how many issuers and products would be eligible for the Ecolabel based on current criteria. We would be cautious with ambitious thresholds that could result in excluding many investment products and issuers. Retail participation in sustainable investment requires scale to mainstream sustainability through affordable and workable investment solutions. A too prescriptive/

unscalable label could have the risk of limiting investor choice for investing into a sustainability theme and therefore potentially minimise the mainstreaming of sustainable finance.

Acknowledge the importance of the correct sequencing of the different EU initiatives regarding sustainable finance
We want to stress the importance of the correct sequencing of the different EU initiatives regarding sustainable finance. The concepts outlined in the EU Ecolabel proposal depend heavily on the EU taxonomy, but the scope and applicability of the taxonomy is still under discussion. We expect some practical challenges applying the taxonomy as it is currently conceptualised to a broad range of investment products/ underlying assets. Hence, we would suggest awaiting the final outcome and workability of the EU taxonomy before establishing a label.

Responses to questions

1. **The EU Ecolabel criteria development process**

1.1 Do you agree with the proposal of a set of mandatory criteria for the EU Ecolabel for this Product Group?

The heightened attention on sustainable investment is relatively new and evolving and what we consider acceptable today may not be the same in the future. It is therefore important to have a mix of mandatory and principles-based criteria to allow a more flexible approach. We believe making all criteria mandatory can result in the Ecolabel becoming a niche instrument and risks its future obsolescence. This would counteract the objective of growing the number of investment products and solutions and could augment the supply of capital to be deployed sustainably.

- Thresholds on green investment portfolio and economic activities
  Overall, we would recommend testing the thresholds at portfolio (i.e. fund) and company (i.e. issuer) level to ensure broad acceptance and therefore obtain support for the main objective of the Sustainable Finance Action Plan to mainstream sustainable finance.
- Green economic activities according to the taxonomy
  We would want to stress the importance of the correct sequencing of the different EU initiatives regarding sustainable finance. The scope and applicability of the taxonomy is still under discussion. We are concerned that the current proposal can only be applied to a narrow market segment (e.g. Green bonds) and will not be applicable to the remaining and majority of existing sustainable investment approaches (equity or fixed income portfolios).

We encourage the Joint Research Centre (JRC) to recognice the proliferation of many national sustainability labels and the co-existence of a pan-European and national labels. This alone shows the challenge of seeking to label an evolving industry. For the potential of the EU Ecolabel to materialise, investors will need to value this label above and beyond any existing national or industry-led labels. Otherwise the EU Ecolabel will end up competing as an 'additional' label in the landscape. One important issue to consider is therefore the interaction with national labels and how to drive a convergent approach and how to minimise the confusion between national and European labels.

We would also like to draw the JRC's attention to the cost element of the EU Ecolabel. Due to the nature of investment funds, investors participate in the economic benefits of the funds but also share in their costs and expenses. The costs of any labelling scheme could ultimately be borne by investors in the funds and product manufacturers need to ensure that investors in a fund would value the specific label such that they may be willing to pay a higher premium for the fund to obtain the label and comply with it. The more market acceptance and scale funds with the Ecolabel can get, the lower the costs for individual investors.

2. Product scope and definition

2.1 Do you agree with initial proposed scope for the EU Ecolabel?

We would welcome clarification on the definition of goods and services as stated in paragraph 1.2.1 "Background". Our interpretation is that the EU Ecolabel will be applied to the investment fund itself. We are hence responding to this questionnaire based on the assumption that the Ecolabel would only apply to the investment fund and not to the financial service provider (i.e., the asset manager). Since an asset manager will often offer numerous products including segregated mandates particularly for institutional clients, many of which will not (intentionally) be compatible with the label regime, it would not be appropriate to award this to the asset manager – it must be fund specific.

We welcome the approach taken by the JRC to initially apply the EU Ecolabel to retail financial products that meet the definition of a PRIIP.

2.2 Do you think other financial products/services should be included that are not covered in the initial proposed scope?

2.3 To what extent could savings and deposits be included within the scope in the future given the need to be able to identify specific uses of the money held in them as being 'green'?

Products such as deposits or structured products where the underlying assets form part of the issuer's balance sheet rather than being held in a segregated pool require specific consideration. Tailored reporting on balance sheet deployment would be required as a minimum before such products could take advantage of the label. As noted above the sequencing of ESG initiatives is essential and we suggest that the extension of the Ecolabels to such products takes place as part of a subsequent consultation once many of the core building blocks such as the taxonomy have progressed further.

2.4 While bonds are included as underlyings to investment funds, to what extent could retailed bond products themselves be included within the scope in the future, with verification of their greenness based on the Green Bond Standard?

2.5 Are there any other financial products or retail investment opportunities that could be considered for a future scope?

At a national level it may be useful to consider the design of national tax incentivised savings wrappers and how they would be compatible with any Ecolabel.

3. Criteria proposals

Bond Relating to green economic activities

3.1 Is there a way to address economic activities not yet featured in the current version of the EU Taxonomy and its technical criteria?

As mentioned earlier, the scope and applicability of the taxonomy is still under discussion. We would therefore suggest waiting until an agreement has been reached on the taxonomy before addressing this issue. A principles-based regime will also help accommodate changes in data quality, activities and attitudes in sustainability finance.

Relating to green investment portfolio value

3.2 How could the revenue for a parent group with number of daughter companies and their share be handled?

We would first assess how the revenue per economic activity by the parent group will be reported. We expect practical challenges for investee companies in establishing which percentage of turnover is attributable to each economic activity they undertake. The requested company reporting on economic activities does not reflect current market reporting practices. This would require a radical overhaul of the current reporting structures and it is likely to be a time-consuming process before changes can be implemented in a useful way. We therefore also suggested to consult issuers.

3.3 How should assets held in other investment funds be treated within this criteria? Do they require any special form of verification?

3.4 To what extent should real estate also be considered as a specific asset within the portfolio verification? If so, how could its performance be verified?

We believe that real assets constitute an important asset class that could contribute significantly to the goal of growing sustainable investments. There are a number of standard setting bodies such as RICS (Royal Institution of Chartered Surveyors) or GRESB (Global Real Estate Sustainability Benchmark) which could provide valuable input which should be taken into account for this asset class.

3.5 Should assets for which verification of greenness is not required be included within the total portfolio asset value?

Funds that are in scope will most likely have financial objectives and non-financial (i.e. green) objectives. It is therefore important that the regime recognises this and allows asset managers the tools and flexibility to meet both objectives and provide investors with the desired outcome.

Diversification and asset allocation also play an important role in mitigating risk.

A minimum threshold of 70% (or even higher) seems acceptable and would allow headroom to hold other "non-green" assets in order to maintain investment flexibility. The lower the percentage the more important it is to explain why non-green assets are allowed in the total portfolio to minimise consumer concerns that the inclusion of a non-green share (for example), even to a minimum amount, is potentially leading to greenwashing.

3.6 Should any type of criteria on trading practices and/or use of funds be applied to derivatives and cash?

No (see above).

3.7 Does the assessment and verification require any specific parts to be tailored to individual products within the scope?

We believe that the cost and complexity of the assessment and verification will be a key factor in the success of a potential Ecolabel. Therefore, we would agree would to keep only one assessment and verification process for all products.

Relating to exclusions

3.8 Do you think the proposed environmental exclusions should be expanded to include more economic activities?
No, unless these relate to regulatory requirements in member states, or are sector-agnostic and involve significant breaches of internationally recognised ESG norms, such as the UN Global Compact or OECD Guidelines.

3.9 Do you think the partial exclusions threshold should apply to each company's activities or to the portfolio as a whole? If it should apply at portfolio level, should it be set differently for specific sectors?

We do support partial exclusions at a portfolio level to give more flexibility to portfolio managers to include specific activities supporting the energy transition. In a broader sense, some sectors need capital to fund a transition to a future energy mix. Excluding sectors or companies who need to make this transition undermines some of the stated political aims of the Sustainable Finance Action Plan.

3.10 Do you think the proposed exclusions list on the basis of social & ethical aspects should be enriched with more activities?

We believe that there is likely to be a clear investor expectation that the EU Ecolabel should be a 'green' (or variant of that theme) investment product. Therefore, we recommend limiting exclusions to illegal activities regarding social and ethical aspects, or those involving significant breaches of internationally recognised ESG norms, such as the UN Global Compact or OECD Guidelines.

3.11 Do you think it may be appropriate to also exclude poor corporate management practices and/or poor human capital development? If yes, how it will be possible to verify such exclusions?

Relating to consumer information

3.12 What will be a reasonable interval for monitoring and reporting information to the consumers?

We would suggest aligning these with existing product rules e.g. UCITS regime and take into account existing reporting requirements under other legislations e.g. Shareholder Rights Directive II to limit any duplication or overlap.