

A Comparative Study of European Sustainable Finance Labels

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This version: 1 January 2021

Editorial Note: This study is based on the label requirements publicly available in October 2020. Impact data is as of October 2020.

Potential Conflict of Interest: The first author is a Verifier for the Belgian *Towards Sustainability* label, the second author is a member of the Screening Committee of the Belgian *Towards Sustainability* label, and the third author is chairperson of the Eligibility Committee of the Belgian *Towards Sustainability* label. All opinions and analyses are our own and do not reflect any opinion of the Belgian *Towards Sustainability* label.

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Executive Summary

This comparative study offers a detailed overview of nine major SRI labels in Europe and compares them on a relative basis along different dimensions of sustainability. The study covers the following sustainability labels: three Green Labels (the French *Greenfin* label, the *Luxflag Climate Finance* label, and the future *EU Eco*-label) and six ESG-focused Labels (the Austrian *Umweltzeichen* label, the Belgian *Towards Sustainability* label, the French *ISR* label, the German-speaking *FNG* label, the *Luxflag ESG* label and the Nordic *Swan* label).

From the beginning we would like to emphasize that this study does not compare European sustainable labels with the aim to determine the absolute leader. The concept of “sustainability” itself is so broad, not precisely defined and still evolving, that it would be impossible to pick the “best” label. Therefore this study analyzes the sustainability labels along six dimensions that are most indicative for a relative comparison and can be used to determine the “front leaders” on each dimension. Every label has its strong features and weaker elements, even more, what is considered a strong quality of one dimension, can be viewed as sort of drawback of another dimension. Moreover, it is not entirely possible to compare a label with a more thematic nature (e.g. it focuses on green activities) with a broader cross-sector label that focuses mainly on ESG integration as an essential part of the investment process. So in this study we will compare similar types of labels on different aspects, as well as standardized features common to all labels across all label groups. One of the goals of this comparative study is to determine various possible approaches that European labels undertake in their ambition to define sustainability or to indicate the path and direction towards sustainability.

The six dimensions that we selected for our comparative study are:

- i. Eligibility criteria of the SRI labels
- ii. Structure and composition of the SRI labels
- iii. Transparency of the SRI labels
- iv. Governance of the SRI labels
- v. Stringency of the SRI labels
- vi. Impact of the SRI labels.

The eligibility dimension covers aspects such as the product scope or product groups that are eligible to be awarded the focal SRI label, the focus of the label (narrow versus broad) and its geographical scope. The second dimension implies the overview of various characteristics and features of the labels as type of the label (pass-or-fail or grading system), various asset classes covered by the label and the requirements for these asset classes.

The transparency dimension implies not only the transparency requirements towards the applicants, but also how transparent and clear a certain label is itself in its communication, in the availability of the official information on the label and its accessibility, how well-defined criteria and labelling process are, transparency of the label on verification and auditing, on handling the grey zones and contradictive sources of information, justification of the label criteria or areas without criteria, on follow –up of the applicants after the label is rewarded.

The governance dimension assesses the different aspects of governance with a primary focus on the system of check and balances of every label. The fifth aspect looks at how strict or selective the label is in defining the eligible investment universe of the applicant and how broad (and/or deep) it is in the negative and positive screenings of the companies or countries. It also considers the variety of SRI strategies applied during the portfolio creation and whether they are compulsory according to the criteria of the label. Finally, the impact of the label corresponds to the success of the label and reflects on the use of specific label in the sustainable investments market.

The choice of these six dimensions is not random and reflects different aspects of sustainability allowing us to compare the labelling criteria and –processes to the extent that is measurable and objective. This study goes beyond the traditional focus of many researches that typically compare the stringency of the label criteria and sometimes processes. This study therefore covers alternative dimensions that become equally important in today's SRI market. Such an approach is warranted in the light of the absence of standardization of ESG practices or a green uniformed taxonomy and the voluntary nature of most of the labels. We believe that dimensions as the governance of SRI label become also important aspects of the credibility of the self-regulating labels. Also the transparency aspect is a very important dimension in this study, and it covers here not only the transparency requirements of the label towards an applicant, but also the transparency of the label itself.

In this study all information, including definitions, numbers, tariffs, etc. are based on the public sources available on the official websites of the labelling organizations, accredited auditors, official accreditation organization itself or government agency, responsible for the labelling process. No additional information on label criteria or processes has been requested from the labelling organizations for the purpose of objectivity of the comparative study. This is an important requirement for analyzing the transparency aspect of the SRI labels themselves as it is only based on publicly available information on the official or dedicated websites. We have also included in this study the future EU Eco-label that is still in the process of development.

The criteria guidelines as well as other information on transparency, governance, eligibility are used from public sources available on the official webpages.

The study goes into detail of what every dimension implies in practice and what corresponding criteria are covered by each dimension. Each chapter covering a specific dimension is complemented with a detailed table with the various indicators for each sustainability aspect. The second part of this study converts the general data into individual scores within each dimension under the chosen methodology. The study compares all labels in relative terms within the same dimension and will allow us to see the leading labels in each dimension group or identify the strong or weak elements.

In order to score all nine labels among the six dimensions of sustainability we have applied a Likert scale methodology in this study. None of the dimensions have received a weight to keep the relative nature of the comparison. There is no overall sustainability score but individual scores of the labels for each dimension are used to determine the “leaders” and “laggards” in each dimension separately. We also favor nuanced interpretation of the results to avoid black-and white conclusions regarding the sustainability scores of the SRI labels. Scoring strong on one dimension might result in a low assessment of other aspects, for instance, like in case of stringency and impact. So we try not to put a “label” on the labels and be able to demonstrate the complexity of the sustainable investment market.

Finally, the study also presents an individual “sustainability profile” of each SRI label participating in this research with their individual scores on all six dimensions and a brief concluding analysis on their “strong” and “weak” sustainability features and characteristics.

The study identifies the leading SRI labels per dimension:

Leading European Sustainable Finance Labels

Per dimension

	<i>Eligibility</i>
Gold	Greenfin
Silver	Swan
Bronze	Umweltzeichen Luxflag Climate Finance
	<i>Structure and composition</i>
Gold	Swan
Silver	ISR Towards Sustainability
Bronze	Umweltzeichen
	<i>Transparency</i>
Gold	Swan
Silver	ISR FNG
Bronze	Greenfin
	<i>Governance</i>
Gold	ISR Greenfin
Silver	Swan
Bronze	FNG
	<i>Stringency</i>
Gold	Swan
Silver	Umweltzeichen
Bronze	FNG
	<i>Impact</i>
Gold	Towards Sustainability
Silver	ISR
Bronze	Luxflag ESG

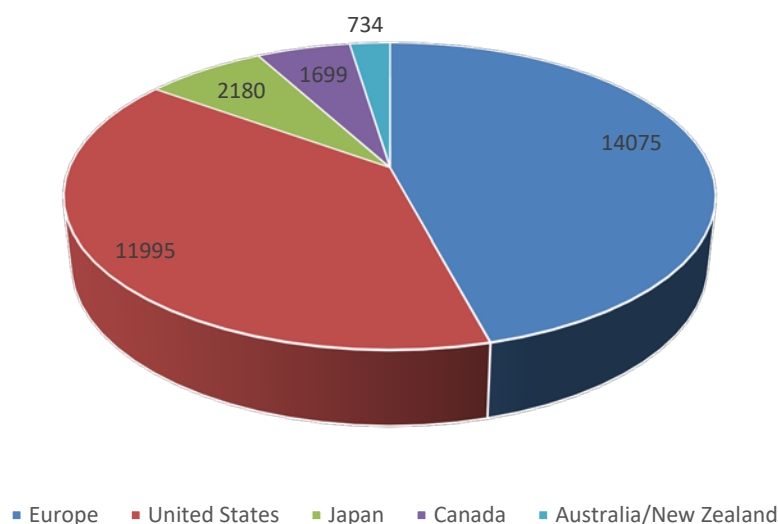
Introduction

The market for sustainable and responsible investing becomes increasingly important. We discuss the European market for sustainable products, the role of labels, and the criteria and scope of our comparative study.

0.1. The SRI market in Europe

Socially responsible investment (SRI) has been with us for much longer than people suspect. The idea that there should be limits on the way money is used, is in fact part of many different cultures and time periods. Wikipedia traces its origins back to John Wesley and the Methodist church but of course John Wesley only expressed an opinion whose origins reach as far back as Aristotle. That money is not neutral but has a destination that can impact society in a positive or a negative way is a basic tenet behind any social investment movement. It is also the broadest definition one can use for SRI. The moment you use non-financial information to direct the destination of money you are actually part of the SRI movement. And as data by the Global Sustainability Alliance (GSIA) indicate, that movement has in the meantime reached trillions of assets with Europe leading the market.

Figure 0.1. Global overview of the sustainable investing assets



Source: GSIR(2018),

Note: Asset values are expressed in billions of US dollars.

And even this is probably an underestimation since it is fair to say that looked upon from this broad definition Islamic Finance—a market currently estimated at \$2 trillion—is equally part

of this movement towards the rising importance of non-financial information. At the same time, the fact that Islamic finance is not to be found in the GSIA estimation, reveals the importance of a second question that surfaced the moment SRI developed: what type of non-financial information matters? Again, over the centuries, this question has received many different answers. For some it is linked to activities that can hurt the body that was given to you by the creator. Hence the exclusion of tobacco, alcohol or weapons early on as acceptable forms of investment which you can find in the Islamic as well as the Christian tradition until today. For others fossil fuels are the new sin stocks to be avoided at any cost. But even those who do not believe in sin stocks and only look at financial return have started using non-financial information, precisely because they believe that it could affect the risk/return profile of a financial product. While this purely financial interest in non-financial information seems to contradict the heart of the SRI movement, it is definitely one of the reasons why the SRI market has expanded so rapidly in the past years. Fast growth of the market and the many different forms and formats in which non-financial information is used today makes it devilishly hard for the retail investors and even for institutional investors to properly understand what you are subscribing to when you buy an SRI product. The transparency of the SRI market for investors has become a serious issue, whose importance only increases with its volume.

One would expect more action from the side of regulators to tackle this transparency issue and although we are convinced that this action will come, for the moment the legal prospectus connected to any financial product is almost silent when it comes to the ethical quality of the product. A second best solution that has found its way into the market is voluntary labels. They step in where the regulators hesitate to go. Certainly in Europe voluntary SRI labels have risen fast in volume and importance. In its most recent overview of the market Novethic (2020) identifies 1218 funds that fall under the 9 European SRI labels that they scrutinize and registers growth figures of 79% for the volume of assets covered by labels. The fast expansion of voluntary labels indicates the real need for transparency around what type of non-financial information is used in an SRI product, yet it adds a new layer of opacity: how to judge the labels? It is at this point that this study starts. We develop a methodology to judge 9 different European labels and try to classify them in terms of six different dimensions. In this way we hope to bring some urgently needed transparency to a fast developing market that could be helpful for all SRI market participants.

0.2. The function of labelling

Labels are product certification standards that are used to remedy asymmetric information problems between producers of goods and services and consumers. Such problems occur in a context in which certain product characteristics cannot be observed directly. At the supply side firms are faced with the difficulty of credibly communicating true product characteristics to consumers. At the demand side consumers are faced with the problem of comparing complex product characteristics. Consumers tend to be skeptical about the claims of product characteristics put forward by firms. Third-party certification is therefore an intermediate mechanism to evaluate and confirm certain product characteristics. It allows firms to communicate complex information in a credible way to consumers, while it offers consumers to save on search and verification costs in checking each information claim on themselves.

Many product labels on sustainability have emerged over the last decades. More than 400 sustainable labels exist around the world. A complete overview or classification of those labels is outside the confines of this study. Labels can be categorized in different ways. First, one can distinguish labels which are single-product (e.g. the *Max Havelaar* coffee label) or multi-product focused (e.g. the *EU Ecolabel*). Second, labels can be mandatory or voluntary. While most of the labels are voluntary, some labelling is mandated by law (e.g. energy rating labels). Third, labels can differ in their focus: eco-labels versus social labels. One can distinguish several eco-oriented labels such as bio-labels (e.g. the *EU Bio Label*), organic food labels (e.g. the Danish *Red Ø Label*) or ecological labels (e.g. the *Rainforest Alliance Label*). Socially-oriented labels certify that products have been produced in conformity with social standards such as minimum wages, safe working conditions, the absence of child labor, and so on. This includes fair trade labels (e.g., the *World Fair Trade Organization* label, the *Fair Trade* label). Fourth, labels can be governmental, private or nonprofit in their origin. Labels are seen as a policy instrument next to governmental command-and-control systems and rely more on self-regulation, transparency and standardization. They are intended as an instrument to address global public policy issues such as climate change or poverty. Sustainability labels are aimed at increasing awareness and guiding consumers and investors to identify the impact of their decisions on ecological and social problems. Finally, one can distinguish three types of voluntary labels: Type I labels are third-party certified programs aimed at identifying sustainable products based on publicly available criteria and awarding products with a logo. Type II labels are one-sided self-declared claims made by producers (e.g. recycled content). Type III labels use pre-set quantitative indices (e.g. nutrition panel on food). In this study we only focus on Type I labels.

The market for financial products is part of the general market for products and services. Consumers are also faced with the problems of trusting and verifying claims about sustainable and responsible characteristics of investment and saving products. How can unsophisticated investors believe sustainability claims about a mutual fund? They lack the time and expertise to verify those claims. At the same time, the financial industry is faced with the problem of communicating Sustainable and Responsible Investment (SRI) products in a credible way and to distinguish themselves from unverified, or even misleading claims from competitors. SRI-labels are therefore a way to bridge this information gap in (retail) financial markets. The quality of those SRI-labels depends on the rigor of the criteria, on the governance and transparency of the certification process, and so on. This study therefore compares nine leading European SRI-labels over six dimensions.

0.3. Six dimensions of the comparative analysis of European Sustainable Labels

We would like to start by emphasizing that this study does not compare European sustainable labels with the aim to determine the one and absolute leader. The concept of “sustainability” itself is so broad, not yet precisely defined and still evolving, that it would be impossible to pick “the best” label. The sustainability labels are analyzed in this study along six dimensions that are more indicative for a relative comparison and can be used to determine the “front leaders” on each dimension. Every label has its strong features and weaker elements, even more, what is considered a strong quality of one dimension, can be viewed as sort of drawback of another dimension. Moreover, it is not entirely possible to compare a label with a more thematic nature (e.g. it focuses on green activities) with a broader cross-sector label that focuses mainly on ESG integration as an essential part of the investment process. So in this study we will compare similar types of labels on different aspects, as well as standardized features common to all labels across all label groups. Also some unique features of certain labels will be described for both illustrative purposes and for assessment if such features seem to contribute to enhanced transparency, stringency or governance of the label. The ultimate goal of this comparative study is to determine various possible approaches that European labels undertake in their ambition to define, and sometimes measure sustainability, or to indicate the path and direction towards sustainability.

The six dimensions that we selected for our comparative study are:

- a) Eligibility criteria of the SRI labels
- b) Structure and composition of the SRI labels

- c) Transparency of the SRI labels
- d) Governance of the SRI labels
- e) Stringency of the SRI labels
- f) Impact of the SRI labels.

We will go into detail of what precisely we mean under these terms and what every dimension implies in practice. The part of the comparative analysis will present the integrated data collected on all labels included in this research. In the second part we plan to bring this general data to individual scores within the same dimension criteria. So the comparison here is relative and is only performed within the same dimension group for higher objectivity and necessity to compare a too broad a range of labels that sometimes lack unified features. This relative comparison will allow us to see the leaders in each dimension group or identify the strong or weak elements.

The choice of these six dimensions is not random and reflects different aspects of sustainability allowing us to compare the labelling criteria and -processes to the extent that is measurable and objective. The comparative analysis within every dimension is performed not for every criterion but only for the ones which can be compared or can be brought to the common denominator for comparison. For some dimensions this happens naturally, for example, with Stringency aspect, which corresponds mostly to the use of different sustainability strategies that are required by a label, like comparing of exclusions. Other aspects like Eligibility criteria of the SRI label or type of the label, are a bit trickier because they reflect the various nature of the label and different approaches to sustainability.

We also considered in this study to go beyond the traditional focus of many researches – on comparing the stringency of the label criteria and sometimes processes, and to cover alternative dimensions that become equally important in our opinion in today realities. In the light of the absence of standardization of ESG practices or green uniformed taxonomy and volunteer nature of most of the labels, that seemed to us very reasonable. We believe that such dimension as governance of SRI label becomes also an important aspect of credibility of the self-regulating label. Also the transparency aspect is a very important dimension in this study, and it covers here not only the transparency requirements of the label towards an applicant, but the transparency of the label itself. The last one implies how transparent and clear a certain label is itself in its communication, availability of the official information on the label and its accessibility, how well-defined criteria and labelling process are, transparency of the label on verification and auditing, on handling the grey zones and contradictory sources of information,

justification of the label criteria or areas without criteria, on follow –up of the applicants after the label is rewarded, etc.

0.4. Scope of this study

At the moment there are four public SRI labels in Europe which are created and/or managed by a government agency – the French ESG label *ISR*, the French thematic label *Greenfin*, the Austrian ESG label *Umweltzeichen* and the ESG label from a group of Scandinavian countries – the Nordic *Swan*. All other SRI labels are created and managed on the initiative of one or several stakeholders: of financial industry (all Lux-Flag labels and the Belgian Towards Sustainability label), of sustainable investment forum (FNG-label of German-speaking countries). All SRI labels are voluntary, and it is not required by any European legislation for a financial product, which is marketed as sustainable, to receive a corresponding SRI label. Nevertheless, the growing volume of sustainable products on the financial market, opens up new opportunities and pushes more countries to come up with either private or public initiatives to regulate this market.

In this study all information, including definitions, numbers, tariffs, etc. are based on the public sources available on the official websites of the labelling organizations, accredited auditors, official accreditation organization itself or government agency, responsible for the labelling process. No additional information on label criteria or processes has been requested from the labelling organizations for the purpose of objectivity of the comparing study and purity of research. This is an important requirement for analyzing the transparency aspect of the SRI labels themselves as it is only based on publicly available information on the official or dedicated websites.

Figure 0.2. Overview of European SRI labels included in this study



Source: label websites

Chapter 1. Eligibility criteria of SRI labels

The overall general rule for all labels stays that the financial product focuses its attention on retail investors. This makes sense, of course, because the idea of creating a sustainable label itself is to channel unsophisticated retail investor's money towards sustainable projects, and the label is providing so called "guidance" for retail customers in orienting towards sustainable finance. The eligibility dimension covers aspects such as the product scope or product groups that are eligible to be awarded the focal SRI label, the focus of the label (narrow versus broad) and its geographical scope.

1.1. Product Scope Definition

The first aspect of this dimension covers the type of applicants and/or financial products that can apply to obtain a specific label and to which the label can be rewarded. Most of the labels use the terminology of the "product scope" or "product group" to define what specific financial products are eligible to carry the label. All SRI labels allow the same applicants as mutual UCITS¹ funds (the most common group), some expand it to certain types of alternative funds (AIFMs)², and others go even further and consider private equity funds invested in unlisted securities, real estate investment trusts and infrastructure funds within the scope of the label.

The most common assets are equities and bonds (including green bonds), insurance and pension financial products, and sustainable savings and deposit accounts. There is a big differentiation in how the eligibility criterion is formulated by a label: some are very detailed and mention every eligible category, some just give a general idea like investment funds UCITS or AIFM compliant as formulated by the *LuxFlag* labels. In contrast, the Austrian label *Umweltzeichen* (UZ) makes a distinction between investment products with a *portfolio character* (investment funds, non-securities in the infrastructural sector, real estate) on the one hand, and Green Bonds and sustainable current account and savings products, which must *not have portfolio character*, on the other hand.

¹ UCITS stands for 'Undertakings for Collective Investment in Transferable Securities' based on the European Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), ELI: <http://data.europa.eu/eli/dir/2009/65/oj>. This category of investment funds accounts for around 75% of all collective investments by small investors in Europe.

² AIFM stands for 'Alternative Investment Fund Managers' based on the European Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, ELI: <http://data.europa.eu/eli/dir/2011/61/oj>.

Some labels, such as the *FNG*-label in its latest revision, added specific exemptions cases which will be verified only after prior consultation: structured, guarantee, microfinance, synthetic exchange-traded funds, and fund of funds. The French *Greenfin* (formerly *EETC*) label and the French *ISR* label indicate special cases as well: fund of funds or multi-management funds, and feeder funds. The Nordic *Swan* label has also added extra financial products to its scope such as AIFs, funds of funds, insurance, and pensions products that must meet certain criteria. In general, a clear trend is visible: all labels try to cover more and more types of financial products or allow a wider range of applicants to become a holder of their label. If at first the most common applicant was a mutual UCITS fund, then current revisions of most of the labels go beyond it, allowing more products and more special cases to be eligible for receiving the label. The most recent Belgian label *Towards Sustainability* certifies all kinds of financial products including fund of funds, index funds, and structured funds as well as life-insurance products, structured notes and savings products.

1.2. Focus of the label

Another aspect of the eligibility criteria is the focus of the label: does the label target specifically environmental and/or climate issues and/or green companies (*Green Labels*) or has it mainly a broad ESG focus and places importance on ESG integration in the investment process (*ESG Labels*).

1.2.1. Green Labels

The first group traditionally has a more thematic approach – either environmental or climate change and may not necessarily put importance on social and governance aspects of sustainability. There are some thematic labels that employ both – environmental and ESG integration, and the new *EU Eco*-label, which is still in the process of development, has this ambition as well. The green content is tightly linked to the EU Taxonomy³, but the importance of social and governance criteria as well as exclusions also became crucial according to the latest draft of the label.

An important point for the green labels is the share of green companies in the total portfolio of the applicant and the definition of a “green” company. Here again we see different approaches, different taxonomies and different thresholds both at the portfolio level and at the holding level to qualify as a green company and/or as a green portfolio. The criterion of the green company is even further developed with differentiation on the “greenness” of the

³ EU Technical Expert Group (TEG) on sustainable finance, *Final Report on EU Taxonomy*, 20 March 2020, 67p.

company. In order to calculate the share of the green portfolio (i.e. minimum threshold of aggregated turnover from eco-activities in the portfolio), typically only shares of weighted green pockets can be used. Depending on their greenness, these are usually two groups of eco-companies: the dark-green ones whose principal activity is green and the majority of their revenues come from eco-activities, and light-green ones, or so called transition companies, which have a considerable part of green activities in their revenues, but lower than of the dark green ones. This degree of transition varies depending on the specific green label. The rest of the portfolio might be comprised of cash, derivatives or other companies which might have little or no share of green activities. These cannot be included for calculation because they are below the minimum transition threshold, even if they have a certain amount of green revenues.

For instance, the French *Greenfin* label consider three shades of greenness: companies which have a minimum share of revenues coming from eco-activities (less than 10%) and are therefore not considered to be a green company, companies with a share between 10 and 50%, and finally companies with a share higher than 50%. Next, minimum weights are applied to each category of companies: at least 20% should come from the greenest companies, and at least 55% should come from the middle category.

The future *EU Eco*-label is going to use a similar model with pockets approach differentiating on the greenness of the companies. All together the aggregated share of a green portfolio should account to minimum 60%: 20% of which is in the first pocket, made of green companies investing principally in green activities (whose revenue from the green activities are higher than 50%), and 40% of which is in the second pocket with companies in transition (currently suggested these companies having between 20-49% of green revenues). The rest is in the diversification pocket: the balance of companies which are not in the “green pocket or the transition pocket” or other assets or cash. As to bond funds, the greenness threshold is set even higher: at least 70% of the total portfolio asset value shall be invested in bonds that comply with the EU Green Bonds Standard.⁴

The strictest thresholds at both company and at portfolio level are imposed by *LuxFlag Climate Finance* label, a Luxembourg thematic label: 75% of portfolio should be comprised of green companies, while a green company should have a turnover of at least 50% from eco-activities. This brings the aggregated minimum threshold at the portfolio to 37.5% of green revenues. Just for comparison, the minimum aggregated threshold of the French *Greenfin* label is

⁴ EU Technical Expert Group (TEG) on sustainable finance, Usability guide for the EU Green Bond Standard, March 2020, 52p.

15.5% and for the future *EU Eco-label* might account to 18% for equity funds (suggested in the last draft of December 2019).

Figure 1.1. Aggregated minimum revenues thresholds of a green portfolio of the Greenfin label

Portfolio threshold	Pockets (differentiation among green companies)	Inclusion criterion of green activities at company level	Portfolio share
≥ 75% of portfolio	Pocket 1 – Green companies	≥50% of revenues	≥20%
	Pocket 2 – Transition companies	10-49% of revenues	0-55%
< 25% of portfolio	Pocket 3 – Other companies#	<10% of revenues	<25%
	Aggregated minimum of the green activities in portfolio	15.5% of revenues	

#Pocket 3 is not eligible for the inclusion to the green portfolio

Figure 1.2. Aggregated minimum revenues thresholds of a green portfolio of the Luxflag Climate Finance label

Portfolio threshold	No differentiation among green companies (no pockets)	Inclusion criterion of green activities at company level	Portfolio share
≥ 75% of portfolio	Green company (no differentiation)	≥50% of revenues	≥37.5%
< 25% of portfolio	Other companies	<50% of revenues	<25%
	Aggregated minimum of the green activities in portfolio	37.5% of revenues	

Figure 1.3. Aggregated minimum revenues thresholds of a green portfolio of the EU Eco-label

Portfolio threshold	Pockets(differentiation among green companies)	Inclusion criterion of green activities at company level	Portfolio share
≥ 60% of portfolio	Pocket 1 – Green companies	≥50% of revenues	≥20%
	Pocket 2 – Transition companies	20-49% of revenues	0-40%
< 40% of portfolio	Pocket 3 – Other companies	<20% of revenues	<40%
	Aggregated minimum of the green activities in portfolio	18% of revenues	

It is important to mention that in our study we compare green labels on the basis of the aggregated minimum of green activities in the portfolio, which is a minimum threshold of aggregated revenues from green activities in portfolio of the applicant required by a green label to receive its label. The numbers are still rather relative because the definition of what an eco-activity is and what it covers differs from one green label to another and is determined by the individual taxonomy of each green label. To make an absolute comparison among the requirements of green labels on the green share of their portfolio would only be possible if all labels would apply the same terminology and unified taxonomy.

The Scandinavian Nordic *Swan* label is an interesting example because it is an ESG label which rewards with extra points for optional environmental focus. This thematic approach is supported by their simplified taxonomy which is a list of business areas which are considered green and are specifically defined by the label. The weighting refers to a calculation that supports the business part of a company that promotes the transition to an environmentally sustainable future and the holding's proportional share of the fund. The principal difference in comparison to standard green labels is the fact that the Nordic *Swan* label has no specific minimum threshold at the company level to be qualified as a green company. So any holding which has some part of its business derived from eco-activities can be included in the green portfolio calculation. If an applicant can demonstrate that its portfolio has a share of at least 10% from aggregated turnover derived from these eco-activities, it is considered to be an eco-fund. Extra points are given if the weighted green holdings in the fund have at least 10% (1 point), 22% (2 points), 35% (3 points) or 50% (maximum 4 points) of their total revenues in such business areas.

Finally, it is also worth mentioning that different environmental labels employ different methodologies to define what is considered to be a business activity positively contributing to the environment. These methodologies are often referred to as a Green Taxonomy. As with the definition of “sustainable” activity, there is no “one fits all” taxonomy to be applied by all thematic labels. For example, the green taxonomy of the French *Greenfin* label is initially based on that of the *Climate Bond Initiative* (CBI).⁵ The taxonomy of the *Lux-Flag Climate Finance* label is based on *Common Principles for Climate Change Mitigation and Adaptation Finance Tracking* developed by the *International Development Finance Club* (IDFC).⁶ The development of the future *EU Eco-label* criteria is naturally linked to development of the EU Taxonomy, which is still in process. What is sure, is that the future EU Taxonomy will also cover minimum social safeguards, taking into account “*where appropriate, social aspects*”.

⁵ See <https://www.climatebonds.net/standard/taxonomy>.

⁶ See https://www.idfc.org/wp-content/uploads/2019/04/climate_finance_forum_climate_finance_tracking_apr_15.pdf.

1.2.2. ESG Labels

The second group is labels with a prime focus on ESG, so their principal purpose is make sure that non-financial aspects are taken into consideration next to the financial ones during investment decisions by the fund manager. These labels promote the integration of Environmental, Social and Governance (ESG) factors in the overall investment process, starting from the portfolio construction and applying ESG analysis and scoring, to continuous monitoring of ESG criteria on a regular basis.

The crucial part of ESG labels is the criterion on the amount of ESG screening of the fund's portfolio. Most of the ESG labels require a certain level of ESG screening: it can be expressed as the percentage of the portfolio which has to undergo ESG analysis or compulsory screening of a certain percentage of the direct holdings or items in the portfolio. As with the definition of "green" for eco-labels, the definitions of ESG coverage used by different ESG-labels is not consistent and allows a lot of variations. Small nuances become important, but even then it is not always possible to compare the degree of ESG screening among the labels. For example, the *LuxFlag* ESG label requires applicant funds to screen 100% of their invested portfolio according to one of the two ESG strategies. At the same time 30% of total assets of the portfolio of the fund may be invested in the form of cash or short term cash equivalents which do not have to be screened for ESG. So in practice, it might be possible that a certain fund effectively has to screen only 70% of their portfolio to qualify for the label, because the remaining 30% is invested in cash and does not require the mandatory ESG analysis.

The Belgian *Towards Sustainability* label requires 100% ESG screening of the portfolio including cash, in case it is used for investment purposes. If cash or derivatives are used for hedging and are merely a technical tool, they do not have to be analyzed. In general, according to the Belgian label a socially responsible portfolio shall not systematically (structurally and permanently) contain assets that cannot be evaluated on their sustainability in any way, i.e. not by any possible internal or external methodology. Temporary derogations for technical reasons are allowed, for example due to temporary unavailability of ESG data on bonds, IPO's, small caps, etc.

The French *ISR* label requires ESG screening of more than 90% of the portfolio on a long-term basis. Here the interesting point is that it can be measured either in the number of issuers or in the amount of market capitalization.

The *FNG*-label (of German-speaking countries) requires that all items of the portfolio are assessed according to ESG or other sustainability criteria. The sustainability analysis must

clearly show that the applicant screens issuers against environmental, social and governance criteria or alternatively, SDG or other sustainability criteria.

Contrary to the FNG-Label, the other point-based ESG-label Nordic *Swan* requires a compulsory 90% ESG screening of the direct holdings in the portfolio (measured by number of issuers) as a minimum requirement. In case 100% of the direct holdings in the portfolio have undergone ESG analysis, the fund is rewarded with two extra points. The same ESG criteria are also applied to the *indirect* holdings with the only exception that indirect holdings that do not fulfil the criteria may not exceed 5% of the fund's value on average over the course of the last 12 months from the application date.

The ESG analysis can be conducted by an external party or internally. The Scandinavian label is very transparent about the process of the ESG analysis and provides clear guidelines for an applicant. For example, the external analysis must be conducted by a reputable service provider, with relevant coverage and sufficient analytical capacity. The service provider must update the ESG analysis at least every twelve months. If the analysis is conducted internally, the applicant must clearly demonstrate that all relevant issues in all three categories – environmental, social and governance – are covered. For equities and corporate bonds, the analysis must include whether the investee company has a publicly available policy and strategy on corporate social responsibility (CSR), and publicly reports CSR performance. The internal ESG analysis must be updated regularly, at least every twelve months. The applicant has to clarify if the fund manager relies on one or more external providers of similar ESG analysis. The last one is a very interesting point to which we come back later on in our Transparency dimension.

The Austrian *Umweltzeichen* label requires mandatory integration of ESG factors in the investment process and a detailed description of ESG selection criteria during the portfolio creation or items selected for the investment products without portfolio character (like sustainable savings and deposit accounts or green bonds). On the one hand, this label does not define the “coverage level” of ESG screening as a certain minimum percentage as many other ESG labels do. On the other hand the combination of mandatory Best-in-Class selection with compulsory elimination of more than 50% of the starting universe as a minimum threshold, imposes obligatory ESG scoring or ratings, making it impossible to escape ESG screening in practice. In combination with the points system that rewards extra points for higher degree of selectivity, this guarantees that all selected items in the investable universe have undergone ESG analysis and only investments with high(er) ESG scores can be used for the portfolio construction. The degree of fulfillment of selection criteria is assessed by the controlling body and depending on the quality of its implementation, different points are given to the applicant.

The strong aspect here is that ESG analysis and ratings are clearly linked to their selection criteria, and ESG screening does not appear as some formality, but rather as an instrument to create a strong ESG portfolio.

1.3. Geographical scope

The last aspect of the eligibility criterion of SRI labels are the legal requirements on geographical scope and the limitations on the regional investment scope. On the first part there are not too many variations, most SRI labels require that the applicant/financial product is registered for marketing or distribution on the territory of the labelling country, or on the territory of a group of countries in case of the Nordic *Swan* label, or the German-speaking countries of the *FNG*-label. The exceptions here are the *Lux-FLAG* labels, the Austrian *Umweltzeichen* label and to a certain extend the French *Greenfin* label. The *Lux-FLAG* labels do not constrain applicants to registration of their product in a certain country but requirement refers rather to a legal status: applicant should be authorized by a EU Member State or be subject to supervision equivalent to that in EU Member States. That allows funds with broad international reach to be eligible to apply and carry the label. According to the official data from the *Lux-FLAG* website there are currently labelled funds domiciled in 7 countries and managed in 16. The Austrian label *Umweltzeichen* label requires the applicants to be compliant with the local self-regulating quality standards of the Association of Austrian Investment Companies. Investment funds which are not managed in Austria can also apply but should be subject to comparable self-regulating quality standards. Also an important point here is that the Austrian investment fund industry has agreed that only those investment funds may be classified as “sustainable investment funds” which comply with the criteria of the Austrian label. The French *Greenfin* label which is ambitious and not limited only to French firms, as applicants can be registered in Europe or anywhere around the globe.

As to the investment scope, the applicant in most of the cases can invest anywhere in the world and is not limited strictly to sustainable Europe or only to developed countries. One exception is again the French *Greenfin* label that does not impose any geographical constraints for bonds, but for the equity funds the majority of the issuers should be in EU.

Figure 1.4. Geographical scope of current European SRI labels

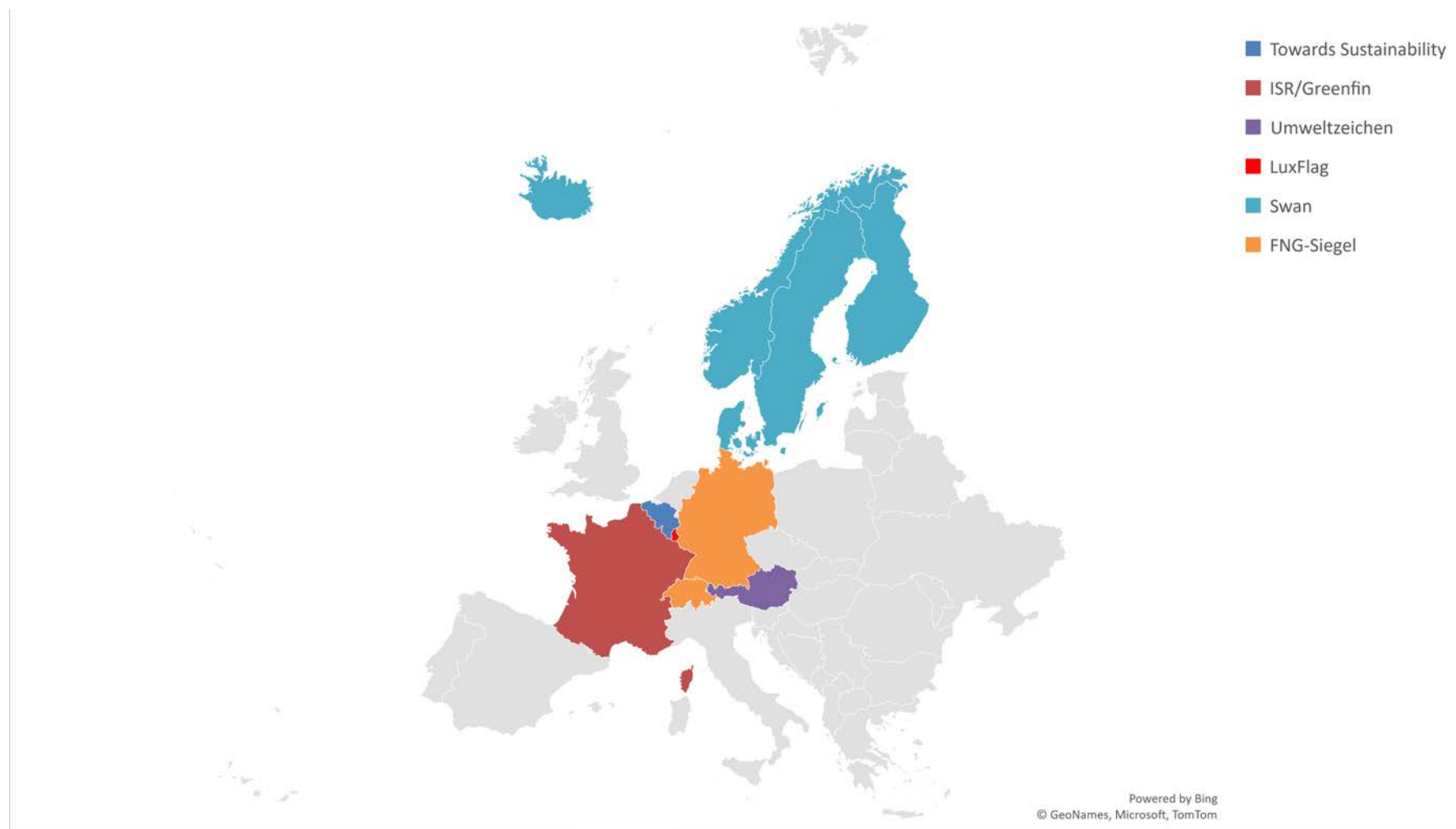


Figure 1.5. Overview of the eligibility criteria per label

Label	LuxFlag Climate Finance label (Luxembourg)	LuxFlag ESG label (Luxembourg)	ISR label (France)	Greenfin Label (formerly EETC label) (France)	Umweltzeichen label (Austria)	FNG label (Germany, Austria, Switzerland)	Swan Ecolabel (Nordic countries)	Towards Sustainability (Belgium)	EU Ecolabel (Technical report as of Dec. 2019) (EU)
Eligible Product scope or Product group definition	Investment funds UCITS or AIFMD compliant	Investment fund UCITS or AIFMD compliant	Investment fund UCITS or certain AIFs that do not have a substantial leverage effect. Special cases: fund of funds or multi-management funds, feeder funds, French social impact assets, green bonds, corporate/sovereign debt /mixed) funds	Funds falling under UCITS V Directive, Alternative Investment Funds (AIFs) having no major leverage effect. In formation private equity and infrastructure AIFs. Special cases: fund of funds or multi-management funds, feeder funds	Investment products with portfolio character (investment funds, non-securities in the infrastructural sector, real estate). Without portfolio character: Green Bonds and sustainable current account and savings products	Sustainably managed mutual funds or equivalent investment vehicles of all asset classes UCITS compliant. Specific exemptions only after prior consultation: structured, guarantee, microfinance, synthetic exchange-traded funds, fund of funds.	UCITS compliant funds of all asset classes. Index funds that meet predefined criteria. Investment products (AIFs, Funds of Funds, Insurance and Pensions products) meeting certain criteria.	Standardized sustainable financial products aimed primarily at retail in Belgium: investment mutual funds, life-insurance products, structured notes and savings products	UCITS, retail AIFs, insurance products (unit-linked life insurance) and savings and deposits
ESG analysis	Applied to	Applied to	ESG screening	ESG criteria	Yes ESG	Yes, all titles of	Compulsory of	100% ESG	Yes, all 3

coverage (expressed in % assets screened or % of holdings in portfolio screened)	100% portfolio in terms of direct and indirect holdings	100% portfolio in terms of direct and indirect holdings	of more than 90% of the portfolio in a long-term basis (measured either in number of issuers or capitalization).	should be considered during the portfolio construction and monitored against ESG controversies . But no explicit indication to what extent	analysis is mandatory, to what extent not specified	the portfolio are analyzed according to ESG criteria or similar	90% ESG screening of the Direct Holdings	screening of all assets of the portfolio	aspects (environmental, social and governance) are taken into account. Not clear to what extent yet.
“Green” focus of portfolio	75% green portfolio (climate change). The rest 25% may not negatively impact the environment and may not be in Exclusion list.	no	no	total 75% green portfolio (20% + 55%) coming from energy and ecological transition and the fight against climate change. The rest 25% diversification category which is comprised of non-green companies (0-10% revenue from green activities) or debt securities	no, thematic funds is just an optional sustainability strategy	no, but for thematic investments approach with environmental themes, the applicant can receive extra points to achieve a higher score in the grading system.	Yes, environmental focus not compulsory but optional for receiving extra points scores. No mandatory threshold at portfolio level but progressive points are given if weighted holdings in the fund have at least 10% of their aggregated revenue in green activities (22%, 35%,50%).	no	Equity funds: 60% green portfolio (20% in companies deriving 50%revenues from green activities and 40% in companies deriving between 20-49% revenues from green activities . Bond funds: at least 70% comply with the EU GBS. Green fixed-term and savings deposit accounts: green loan to deposit

									ratio at least 70%
“Green” threshold at company level	50% revenue from green activities at holding level. For bonds- 75% in green bonds compliant with the GBP, ICMA,CBI or similar	Not applicable	Not applicable	2 types of green companies: turnover supporting the energy and ecological transition must be at least 50% for the first type of green company. Second type – between 10 and 50% of their revenues from green activities. For bond fund – at least 75% in green bonds	no	No clearly defined thresholds neither at portfolio, nor at the holding level because it is not the primary focus of the label. But the applicant should provide their target thresholds and actual figures for the assessment of the impact.	No minimum or predefined threshold at holding level to qualify for a green company. Any % of revenue coming from green activities of a holding can be counted for aggregated turnover from green activities in portfolio.	no	For equity funds: 2 types of thresholds at holding revenue level 50% and above and 20-49 %. For savings deposit account: green ratio – at least 70%
Registration of the financial product*	Applicant should be authorized by a EU Member State or be subject to supervision equivalent to that in EU Member States	Applicant should be authorized by a EU Member State or be subject to supervision equivalent to that in EU Member States	Registered for distribution in France	Not limited to French firms, can be an European or from else where	Compliant with the self-regulating quality standards of the “Vereinigung österreichischer Investmentgesellschaften” VÖIG (Association of Austrian	Should be registered for distribution in Germany, Austria, Switzerland or Lichtenstein.	Funds should be registered for distribution in one of more of the Nordic countries	Domestic or foreign distributors, the financial products they offer should be commercialized in Belgium	retail financial products must be registered or authorized for marketing or distribution in a Member State of the European Union

					Investment Companies) by way of voluntary self-commitment. Investment funds not managed in Austria should be subject to comparable self-regulating quality standards.				
Investment scope (regional)*	Not limited, worldwide	Not limited, worldwide	Not limited, worldwide	Majority in EU for equity funds, for bonds – no geographical constraint	Not limited. worldwide	Not limited, worldwide	Not limited, worldwide	Not limited, worldwide	Not limited, worldwide

* Not included in the scoring in chapters 7 and 8.

Chapter 2. Structure and composition of SRI labels

The second dimension of our comparative analysis of the European SRI labels is more technical and implies the overview of various characteristics and features of the labels. In this part we focus on the structural and compositional differences among the labels, rather than their ESG or green approaches.

2.1. The structure of the SRI label

We can distinguish roughly two types of labels: ones employing a pass-or-fail system and others using a grading or bonus point system.

2.1.1. Pass-or-fail system

All requirements of this group of SRI labels are mandatory and have to be met at any time to qualify for the label. This system is therefore called “pass-or-fail” because if even one requirement is not fulfilled, then an applicant is not eligible to obtain a label. It is obvious that this system is not flexible and does not take in consideration different types of applicants or financial products. On the another side, this approach is straightforward and gives a clear idea to retail investors of not-discriminative uniform labelling criteria that set up a certain sustainability standard that needs to be met.

All Green Labels in this study belong to this category as well as the ESG Labels such as the French *ISR* label, the *LuxFlag ESG* label, and the Belgian *Towards Sustainability* label. At this moment it seems that the future *EU Eco*-label is also going to adopt a set of mandatory requirements with just one optional criterion on the usage of the label logo.

The Belgian *Towards Sustainability* label gives a choice on the applied sustainability strategies by an applicant, but ultimately a certain minimum number of strategies should be adopted to meet the labelling requirement. Also, it allows additional exclusions, but sets a minimum standard that an applicant has to demonstrate to pass the exclusion criteria. The applicants are always encouraged to go beyond the minimum requirements of the label, but this is not rewarded in anyway and it is not reflected on a type of the label received.

2.1.2. Grading or Bonus Point System

This type of labels implies a bonus point system allowing to reward with different grades of the label or to distinguish between different types of applicants. To obtain the basic label the applicant has to meet a minimum standard: a combination of compulsory requirements with a

certain amount of point criteria. It is a hybrid system because this minimum standard has to be met at any time as a “pass-or-fail” approach when all criteria become mandatory. Next to this passing minimum, the bonus point system allows to qualify for receiving a higher graded label by meeting additional optional criteria and receiving a higher total score. One of the advantages of this system is that the grading system allows us to distinguish superior performance and reward it with extra credit, for example indicated by the amount of stars as in the case of the *FNG* label, or to differentiate on various types of applicants or financial products, at the same time ensuring that the minimum requirements are met (e.g. the Nordic *Swan*).

Among labels covered in this study, there are three labels that use a point system, and all three labels are ESG-focused: the Austrian *Umweltzeichen* label, the German-speaking *FNG* label and the Nordic *Swan* label.

The (additional) points are rewarded most commonly for the implementation of the following criteria: a more extensive ESG analysis, a higher ESG level of the investable universe or higher ESG scoring of the selected issuers, active ownership for equity funds (elaborated engagement and voting sustainability strategy), enhanced ESG reporting, etc. The grading system itself varies from one label to another, as well as a range of mandatory and optional criteria.

Let us give a brief description to every label with a point system from our study. Within the methodology of the Austrian *Umweltzeichen* label the grading system is only applicable for the investment products with portfolio character, one example of which are various types of mutual funds. The additional bonus points can be acquired and added to the result after minimum compliance of the requirement is met. In this way strategies are to be rewarded which create additional and/or supplementary sustainability benefits beyond the respective minimum requirements. The points rewarded for the minimum compliance and bonus points together must amount to minimum 70% of the maximum number of points that can be obtained for the respective product category. The grading approach of the label takes into consideration differences by product category, for example whether it is equity fund or government bonds fund, and by degree of fulfilment of the requirement. To illustrate the last one, higher scores are given to the funds which use higher benchmarks during their selection process: if after applying the best-in-class approach more than 50% of the universe is investable, than no Eco-label is possible, between 33 and 50% - 1 point, 25 to 33% - 3 points and less than 25% - 5 points. For the investment products without necessary portfolio character like green bonds and sustainable savings and current accounts, the grading system with points is not applicable by the label. Here the compliance is rather assessed in the “pass-or-fail” manner (see *infra*).

The German-speaking *FNG* label has a combination of minimum requirements and grading model. In order for the *FNG* label to be awarded, the applicant has to meet all criteria from the minimum requirements section like eligibility criterion, certain sustainability coverage and transparency requirements, as well as various exclusions. In the “grading model”, the applicant is awarded with points if it meets the additional criteria and demonstrates superior sustainability performance in the following sections: institutional credibility, product standards, and impact. In order to be positively assessed, the compliance of criteria must be clearly proven. A specific label grade will be awarded depending on the total percentage of scores achieved: The basic grade is awarded to applicants, which meet all the criteria in the minimum requirements section and achieve a total score of 24.99 percent or less in the grading model. -One-, two- or three-star labels are awarded to the applicants who meet all the criteria in the minimum requirements section and achieved their total score exceeding 25%, 50% or 70% percent in the grading model.

The Nordic *Swan* label uses a combination of obligatory requirements that must be met at all times with point requirements to obtain additional scores. The point requirements are optional to a certain extent but a minimum score of optional criteria must be achieved to receive the label. So next to all obligatory requirements a minimum of 5 out of 16 points for bond funds and 6 out of 16 points for equity funds, must be achieved as a minimum to be eligible to receive the label. The difference for bond and equity funds is explained by the optional engagement requirement which is not possible to achieve and thus not applicable for the bond funds. The point requirements of the Nordic *Swan* label cover mostly additional aspects of sustainability or deeper implementation of the minimum requirements where the applicant’s performance goes beyond the obligatory requirements of the label. For example, extra points are rewarded if an applicant exceeds the minimum requirement of the ESG coverage of 90% of the direct holdings and performs 100%. The same principle applies for the ESG-analysis of the indirect holdings. It is worth mentioning that the label rewards two bonus points if a fund has an average of less than 0.5% indirect holdings that were not ESG-analyzed: 2 points. The label rewards portfolios with an environmental focus, and depending on the amount of green activities in the portfolio, an applicant can receive up to 4 points. Also extra points are given for extended reporting, engagement and voting, additional exclusion (GMO crops) and in case the SRI reporting is verified externally by an accredited body.

2.2. Composition of SRI labels

The composition of the SRI labels is the following criterion in the second dimension, across which we compare different labels. We discuss specific cases covered by the SRI label, such as Fund of Funds, index funds, indirect investments and requirements on different types of assets that need to be evaluated such as direct holdings, cash, derivatives, debt securities, green bonds, and others.

2.2.1. (In)direct holdings and cash

The requirements on ESG assessment differ whether the level of ESG coverage is calculated only in terms of the direct holdings and/or indirect investments, or also other assets of the portfolio, like cash and derivatives, are taken into consideration and are assessed on their sustainability. Some labels put an emphasis on the ESG-screening of the issuers and set a percentage from the total number of the holdings, like the Nordic *Swan* label and the French *ISR* label (the last one also allows alternatively by capitalization). Others set it on the portfolio level, which implies that all assets or titles in the portfolio have to be ESG-evaluated, like the Belgian *Towards Sustainability* label, the *LuxFlag ESG* label or the *FNG* label. On first sight the last definition seem to offer larger ESG coverage, but there are a few nuances that we need to consider. The Belgian *Towards Sustainability* label, for example, makes a difference in case assets (cash included) are structurally held for investment purposes or they are just held temporarily for liquidity or hedging. In the first case, they additionally need to be evaluated on their sustainability and be in line with the ESG policy of the applicant; in the second case it is not required by the label. Of course, in practice the border line between investment and hedging is very thin, which can lead to various misinterpretations and potential misuse.

Most of the labels do not have any specific criterion on cash, some do not elaborate on it or the criterion is not well developed. For example, the *LuxFlag ESG* label requires 100 percent of the applicant portfolio to be screened against one of the ESG strategies, but at the same time there is an allowance of 30% of total assets of the portfolio of the fund to be invested in the form of cash or short term cash equivalents. Cash positions do not have to be ESG evaluated though they can amount up to 30% of the total portfolio according to the eligibility criteria of the label.

Also the French *ISR* label allows including cash assets which, according to the last revision of the label criteria, must be also ESG evaluated. The future *EU Eco*-label takes the following position: verification of greenness is not required by the label, but cash should be

included in the calculation of the total portfolio value. Whether cash has to be evaluated against other aspects of sustainability than environmental, is also not clear (yet).

2.2.2. Derivatives

Most labels in this study try to restrain the use of derivatives in one way or another. Imposing an obligatory assessment of the underlying part of the derivatives as well as of the counter-party is the most obvious way to limit the use of derivatives in sustainable products because it is not always possible or it requires a lot of extra efforts and data.

The Belgian *Towards Sustainability* label, as in case of cash, makes again a difference in case derivatives are structurally held for investment purposes or in case they are just held temporarily for liquidity or hedging purposes. In the first case, they need to be additionally evaluated on their sustainability and they need to be in line with the ESG policy of the applicant. In the second case this is not required by the label. Similar to cash assessment the border line between exposure and risk neutralization is often so vague, that it can practically lead to justification why ESG assessment is not required for derivatives in most of the cases. If the goal is to try to limit the use of derivatives, it would make more sense to have a requirement on reporting on the use of all derivatives next to setting limits in terms of exposure by the amount and the duration of the derivatives in a sustainable portfolio. What is certainly clear according to Belgian label is the fact that the fund cannot consist primarily of derivatives and derivatives should be used in addition to the other assets.

Other labels also try to formulate this criterion in such a way that it is transparent and it leaves little space for misinterpretations or maneuvering space to avoid or minimize ESG screening of the derivatives as one of the assets in a sustainable portfolio. The Austrian *Umweltzeichen* label, for example, allows the use of derivatives for hedging portfolio risks, but their use is not permitted for generating revenues. The two French labels *ISR* and *Greenfin* follow a similar approach: it is allowed for technical objectives in case of bond funds, and for hedging purposes in line with sustainability policy in case of equity funds. The use for exposure purposes should be temporary and for OTC instruments, and the ESG quality of the counterparties must be analyzed. Also, both labels do not allow the use of derivatives for short-selling of non-ESG securities (in case of *ISR* label) or non-green securities (in case of *Greenfin* label). Additionally, in case of exposure to a security, the underlying instrument should be ESG compliant (or *Greenfin*-compliant). The French labels have very elaborated criteria on the use of derivatives and the applicants have to demonstrate that they comply with them by providing a technical report (document) on their use of derivatives during portfolio management.

The Nordic *Swan* label does not have constraints on derivatives based on their investment purpose but requires that they are not tied mainly to excluded sectors or companies. The *LuxFlag ESG* label allows the use of derivatives in general but does not provide with any more specific details or conditions. This criterion is not further elaborated. The other *LuxFlag Climate Finance* label does not give any information on the use of derivatives.

The future *EU Eco*-label plans to take the following position on derivatives: The use of derivatives is allowed for hedging purposes and is limited in case of exposure purposes only as a temporary measure. The underlying assets shall comply with *EU Eco*-label criteria, short selling of securities is not allowed. The applicant should be transparent about its use of derivatives and report on them. This is sort of the consensus decision based on various opinions of different stakeholders.

2.2.3. Fund of Funds and its Composition

Another important criterion of our second dimension is whether such financial construction as Fund of Funds is allowed by the label, and if yes, what are the requirements on its composition. All labels covered in this study, allow Fund of Funds in their structure and employ rather similar methodologies on the composition of Fund of Funds with a few nuances.

There are three labels in this study which refer to Fund of Funds as a special case – the French *Greenfin* label, French ISR label and the German-speaking *FNG* label. Since last revision of latter label in 2020, the eligibility criteria were extended to meet the increased demand for sustainable labelled products and now Fund of Funds can also apply for the *FNG* label. It is still treated as an exception or a specific case, and this explains why they are accepted for labelling only after preliminary consultation. The requirement for composition is not defined as these applicants are reviewed and verified on a case-by-case basis. This might undermine the transparency aspect of the verifying process if the sustainability criteria of Fund of Funds are not officially defined and publicly available.

The *LuxFlag Climate Finance* criterion for Fund of Funds is not sufficiently defined: it roughly suggests that sub-funds may support one or several climate finance activities but does not provide further information as to quantitative indicators or thresholds. The other *LuxFlag ESG* label implies that all sub-funds should be ESG-screened against one of the ESG strategies or have a SRI label. The applicant should be transparent on all investees including sub-funds, but there are no further clarifications in the publicly available documents on their web page.

Most labels (the French *ISR* and *Greenfin* labels, the Austrian *Umweltzeichen* label, the Nordic *Swan* label and also future *EU Eco*-label) require that also the sub-funds obtain the

corresponding label, for the Fund of Funds to be eligible to receive the label. The French labels and future *EU Eco*-label currently set a threshold of 90%, this is the minimum number of funds that need to have a license for the corresponding Fund of Funds to be able to qualify for the label. The remaining 10% might be invested in transferable securities or money market instruments. The French *ISR* label also allows sub-funds to have a comparable European label other than their own.

The Belgian *Towards Sustainability* label takes formally a slightly different approach: it doesn't necessarily require all sub-funds to hold its label but the Fund of Funds manager should be able to demonstrate that sub-funds are compliant with the label criteria. This can be achieved either by means of a formal commitment of the sub-fund managers or by performing at a regular basis a "look-through" approach. In practice, most of the sub-funds also apply for the Belgian label, which facilitates the labelling process for the Fund of Funds applicant.

2.2.4. Index funds

Requirements for index funds are not specifically defined or not very elaborated in the criteria guidelines of most of the labels. A possible explanation is that either index funds are not eligible to apply for the label or this criterion is poorly developed because historically it is not such a common case as an actively-managed mutual fund and is treated more as exception on a case-by-case basis. The second explanation fits the *FNG* label approach: index funds became eligible to apply only after the latest revision in 2020. They are nevertheless treated as a specific case and can be certified only after preliminary consultation. So the published criterion is rather general and not very elaborated: the index construction process must be analyzed using sustainability or ESG criteria. The Nordic *Swan* label provides a bit more details on the certification process: the index part should be pre-approved by the label or demonstrate that all inclusion and exclusion criteria are met. Similar conditions are required by the Belgian *Towards Sustainability* label on the composition of the underlying index.

2.2.5. Debt securities

Some labels also impose restrictions on debt securities (green bonds are not included here and discussed in the next subsection). This feature is more typical for Green Labels which is very logical: investors' money is channeled generally either towards actively managed equity funds or green bonds. The threshold is set by both *LuxFlag* green labels and the *Greenfin* label at the level of 25%, the future *EU Eco*-label sets a limit at maximum 30% that can be invested in debt instruments (other than green bonds) in a bond fund.

The ESG Labels are not so principally on this criterion, so the restrictions are set at a relatively lower level or there is no restriction at all: the French *ISR* label requires that government debt securities do not exceed a 70% threshold, while the Nordic *Swan* label utilizes a 50% maximum on government debt bonds. Other labels (*Luxflag ESG*, *Towards Sustainability*, *Umweltzeichen* and *FNG*) either have no constraints on debt securities for bond or mixed funds or they do not specifically mention them in their published criteria documents. This enables a 100% government debt fund to apply for their ESG label. To qualify in case of sovereign debt the applicants of the Austrian *Umweltzeichen* label and the *FNG* label have to meet thorough sustainability screening criteria specially developed for the ESG assessment of countries. The requirements of the *Luxflag ESG* label for debt securities and the country screening are not specifically elaborated, though fixed income funds can apply for the label. The requirements of the *Towards Sustainability* label for government debt are very general and carry more a recommendation nature (see in more detail in Chapter 5).

2.2.6. Green bonds

Green bonds are another category that has appeared in the requirements in the last revision of the existing SRI labels. Most labels have updated their criteria documents to include green bonds as an eligible asset in their compliance requirements, such as the Nordic *Swan* label.

A green bond is generally required by most of the labels to meet the criteria of a certain standard like the *Green Bond Principles* or the *Climate Bond Standard*. The *EU Green Bond Standard* is still in development and will be tightly linked to *EU Taxonomy* and *EU Eco-label*. Next to this requirement labels apply some other additional constraints which differ from one label to another. For example, the Nordic *Swan* label demands that green bonds, issued by a government must be verified by a third party. Also, the green bond is eligible for an inclusion only if it is invested in the pre-defined category of Environmental Focus of the Nordic *Swan* Label.

The French *Greenfin* label also requires that a green bond should only finance objects strictly falling under the classification of the label and not finance excluded activities defined by label. The Austrian *Umweltzeichen* label places additional requirements on the issuer of the green bond and on enhanced reporting. The criteria of the Belgian *Towards Sustainability* label are broader elaborated: here the ESG due diligence process should cover both sides – the issuer and the beneficiary of the green bond. Also the social and governance aspects must be considered during the sustainability evaluation. A green bond cannot finance activities excluded by the label, and third party verification or a Second Party Opinion for compliance with the principles is required.

It is interesting to highlight that the future *EU Eco*-label has taken a bit different position on the green bond eligibility. If for many SRI labels the issuer of the bond is taken into consideration and is restraint by a list of excluded activities, the emphasis of the EU label is placed not on the issuer but on the use of proceeds of the green bond. That means that green bonds issued by a company undertaking an excluded activity, is also eligible for inclusion by bond funds seeking the EU label (considering that the other requirements are met). The rationale behind this allowance is that the use-of-proceeds condition (or ring-fencing) strictly prevents retail investor's money from going to excluded activities. At the same time, the possibility to issue green bonds could provide an incentive for companies to transition, even if they are still undertaking excluded activities.

2.2.7. Transitioning part of portfolio

A few labels allow energy companies transitioning to a low-carbon model as exemption in the portfolio. This criterion highlights which labels promotes gradual phase-out for the companies in the energy sector (oil and gas extraction and electricity companies) to more environmental model allowing these companies to be exceptionally included in the sustainable portfolio under certain circumstances. Transition portfolio is the alternative to exclusions and gives an extra incentive to the companies from the energy sector that normally do not meet the labelling criteria to be included in the portfolio. Of course these companies are selected not randomly and have to demonstrate a steady positive dynamics on their way to a more sustainable model with higher share of renewable or less carbon-emitting energy sources.

For the moment there are two labels that promote transition in the energy sector – the Nordic *Swan* label and the Belgian *Towards Sustainability* label. The first one has an exemption list for fossil fuel companies and power generating companies which are under normal circumstances excluded according to the inclusion criteria of the label. To be exempted from the exclusion, companies need to fulfil all the following requirements:

1. At least 75% of the company's energy sector investments on average for the last three consecutive years are in the renewable energy sector.
2. Revenues from renewable energy comprise at least 50% of the company's total revenue
OR at least 50% of the company's energy production capacity is based on renewable sources.

This ratio may be calculated on average over the course of 1, 2 or 3 of the last financial years.

3. The company has less than 0.1% revenue from tar sand, shale oil or shale gas, or other fracking activities and/or mining of oil shale (non-conventional oil and gas).

So this transition portfolio gives an incentive for the conventional energy companies to shift gradually towards a more renewable model.

The Belgian label allows a phase-out for unaligned oil and gas extraction as well as electricity generation companies if they are within the best of their peer group in transitioning their business model and meet the following criteria:

1. The share of selected companies should not exceed 5% of the total portfolio and this limit will be further refined in 2020-2025.
2. The selected companies can't be from unconventional oil and gas extraction starting from 2021 (before the end of 2020 these can be included exceptionally).
3. The companies within this margin should have undergone the Best-in-Class selection with a minimum of 50% selectivity which leaves only companies best performing on sustainable energy transition within their peer group. The consideration criteria might be the percentage of the natural gas and renewables in the production mix, absolute emissions and emissions intensity, the amount of investments in R&D on renewables, etc.

We see that the transition criteria for both ESG labels are rather similar with the difference that the Nordic label focuses on defining the clear measurements or benchmarks for what to consider a transitional energy company. While the approach of the Belgian label is to set a limit on how many transitioning companies can be included in the portfolio on the relative basis.

In the second dimension we took a closer look on various systems possible within the SRI labels and gave a detailed overview on different elements of the types of labels and various elements of the financial products that are covered by the label requirements. As we have seen, there is a considerable variety in covering label criteria: from absence of a certain criterion at all or rather broadly defining the general principles entailing it to a detailed description with corresponding quantitative or qualitative indicators of a requirement.

Figure 2.1. Overview of the structure and composition criteria

Label	LuxFlag Climate Finance label (Luxembourg)	LuxFlag ESG label (Luxembourg)	ISR label (France)	Greenfin Label (formerly EETC label) (France)	Umweltzeichen label (Austria)	FNG label (Germany, Austria, Switzerland)	Swan Ecolabel (Nordic countries)	Towards Sustainability (Belgium)	EU Ecolabel (Technical report as of Dec. 2019) (EU)
Mandatory/optional criteria with a grading system	pass or fail system (all mandatory requirements)	pass or fail system (all mandatory requirements)	pass or fail system (all mandatory requirements). any temporary non-conformities revealed during audit should be solved.	pass or fail system (all mandatory requirements)	Grading system (a combination of mandatory and optional criteria). For Investment products without portfolio character – must pass all mandatory criteria (pass-or-fail system). Investment products with portfolio character (funds) are assessed on the basis of a score system (mandatory + optional	Grading system (a combination of mandatory and optional criteria). Obligatory minimum requirements that must be met at all times, as well as some optional point-score requirements that need to be achieved in the grading model.	Grading system (a combination of mandatory and optional criteria). Obligatory requirements that must be met at all times, as well as optional point-score requirements	pass or fail system (all mandatory requirements)	pass or fail system (primarily all mandatory requirements) (there is only one optional on the logo usage)

					criteria)				
Point system	no	no	no	no	Yes. Minimum threshold of scores must be exceeded for portfolio investments: at least 70% of the maximum number of points to be reached	Yes. A grading system consists of basic label (minimum requirements) and 1/2/3 star labels. Points are granted to differentiate superior performance of different candidates	Yes. A minimum Score 6 out of 16 must be achieved for equity funds to fulfil the license conditions. For bond funds, a minimum of 5 points.	no	no
ESG Analysis of Direct Holdings	100%	100 % in terms of holdings but can be less in terms of portfolio screening	>90% long-term average	Is implied, but not explicitly mentioned to what extent	Yes, including equity holdings (> 50 % shareholding)	now increased to 100% (was before 90% minimum)	90% (measured by number of issuers) - minimum requirement. 100% analyzed – receive extra points scores	100% ESG Screening for all assets structurally held for investment purposes. Temporary derogations for technical reasons are allowed	Social and governance aspects are considered next to the environment one.
Fund of Funds Allowed	yes	yes	Yes as a special case	Yes as a special case	yes	Since last revision of the illegibility criterion – yes after preliminary consultation	Yes, since last revision is also possible	yes	yes
Fund of Funds	Not sufficiently defined.	all sub-funds should be ESG-	90% Minimum of funds with	90% Minimum of funds with	if the funds contained	Fund of funds are allowed	FoF must solely invest only in	In principle all subfunds	Minimum 90% of funds with

composition	Roughly – sub-funds may support one or several climate finance activities	screened or have a SRI label. Transparency on all investees	ISR or comparable European label	Greenfin label, rest invested in transferable securities or money market instruments	therein have either been awarded with the Ecolabel UZ 49 or are at least eligible for the Ecolabel UZ 49.	only since this year and are treated as an exemption or a specific case. The requirement for composition is not defined in general criteria document.	other funds with Nordic Swan label. 5% derogation is allowed	should be compliant with the label criteria; however, the subfunds do not need to hold the label.	EU Eco-label, the rest invested in transferable securities or money market instruments. Feeder funds shall have a master fund that has been awarded the EU Ecolabel.
Requirements for Derivatives	Allowed, but not elaborated	Not elaborated	Allowed for technical objective in case of bond funds. For equity funds for hedging purposes in line with ESG policy. The use for exposure purposes should be temporary. For OTC instruments, the ESG quality of the counter parties must be analyzed. The	Allowed for technical objective in case of bond funds. For equity funds for hedging purposes in line with the label policy. The use for exposure purposes should be temporary. For OTC instruments, the ESG quality of the counter parties must be analyzed. The	Allowed for hedging portfolio risks but for generating revenues is not permitted	Limited to leveraging and hedging market risks in line with ESG policy	Allowed if not tied mainly to excluded sectors or companies	Allowed as a technical tool or for hedging risks. If used as a source of return must be in line with ESG policy. The fund cannot consist primarily of derivatives.	The use of derivatives is allowed for hedging purposes and is limited in case of exposure purposes only as a temporary measure. The underlying assets shall comply with EU Ecolabel criteria, short selling of securities is not allowed. The applicant should be transparent about its use of

			short selling of non ESG assets is not allowed	short-selling of non-Greenfin securities is not allowed					derivatives and report on them.
Requirement for index funds	No information	No information	No information	No information	No information	Not much official information because this is an exemption which is treated as a specific case after preliminary consultation. Published criterion is not well-developed and vague: the index construction process must be analyzed using sustainability or ESG criteria	The index part should be pre-approved by label or demonstrate that all inclusion and exclusion criteria are met	The composition of the underlying index should be compliant to the QS in case of index and ETF funds. For the structured products, both the actual asset portfolio and index should be compliant.	The criterion is not (yet) developed in the current draft
Requirement on green bonds	This criteria is not developed because there is a separate LuxFlag label for Fixed Income Instruments focusing solely on Green	This criteria is not developed because there is a separate LuxFlag label for Fixed Income Instruments focusing solely on Green	GB should comply with the GBP	GB should comply with the GBP, only finance objects strictly falling under classification of the label and not finance the excluded	Must meet the criteria of certain standards (EU Green Bond Standard, Green Bond Principles, and Climate Bond Standard).	No information	Must adhere to GBP. Qualified non-corporate GB must be third party-verified. Must be invested in pre-defined category of Environmental	ESG Due diligence process of the issuer and the beneficiaries of the green bond. A green bond cannot finance activities excluded by the	Green bond must comply with EU GBS. Exclusions criteria do not apply to use-of-proceeds green bonds . Green bonds of the excluded companies are

	bonds	bonds		activities defined by label	Projects, which are financed via Green Bonds, must not contradict the exclusion criteria of the label. Additional requirements placed on the issuer and in reporting		Focus of the label.	quality standard. The social and governance aspects must be also considered. Must be compliant with the GBP or The Climate Bond Standard & Certification Scheme of the Climate Bond Initiative (CBI). Third party verification or Second Party Opinion for compliance with the principles is required.	eligible for the label if they comply with EU GBS.
Requirement for Cash	Up to 25% of total assets may be retained in the form of cash. Cash must not be ESG-evaluated.	30% of total assets of the portfolio of the fund may be invested in the form of cash or short term cash equivalents Do not have to be ESG-evaluated.	May include cash, cash need to be ESG-assessed	No information	No information	No information	No information	ESG analysis is not necessary if kept for technical reasons or for the temporary hedging of risks. If structurally kept for return, then the deposited bank must be	Verification of greenness is not required but is included in the calculation of the total portfolio value

								ESG evaluated.	
Restrictions on Debt Securities Excluding Green Bonds	Yes, 25% maximum	Not elaborated	70% maximum on the government debt securities	25% maximum	No restrictions (no information)	No restrictions (no information)	50% maximum on the government debt bonds	No restrictions (no information)	Yes, in a bond fund maximum 30% can be invested in debt instruments other than GB
Minimum ESG Score	Not required	Not required	The “worst 20%” of initial universe is eliminated	Not required	Yes, higher than 50% on ESG rating for the investable universe for funds. Extra points for lower % of the total universe investable.	Not a mandatory requirement for the basic label. Additional points for receiving a star label	Yes to at least 50% of the portfolio: more than 50% of the fund should be invested in holding with strong ESG practices	Not required, the choice is left on the fund manager.	Not required
Best in Class Criteria	no	is an optional ESG strategy but not obligatory	I) Exclude bottom 20% OR II) Significantly higher average ESG than initial universe	no	Minimum 50% of the starting universe should be excluded. Extra points for higher ESG rating investible universe	Not a mandatory requirement for the basic label. Additional points for receiving a star label	Yes to at least 50% of the portfolio: more than 50% of the fund should be invested in holding with strong ESG	Not a mandatory positive strategy	Not a mandatory
Phase-out/transitioning part of portfolio in the energy sector	No information	No information	No information	no	no	No. Conventional oil and gas are not excluded and gas industry is already presented as a transition	Yes, holdings that fulfil the exemption criteria	Yes, 5% leeway of the portfolio for conventional oil/gas/electricity generation	No, 3-pocket approach with differentiation on the level of the green activities enables 40% of the investments also in

						industry.			transition activities (that only have 2049 % of their revenue coming from the green activities). But these are not temporary exemption from the criteria
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Chapter 3. Transparency of SRI labels

In this dimension we are looking at various aspects of transparency – the level of transparency that the label requires from the applicant, but also we consider how transparent is the label itself on its methodology and criteria guidelines towards the applicant, the verifying process, labeling procedures, and information available on the labelled funds.

We start with the minimum level of transparency that a label imposes on its applicants because the transparency towards retail investors stays one of the ultimate purposes why the sustainable labels are created. The certain “openness” in terms of information disclosure is important for taking an informed decision for ordinary retail investors who do not have special knowledge or no access to professional data based on sustainable data.

Some labels go beyond minimum legal requirements for data disclosure and stimulate the investments funds to make additional information on sustainability issues available for the general public and to report on their sustainability results.

3.1. Transparency requirements of the label towards the applicants

3.1.1. Mandatory sustainability policy with formalized objectives

The most general transparency requirement typical for most labels is transparency on sustainability goals, on the investment process which results from the sustainability goals and on the portfolio allocation. Practically all labels included in this study require that investment policy (including the sustainability criteria) is formalized and publicly available. The degree of elaboration of the sustainability policy required by a label differs from one label to another, as well as the level of accessibility of this information for the general public. For example, the *LuxFlag Climate Finance* label generally requires that climate finance objectives must be formalized without any further clarifications. The Belgian *Towards Sustainability* label requires extended formalized sustainability policies which must include the exclusion policy of the applicant as well as selection indicators and thresholds that have to be defined. Also the applicant is expected to take a certain position on important sustainability issues and describe it in their policies. The socially responsible character of the product should be a necessary part of the investment objective of the sustainable product and be also clearly stated in the legal documents.

Transparency implies that all necessary information on sustainability goals and sustainability processes is publicly available for retail clients. A lot of investment funds publish their general sustainability policy on their official webpages but the details on the investment

process are very often only available for professional and institutional users upon request and are not even offered in case of a retail customer. Some labels such as the *FNG* label and the Nordic *Swan* label grant extra points not only for extended sustainability data being disclosed by the applicant, but also for larger coverage of investors including ordinary retail investors. Information which is only disclosed to institutional investors will be considered, but will be worth only half as many bonus points according to the enhanced transparency requirement in the grading system of the *FNG* label.

The Austrian *Umweltzeichen* label and the *FNG* label require mandatory use of the *EuroSIF* (*European Sustainable and Responsible Investment Forum*) transparency code for the applicants. This implies that sustainability criteria, research process, ESG data evaluation and implementation should be prepared and presented in a certain transparent format according to the *EuroSIF* transparency code. The completeness and transparency of the presentation of the applicant would then be assessed by control bodies in Austria on the basis of the European Transparency Guidelines for sustainability funds of *EuroSIF*. The *FNG* label requires a fully completed and publicly available *EuroSIF* Transparency Code declaration, approved by one of the national SIFs.

The future *EU Eco*-label puts a big importance on the overall transparency of the applicant-fund; that is why the criteria of this dimension are very developed. For example, apart from the standard transparency requirements for the equity and bond funds, the label has a certain set of criteria for other type of investments. In case of the sustainable deposit accounts, the applicant must publish an itemized list of projects and green economic activities for which loans have been approved, including their value, and a performance report with details of the project, implementation status, and ring fencing procedures for the deposited money.

3.1.2. Mandatory disclosure of the portfolio composition

Disclosure of the portfolio composition is a second generally required point by SRI labels from their applicants. Most of the labels require minimum disclosure of the portfolio at least annually which is also a legal requirement in EU countries. Some labels go further and require the complete portfolio composition available on the website more frequent: on a monthly basis with detailed review on top five holdings like the Austrian label or at least quarterly like the *FNG* label. The Nordic *Swan* label and the *FNG* label reward extra points for more extended disclosure of the portfolio: *FNG* requires not just a simple portfolio disclosure, but full sustainability information on the holdings, while the Nordic *Swan* gives extra points for

identifying the ten largest holdings and providing a brief description of ESG risks and opportunities, and the sustainability impact of these holdings.

The Belgian *Towards Sustainability* label does not require the mandatory disclosure of the portfolio on a regular basis (at least not according to the criteria document). Nevertheless, the link to the applicant website with its latest annual report is available as part of the detailed products description on the official webpage of the label itself. Publishing an annual report is obviously a standard requirement for all public companies, including investment funds, required by legislation. So, in this case the presence of the link to the official annual report of the fund does not correspond to the minimum sustainability transparency required by the label itself towards its applicants. The Belgian *Towards Sustainability* label does not explicitly mention the portfolio disclosure requirements nor its frequency in its label criteria.

3.1.3. Formalized voting and engagement policy

The following transparency requirement which is only applicable for equity or mixed funds is the transparency on voting and engagement. Most labels require that voting or/and engagement policy of the applicant has to be formalized and published on the website of the management company (the Belgian *Toward Sustainability* label, the French *ISR* label, the Austrian *Umweltzeichen* label, the Nordic *Swan* label). The latter also rewards extra points for disclosing the names of the engaged companies and the voting records. The *FNG* label does not require it in its minimum requirements for the basic label, but extra points in the grading system can be received for a more elaborated Dialogue Strategy (up to 25% of the total score). This set of optional criteria for the active ownership is defined very explicitly.

Next to a requirement that the engagement and voting should be formalized the French *ISR* label also sets requirements on the content of these policies as to what issues should be covered, in what way and to what extent. This adds extra credibility to the understanding of what the criteria imply and how it should be interpreted and implemented by the applicant.

Both *LuxFlag* labels in the study do not cover this transparency aspect in their criteria, neither does the French *Greenfin* label. The future *EU Eco*-label will probably require a documented engagement policy which includes key environmental issues to engage with companies, methods for selecting these companies, voting resolutions as well as reporting on the achievement of specific outcomes.

3.1.4. Sustainability Performance Reporting

Reflecting a new trend of accountability, the latest versions of many labels adopt reporting on the sustainability performance of the applicant as an obligatory condition for obtaining the label. This transparency requirement is defined differently by various SRI labels, for example an ESG-label may require an ESG or Sustainability report, while it can be also named CSR report (Corporate Social Responsibility Report). The Green Labels define it as Performance or Impact Reporting. In any case, the general idea behind this criterion is that the applicants provide some kind of document with results on their sustainability activities or links of their sustainability objectives with their sustainability results. According to the transparency criterion, this document should be publicly available for retail investors and updated on a regular basis (depending on a label).

There are two labels in this study that do not require a mandatory Sustainability report – the *LuxFlag ESG* label and the Belgian *Towards Sustainability* label. The *FNG* label does not demand it as a minimum requirement for the basic label (without stars), but the applicants who want to achieve a higher grading must substantially report on the sustainability performance of the fund. The same situation with the Austrian label – an adequate CSR report is not mandatory but optional for extra bonus points. The Nordic *Swan* label requires its labelled funds to report on their performance at least annually, and rewards with extra points for expanded sustainability report with more details. The fund can also get extra points for enhanced transparency if this sustainability report has been assessed and verified by an external, independent organization.

The French *ISR* label requires a mandatory ESG management strategy and ESG compliance report which has to be sent to the investors at least annually. Formalized communication with investors should ensure their proper understanding of the fund's ESG strategy and objectives. The policy on communicating with investors and distributors should include the policy on handling the investor questions or complaints and the ability to alter the ESG investment strategy or the management practices following questions or complaints from investors and distributors.

The performance reporting is naturally an important part of the Green Labels, this is logical because the whole idea behind green investments is their impact, which should be measured. The *LuxFlag Climate Finance* label requires reporting on climate impact with the achieved results and indicators on an annual basis. Also the French *Greenfin* label requires its applicants to report annually on at least one impact indicator that benefits the energy and ecological transition, with a difference that this indicator, where appropriate, can be verified by

an independent third party. Also reporting on additional indicators related to the fund's activity and corresponding to the list suggested by the label, is encouraged.

The future *EU Eco*-label will probably also impose reporting criteria on sustainability performance of its labelled funds. These performance criteria would be different considering what kind of financial product is involved. For equity, bond and mixed funds a sustainability report describing the environmental, social and engagement aspects as well as the activities and environmental performance of the financial product on the fund manager's website is required. For sovereign bonds, a climate or environmental risk rating for each sovereign issuer for which bonds are held must be reported annually. For sustainable deposit and savings accounts an applicant should publish a performance report with details of the projects and their value, implementation status and ring fencing procedure for the deposited money.

Apart from the standard transparency requirements, some labels put an extra focus on the enhanced transparency and cover some additional aspects. The French *ISR* and *Greenfin* labels and the *FNG* label have certain transparency conditions on the use of derivatives. The *ISR* label requires transparency to the investors on the internal control tools to ensure the ESG compliance of the fund. The *FNG* label gives extra points for additional communication on CO₂ data, -1.5°C/-2°C compatibility, ESG portfolio rating versus benchmark or SDG contribution including sub-targets, special KPIs or other impact measurements. Also up to four points may be deducted from the grading system for missing or insufficient information. The Austrian *Umweltzeichen* also rewards with extra points enhanced reporting for different types of applicants: mutual funds on elaborated description of top 5 issuers which identified as particularly sustainable and reasons behind it. For the green bonds extra points are given for reporting on qualitative and/or quantitative indicators (e.g. production of renewable energy, saved CO₂ emissions), for sustainable accounts, and for description of at least five selected projects.

Next we look into the transparency of the label itself and compare SRI labels on various aspects of their transparency.

3.2. Transparency of the label

3.2.1. Criteria guidelines

The first aspect of label transparency is guidelines on the label criteria: are they clearly defined and completely documented? Do applicants or private investors need further clarification after reading these criteria or are they formulated in such an explicit way that no misunderstandings or different interpretations of the criteria guidelines exist? If additional questions on the guidelines nevertheless arise, are supporting documents on the guidelines interpretations provided on the website of the labeling organization?

The level of transparency on this first aspect differs considerably from one SRI label to another. The *LuxFlag ESG* label is very laconic on the guidelines definition. The criteria document is extremely brief with several footnotes which provide only a few more details. Some terms are not explicitly defined or need further clarification, which will otherwise lead to misunderstandings and confusions. For example, the exclusions defined in the exclusion policy document are not specified with concrete thresholds. The *LuxFlag* Eligibility Committee leaves the right to determine the pertinence of the exclusion policy applied by the fund, and whether it is compliant with the label exclusion criteria. Of course with no pre-defined thresholds on exclusion, this approach leaves a lot of maneuvering space for the label and may result in misinterpretations both by applicants as well as retail investors. This might also lead to an assumption that the decisions whether the label is granted or not is rather subjective in view of the absence of definitive thresholds, and might undermine the credibility of the label.

A similar situation arises with the *LuxFlag Climate Finance* label: here the label criteria are defined with more details than on the sister ESG label, but still some requirements are too vague and not sufficiently developed which might lead to possible misinterpretations.

Overall most other labels in this study define their criteria rather clearly or provide with extra clarifications on the guidelines in the separate document. The Nordic *Swan* label and the *FNG* label methodology is very clear in terms of definitions used and system approach, also the presentation of the criteria is structured in the logical way that is straightforward. Both French labels have fewer criteria where the general criteria are elaborated with sub-requirements that an applicant has to fulfil to meet the general criterion. For extra clarifications there is also a supplementing Q&A on the criteria guidelines published on the site of *AFNOR*⁷ – the French organization responsible for accreditation of the auditors.

⁷ AFNOR stands for *Association Française de Normalisation*, the French Standardization Association.

The requirements of the Belgian *Towards Sustainability* label are defined in general terms, but are supported with information on implementing the guidelines in the official criteria document. There is also Unofficial Technical Q&A which can be obtained by the funds who are applying for the label, but this reduces the transparency for other investors as well as for retail investors.

3.2.2. Accessibility of the official information on the website of the label

An additional point of transparency is the accessibility of the official information on the label for all stakeholders. Can one easily find all relevant information published on official website of the label or is part of it only available on demand and needs to be additionally requested? Are there any supporting documents to the main criteria guidelines like background documents or Q&As where the general requirements are better specified or elaborated? Is an application form available online as well as instructions to assist the application process? Is there information on fees? Does the label provide a list of the labelled funds? In what language(s) the official information and official documents are available? Are the clarifying background documents also available in English? These are the questions covered by the second transparency criterion for the labels.

Most labels have their criteria documents also published in other language (English) than their local language. Some labels have the full version of their website available in English including additional information on the labelling process or some clarifications and further details (like the Nordic *Swan* label, the *LuxFlag* labels and the Belgian *Towards Sustainability* label). Other labels have full information available only in the local language and the general criteria document in English with few extra details (like the German-speaking *FNG* label, the Austrian label and both French labels). Considering the international nature of applicants, the last group of labels has considerably increased the amount of extra information available now also in English in their latest revisions.

As to the accessibility of all relevant information, the most transparent is the Nordic *Swan* label which provides all documents (both main and supporting ones), including the latest application forms, background documents and a document where you can track the changes in revisions of the label criteria, information on fees and labelled funds.

All other labels publish the main criteria documents as well as the information on the labelled funds (the last sometimes only available in the local language). The Belgian *Towards Sustainability* label next to the main criteria document has also an unofficial Technical Q&A file intended for the applicants but not for the general public (retail investors), because it is not

published on the website of the label. This unofficial document has been drafted to provide applicants with additional guidance and clarifications of some sections of the label criteria.

A voluntary labelling process has a complex nature and transparency is therefore important for all stakeholders and parties involved. In the situation of self-regulating labels which are created on their own initiative, the credibility of a label will benefit considerably from being more transparent about the criteria guidelines and labelling process. This means publishing all necessary information on the official website and having all documents available not only to the applicant funds or institutional investors, but also to the general public including the retail investors.

3.2.3. Labelling process and procedures

Next to the criteria transparency, we also cover the transparency on the process, such as the verifying procedures, the audit process (where applicable), the application process, the awarding processes and procedures, etc. Here the focus of the transparency analysis lays not on the criteria guidelines of the label, but on the processes and procedures from the start of application, over the verification of the compliance until the awarding procedures and eventual follow-up of the labelled funds. Is the information on these processes explicit and clearly described by the label? Are there misinterpretations possible or are the procedures straight-forward?

Most labels have developed a clear set of procedures accompanying the labelling process, which are integrated in their criteria documents, like the *FNG* label, the Austrian label, the Nordic *Swan* label, and both French labels. The *Greenfin* label has a detailed description of checks to be carried out during the certification next to every criterion in the main criteria document. It has also developed a separate document on the various audit inspections and internal control procedures – Control and Monitoring Plan Guidelines. This is information intended more for the accredited auditors that carry out verification process, but it also guarantees the transparency of the certification process for the applicant fund or any interested retail investor, because it is included in the public document. Next to each criterion the *ISR* label specifies the requirements which have to be met to fulfil this criterion, the documents that need to be provided by the applicant fund to demonstrate compliance to the criterion and the procedures to formalize the process: inspection points, inspection methods, procedure for concluding whether a requirement or criterion has been met.

The *FNG* label, the Austrian *Umweltzeichen* label and the Nordic *Swan* label are also very transparent on the certification processes and have developed formalized procedures. This transparency for the procedures is maybe even more important for labels with point systems

because the result of the assessment is not only whether the applicant's product is sustainable but also the degree of sustainability according to the label criteria. As we have already mentioned before, the two ESG Labels with a grading system, the *FNG* label and the *Umweltzeichen* label, assess the applicants file on the basis of the European Transparency Guidelines for Sustainability Funds of *EuroSIF* – a generally accepted transparency code. This allows to verify completeness and transparency of the data presentation and the internal process on ESG integration in the investment process of the applicant. In the case of Austrian *Umweltzeichen* label, the compliance verification is performed by independent control bodies. The *FNG* label requires a fully completed and publicly available EuroSIF Transparency Code declaration, approved by one of the national SIFs.

The *Luxflag ESG* label and the *Luxflag Climate Finance* label provide a very minimal amount of information on their website on the certification process and verification procedures. It can to a certain extent depend on the fact that the Verification Body is not externally sourced as in case of many other labels, where the verification procedures have to be formalized because there is a separation between the assessment body and the decision making committee. This will be later assessed in Governance aspect of the label in this study which is, of course, highly co-dependent with transparency aspects of the label.

3.2.4. Justification of the label criteria and areas without requirements

The rationale or justification provided behind every criterion and the position taken on complicated issues is another aspect of label transparency. This transparency criterion reflects if there is any explanation or background information provided by the label why certain decision are taken on the requirements and on the chosen requirement level. This is important as most criteria guidelines are the product of the consensus of different stakeholders, so there is always negotiations and discussions on various issues. Different groups of interest have different ideas, so the label transparency is to reflect the processes on the criteria development, justification of the final decision taken (or revision) and rationale for areas without requirements (grey zones). So here we consider not the clarity of the criteria guidelines, but rather that the label is also transparent on the motivations why those criteria were chosen (or left without requirement) and formulated in certain way.

The Nordic *Swan* label has a separate background document available on their website on criteria development and new criteria being proposed. The *FNG* label has justifications in the latest revision of the label criteria on few sustainability points. The future *EU Eco*-label is very transparent on this aspect and provides the documented information on proposals of the criteria,

the reasoning behind it, the discussions among different stakeholders and the semi (final) decision taken at every stage of negotiations. All other labels covered in this study do not provide any background information or justification of the label criteria or processes on their official website.

3.2.5. Conflicting sources of information or conflicting outcomes

One more aspect that contributes to the high transparency and higher presumption of reliability (and credibility) of the label is whether potential grey zones are described and a label tries to take a clear justified decision in these conflicting areas. For example, are there any guidelines on how to proceed in case of conflicting information from different ESG sources? Is there a consequent approach to different aspects of sustainability? Is there a possibility to use more than one metric which results in different sustainability outcomes? The coverage of these grey zones or conflicting sources is important for the transparency of the label and its credibility.

The Nordic *Swan* label, for example, implements the following guideline in case the applicant subscribes to several ESG data providers: the source that shows the most extensive non-conformity should be used. This principal will prevent the applicant from unfair practice to pick the source of information that is beneficial at the moment for whatever reason.

The situation with the contradictive standards which also affects transparency and credibility of the SRI label in the eyes of retail investors or NGOs can be avoided by minimizing grey zones. The Belgian *Towards Sustainability* label requires the use of a carbon intensity metric to make a selection of electricity generation companies that can be a part of the sustainable portfolio. In case that carbon intensity data is not available, the applicant fund should apply an alternative energy mix threshold based on the source of electricity. So depending on what metric an applicant finally decides to use, the outcome whether the electricity generation company is eligible to be included in the sustainable portfolio or not, can be completely different. The energy mix threshold as an alternative to the main carbon intensity metric should not be at odds with it and should be in line with the general sustainability idea that the label tries to achieve by introducing this selection method. In case of using the energy mix threshold, nuclear sources are limited to a maximum of 30% share because of their negative environmental impact (radioactive waste). If an applicant applies the carbon intensity metric, than a much higher share of a nuclear sources (theoretically up to 100%) is perfectly possible because the focus lies on minimizing of CO₂ emissions and thus nuclear energy is viewed a sustainable source of energy.

3.2.6. Transparency on Major Non-Compliances during the validity term of the license

The last aspect in this dimension is the transparency on major non-compliances after the label has been awarded to the applicant and during the renewal process. Is there any sort of external control or on-going compliance reporting once the label has been rewarded? Does the certified fund have to notify the labelling organization on unplanned incompliances once the license is obtained? Does this procedure include a classification of what is considered a major or minor incompliance? Are there formalized processes (internal or external) on compliance monitoring of the labelled funds? Is there a formal procedure in case different non-conformities with the label criteria are revealed? If the license is revoked due to major incompliances, are there any restraints when the fund can apply again?

There are different approaches here: on the one hand, an approach of leaving the compliance monitoring solely internally on the applicant without a need of the latter to notify the label organization in case of non-conformities during the license validity and only reporting on them during the renewal phase; on the other hand, an approach that an applicant has to report on major non-compliances with the label criteria during the whole period of validity of the license in combination with the possibility of random checks and inspections performed by the certification body.

The latter approach is used by the Nordic *Swan* label, where the fund manager must perform an internal audit to ensure that the fund fulfils all relevant label criteria every twelve months and to send this report to *Nordic Ecolabelling* organization. The Nordic Ecolabelling organization can also itself decide to check whether a fund fulfils the Nordic *Swan* label requirements during any moment of the license period. Random samples may also be taken from the fund's website and tested against the exclusion criteria. Finally, the license may be revoked if it is evident that the fund does not meet the requirements or if the fund cannot fully document that it does so. Apart from that, there is a clear guideline on handling unplanned non-conformities resulting from the change of the ESG or the controversy rating of the portfolio holding that do not any more meet the exclusions criteria. According to this guideline if unplanned non-conformities are found, the fund manager should sell the illegible holding within 3 months or must explain on their website how they assess the situation, what actions the fund manager will take in order to address the issue, what result the fund manager expects to achieve, and when they estimate that the issue will be resolved. If, after 24 months, the issue causing the possible non-conformity has not been successfully addressed and there is still an issue which implies non-conformity, the holdings must be sold.

The *FNG* label reserves a right to verify at any time the compliance of the labelled fund to the criteria and request any relevant information to ensure it. In case of any changes, the labelled fund has to notify the auditor of the label and submit information so the auditor can check whether the compliance with the *FNG* label criteria has been compromised. There is a formalized procedure on non-compliance following the award of the label described in the official criteria and procedures document on the official website of the label. In general, if compliance with the label criteria is not restored within the month or the fund is not able to resolve it, then the label will be withdrawn or the label grade that has been awarded will be downgraded as appropriate. Funds that have had the label withdrawn cannot re-apply the following year.

Probably the most transparent on non-compliances and their monitoring are both French labels. Both labels are public, and the compliance procedures are formalized in the official documents on Control and Monitoring Plan Guidelines. Non-Conformities with the label criteria are defined and classified according to their severity with detailed action plans on their correction, including the duration and the consequences if they are not resolved or repeated on the structural basis. Also compliance monitoring is done on two levels: obligatory monitoring carried out by the portfolio managing company via internal controls and alerts, and by monitoring audits performed by the certification bodies. This will be discussed in detail while analyzing another dimension on the Governance of the label.

For other labels there is no information available in the official sources on requirements for the applicant to report on the major non-compliances with the label criteria during the label validity, the guidelines on resolving the non-compliance (definition of non-compliances, possible solutions and specified time period given to solve them) and whether it might possibly result in license being revoked.

In conclusion, we would like to point at the importance of transparency aspects for the credibility of self-regulating labels which was created on a voluntary basis. Strong transparency leads to strong governance and they both reinforce each other.

Figure 3.1. Overview of the governance criteria of the labels

Label	LuxFlag Climate Finance label (Luxembourg)	LuxFlag ESG label (Luxembourg)	ISR label (France)	Greenfin Label (formerly EETC label) (France)	Umweltzeichen label (Austria)	FNG label (Germany, Austria, Switzerland)	Swan Ecolabel (Nordic countries)	Towards Sustainability (Belgium)	EU Ecolabel (Technical report as of Dec. 2019) (EU)
Transparency of the applicant towards retail investors: formalized SRI policy publicly available	Yes, Climate Finance objectives must be formalized	The Applicant Investment Fund must publish its full portfolio at least once per year and be transparent towards investors	Investment policy containing all ESG objectives and criteria should be clearly described in the commercial documents intended for investors as well as ESG assessment method.	Yes, the environment objectives and criteria as well as methodology must be clearly described in the documents given to investors	Basic details on sustainable investment product in SRI or ESG policies formalized . Selection criteria, research process, evaluation and implementation according EUROSIF Transparency Code	Yes, explicit SRI policy is obligatory as well as recent FNG sustainability profile of the applicant and a fully completed and publicly available Eurosif Transparency Code declaration, approved by one of the national SIFs.	Partially, as a brief part of the sustainability report which is mandatory. No clear indication if the separate SRI policy of the fund should be published. Is required to be documented while applying for the label.	SRI or ESG policies must to be formalized, ESG as a part of investment objective in the legal documents	Applicant should have a documented policy with information on the type of exclusions, specific threshold applied, the main principles on the selection process of the eligible companies etc.
Transparency of the applicant towards retail investors: disclosure of	Yes, portfolio composition with categories and sub-categories of green	the full portfolio must be published once per year	The fund publishes the complete inventory of the portfolio for greater	The fund shall provide and publish a full and up to date inventory	Yes, the complete portfolio composition available on the website on the	Yes, according to the guidelines of the EUROSIF transparency code. For extra	The fund manager must report on all holdings (direct and indirect) in the labelled	No such requirement in criteria document but as a link to applicant	Annual disclosure on the percentage of the total portfolio value in terms of

the portfolio composition	investments must be documented and publicly available. Frequency is not clear		transparency, in a legible and accessible manner for retail investors, at least annually and makes it available on its website on the page.		monthly basis with detailed review on top 5 holdings	points sustainability information on holdings at least quarterly in publicly available fund documents	fund on the fund's website at least once every quarter.	website, which can be found on Sustainability ID on the webpage of the label itself	AuM invested in green activities, green bonds and other categories.
Transparency of the applicant towards retail investors: formalized voting and engagement policy/ reporting publicly available	Not required or no information in the criteria document	Not required or no information in the criteria document	Yes, voting and engagement policy must be formalized and published at the official website of the applicant. There is also a set of requirements on the content of those policies.	Not required or no information in the criteria document	Yes, have to be documented and be included in the annual report at least in the aggregated way	Optional requirement for receiving extra points in the grading system for Dialogue Strategy (25% of the total score)	The fund manager has a clearly written voting policy or public statement that promotes ESG-related issues. For disclosing the names of the engaged companies and voting records – extra points	Yes, engagement/voting policy should be formalized. No requirement for reporting on results/achievements on the implementation of the policy	A manager should have a documented engagement policy which includes key environmental issues to engage with companies, methods and for selecting these companies, voting resolutions as well as reporting on the achievement of specific outcomes.
Transparency of the applicant	Yes, reporting of the climate impact with	No ESG performance report required	Yes, ESG management strategy and	Yes, an applicant must report on at	an adequate CSR report—not mandatory	Not as a minimum requirement,	Yes, at least annually. Will be rewarded	No, this is optional but not mandatory	Yes, annually: for equity, bond and mixed

towards retail investors: Mandatory Sustainability Performance Reporting: ESG/ CSR /Performance /Impact Report	results achieved and indicators, annually		ESG compliance report	least one indicator of impact that benefit energy and ecological transition defined by the label. This annual report is encouraged to be verified by an independent third party for at least one indicator. The coverage of additional indicators related to the fund's activity, is also encouraged.	but optional for extra bonus points	for applicants who want to achieve a higher grading must substantially report on the sustainability performance of the fund.	with extra points for expanded sustainability report with more details		funds on the fund manager's website describing the environmental, social and engagement aspects as well as the activities and environmental performance of the financial product . For the sovereign bond, a climate or environmental risk rating for each sovereign issuer for which bonds are held must be reported annually. For the deposit accounts an itemised list of projects and green economic activities for which loans have been approved, including their value.
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Enhanced Applicant Transparency: additional aspects	no	no	Transparency on derivatives used and internal ESG compliance tools.	Transparency on the use of derivatives towards the label: Technical document on the use of derivative instruments must be submitted	According to EUROSIF transparency code. For investment funds: TOP 5 issuers which identified as particularly sustainable and reasons behind it. For green bonds: qualitative and/or quantitative indicators (e.g. production of renewable energy, saved CO2 emissions) Sustainable accounts: description of at least 5 selected projects.	According to EUROSIF transparency code. Communication on CO2 data, -1.5°C/2°C compatibility, ESG portfolio rating versus benchmark or SDG contribution including sub-targets, special KPI's or other impact measurements	Enhanced transparency – additional points for reporting: detailed engagement; voting records; sustainability impact in absolute terms (e.g. CO2 reduced, renewable GWh produced, clean water; more details on 10 holdings: description of ESG risks and opportunities	no	On social and governance aspects where possible
Transparency-Label: Guidelines on Criteria are	Not completely, some criteria are not clear and sufficiently	No, the criteria is vague & subjective, misinterpretatio	Yes to a majority of the requirements General criteria	Yes to a majority of the requirements. Every general	Yes, very clear. Most of the aspects are covered and to	Yes, most of the aspects are covered and to a sufficient	Yes , very clear with some extra clarification in the background	Depends on the criterion: exclusions are very clearly	The label creation is still in process but the second

Clear and Published	developed, misinterpretations possible	ns are possible	guidelines are further elaborated with sub-requirements. Inspection points, documents that need to be provided are defined. Criteria are more focused on implementation process rather than on defining sustainability.	criterion is supported with a set of requirements that need to be fulfilled to meet every criterion. Some minor aspects are not covered	a sufficient extent.	extent.	documents	developed, the positive criteria are vague and underdeveloped	draft is very transparent on the criteria
Transparency-Label: Explicit Guidelines on the Labelling Process and Procedures (Verification, Audit) Are Published	Minimum amount of available information on the certification process and procedures	Minimum amount of available information on the certification process and procedures	Yes, inspection method, procedure for concluding whether a requirement or criterion has been met are clearly indicated for the auditor in the public documents. Transparency on accreditation process	Yes, detailed description of checks to be carried out during the certification and renewal audits. All available in the public documents. Transparency on accreditation process	Yes, there are detailed assessment guidelines for the audit control body	Yes, in the new version Rules of Procedure 2020 are clearly documented	Very clear: each criterion is supported with what documents or internal policies and procedures have to be submitted to demonstrate the compliance to the criterion	The processes and procedures are not clearly and sufficiently enough defined or documented in the publicly available sources	The label creation is still in process but the second draft is very transparent on the general verifying process and assessment at that stage
Accessibility of official	The amount of information is	The amount of information is	Yes all relevant information	Yes, all documents are	Is available in PDF format on	The procedure and criteria are	Is available on the official	General information on	Information on the label

information on the label: all relevant documents including Q&A or background documents, information on governance, fees, the list of labelled funds are published. Information is available not only in the local language	insufficient. What is available on the webpage is very brief but presented in several languages.	insufficient. What is available on the webpage is too general but presented in several languages.	available in PDF format in French and the most relevant in English. No information on fees.	available in PDF format in French and most in English on the accredited auditor website or as the link or in PDF on the French ministry website. No information on fees.	the official webpage in English as well as a part of extra information on the webpage. The most extended information is available in German. Not much of governance information in English	available in English in separate PDF file. The main webpage is still only in German, so all extended information with details on the label are available only in German. The FNG-Label logo is available in both German and English. The language of both oral and written proceedings shall be German, if necessary English	webpage in PDF format in English on various aspects	the label governance, the requirements of the QS and information on the rewarded funds is available on the fund page in 3 languages. Information on the processes is less sufficient, no information on fees	creation, details on negotiations and proposals on criteria and rationale on the proposed criteria text can be found on the official webpage of the Technical Committee (Product Bureau). Because the label is still in development, there is not yet official webpage and some elements still need to be determined.
3rd Party Verification of Sustainability, Impact or other Reports	no	no	no	The reported impact measurements are encouraged to be supported by independent third party organization.	no	fully completed and publicly available Eurosif Transparency Code declaration, approved by one of the national SIFs.	Yes, points are given if written not at a fund level and produced specifically for the labelled fund. Not mandatory	no	

Label Transparency on criteria development process. Justification of the label requirements and areas without requirement	no	no	no	no	no	Not on the initial criteria development process but few justification on the revised or new label requirements (in English)	Yes, all that covered in the background document available on the website	no	yes
Contradictive sources of external ESG information. Conflicting outcomes	no	no	no	no	no	no	Clear instructions in case of different outcomes depending on the ESG source	No, sometimes even contradictive outcomes. Label criterion compliance depending on the selected method	Not (yet) covered
Transparency on Major Non-Compliances after the label has been rewarded	Yes, the labelled fund has to submit a statement letter at mid-year on adhering to the label criteria. Also the fund must report any significant event to Lux-FLAG that might affect its eligibility	no	Yes, according to formalized Control and Monitoring Plan Guidelines document. At least 2 intermediary follow up audits before the renewal of the label. Additional audits can be scheduled in	Yes, according to formalized Control and Monitoring Plan Guidelines document. There are at least 2 monitoring audits during the validity of the license where new non-compliances are	No specific information	Formalized procedure on non-compliances following the award of the label integrated in the official criteria document. The consequent communication follows the change (downgrade of	On-going process: internal/external monitoring and reporting of major non-conformities to Nordic Ecolabelling. If the non-compliance stock is not sold within 3 month, a labelled fund	no	The consumer information should be updated regularly and therefore be based on regular monitoring of the portfolio. If there are relevant changes in the investment policy, methodology or

			case of non-conformity or changes in the investment policy	documented and the initial ones are followed-up. Correction plan is suggested. Supplementary monitoring audits can also be performed in case if needed.		the label or withdrawn of it). In case of any changes, the labelled fund has to notify and submit information so the label can check if the compliance was compromised.	has to publish information on the official web page with their justification and correction plan to resolve this issue maximum within 24 months.		investment portfolio, the label holder should without delay communicate and publish the updated information and/or the updated report.
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Chapter 4. Governance of SRI labels

This dimension assesses the different aspects of governance with a primary focus on the system of check and balances. Several bodies can be involved in the entire process: the management organization of the label, the committee taking the final decision on awarding the label, and the compliance assessment body or verifier. Is there any separation and on what level? Do they operate independently? Are there any procedures on handling complaints or a mechanism to submit disputes? Furthermore this dimension examines whether the label has an open and consensus based standard design, which parties were involved in the development of the criteria guidelines, and finally, what is the frequency of reassessment of label criteria.

4.1. Founder

There are four public labels which have been created on the initiative or on behalf of a national government or by a group of government agencies (the French *ISR* label, the French *Greenfin* label, the Austrian *Umweltzeichen* label and the Nordic *Swan* label). The French labels are created and supported by the French government: the *ISR* label is founded by the French Finance Ministry and the *Greenfin* label by the French Ministry for Ecology, Sustainable Development and Energy. The two other public labels are created on behalf of a national Ministry and being managed by specialized environmental labeling organizations which awards eco labels for different product groups including investment products. The Austrian *Umweltzeichen* label has been founded by Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology and the Nordic *Swan* was founded on the initiative of Nordic Council of Ministers.

The founder of the *LuxFlag* labels – is a non-profit independent association created by a group of seven public and private founding partners, a financial industry initiative with government support. The German-speaking *FNG* label was founded and is owned by *FNG* (*Forum Nachhaltige Geldanlagen* – the Sustainable Investment Forum of German-speaking countries) – a group of companies & organizations from Berlin. The Belgian *Towards Sustainability* label was founded by Febelfin (the Belgian Financial Sector Federation). The process of creation of the future *EU Eco-Label* is initiated by The European Commission on Environment.

4.2. The development of the criteria guidelines

For most European SRI labels in this study the development of the label criteria follows a consensus based design, where a special working group has been assigned for drafting a suitable

methodology, reflecting the interests of various stakeholders involved during the creation of the label. Sometimes the founder of the label is also responsible for the development of the methodology with some external help, like the German-speaking *FNG* label, which guidelines were drafted with the assistance of the University of Hamburg. The Nordic *Swan* criteria guidelines were developed by the management organization of the label: experts of the Nordic Ecolabeling organization in cooperation with businesses and relevant stakeholders with knowledge and academics.

Also the management organization of both French labels – the Label Committee has developed the labels guidelines and procedures on behalf of the public authorities. The Label Committee also takes decision on the criteria revisions for both French labels. For the Austrian *Umweltzeichen* label the criteria were drafted by Austrian Consumer Association. The Central Labelling Agency (CLA) is a not-for-profit association (with representatives from the financial industry as well as from NGOs and academia) and is responsible for the management of the Belgian *Towards Sustainability* label, which includes the development and revision of the criteria, the reward of the label and general day-to-day activities.

The *Luxflag* Labels are managed by the Finance Labelling Agency – an independent and international non-profit association created in Luxembourg in July 2006 by seven public and private founding partners. All stages of the labelling, starting from the application review and verification of the illegibility criteria to the decision whether the label is awarded, are taken within this organization. There is no information available on the official website of the *Luxflag* labels on who developed the labels criteria or who approves the changes in the criteria.

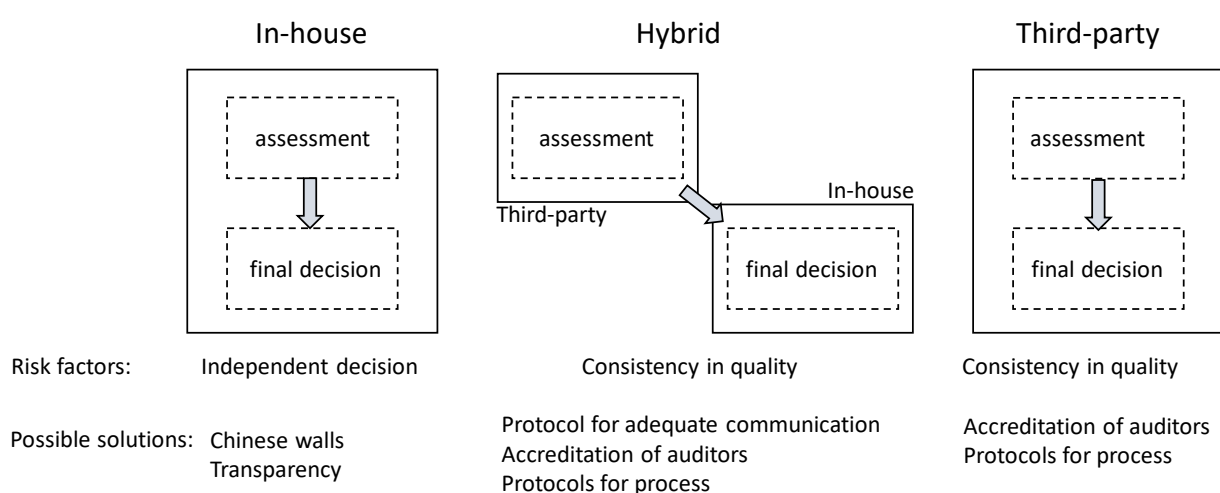
4.3. Quality of decision making process

In this criterion we examine the two-step process of the applicant assessment followed by the decision making on the label award. One can distinguish three models: both stages in-house, both stages performed by a third party, and a hybrid model with the assessment outsourced and the final decision-taking in-house. An important feature of good governance is whether there is a certain separation of “powers” within the organizational structure of any legal body (independence) and efficient risk management to secure the quality of the decision-taking process (consistency).

The decision making process can therefore be organized either in different internal bodies responsible for different stages of the labelling process within the same organization or when the whole labelling process or one of its functions is outsourced to an external organization under certain conditions. For outsourcing the labelling process, there are certain

systems of check and balances applied by different labels with different levels of independency covered in this study. Some models employ a higher level of separation of the applicant assessment function from the management of the label, like both the French labels and the Austrian label. The auditor or the control body, accredited to perform the assessment of the compliance to the label's criteria, is an independent organization, externally sourced and empowered to solely take decision of whether the applicant is eligible for receiving the label.

Figure 4.1. Organization of the decision-making process



Another model implies only the separation of the auditing part in the decision taking structure of the label: the verifier is externally sourced and is independent, but the final decision whether the label is rewarded to an applicant or not, is taken by the labelling entity itself. This is the case for the *FNG* label and the *Towards Sustainability* label, although the decision of the labelling entity is based on the recommendation of the auditor (or verifier).

There is also a third model, where the labelling organization controls the whole process: the assessment part of the application, as well as the decision to reward the label, is taken within the same entity, but by different internal entities. In this model none of the stages of the labelling process are outsourced to an independent organization and the whole labelling process occurs in-house (such as the *Luxflag* labels and the *Nordic Swan* label). *Luxflag*, for example, has an in-house Eligibility Committee, composed of industry experts, academics and analysts, which verifies and analyzes an internal report on the applicant. The Eligibility Committee proposes a recommendation to the Board of Directors, who takes a final decision on awarding the label, based on that recommendation. On one hand, there is less separation in this model, on another hand this also gives some kind of guarantee to the applicant and to retail investors that all stages

of the labelling process happen and are controlled within the same organization and are carried out according to their own principles and standards. In combination with a high transparency, stringency and strong governance of other elements, this model can also guarantee an efficient and consistent labelling process.

So the authority of the externally sourced auditor can go as far as taking an expert decision as whether the assessed applicant is compliant and receives a label, or is limited to just verifying the compliance to the label criteria. In the latter case the decision whether to grant a label or not is taken by the labelling organization itself, based on the recommendation of the verifier. In the former case the auditor is truly independent and is governed by a set of audit procedures or documented protocols that they have to follow to assess the compliance of the applicant to the label criteria and decide whether a label can be awarded.

4.4. Open and consensus based design

As we already mentioned, the development of the label criteria guidelines for voluntary labels is an open process with various stakeholders involved. Usually the criteria are drafted by a technical group which consists of various industry experts and academics. Next, the initial drafts are open for public consultations and comments on the draft, which then are further taken into consideration. The result – the final design of the label, is based on the consensus among various stakeholders like businesses, NGOs, and consumer organizations. For example, the whole process of the criteria development of the Nordic *Swan* label is documented and the relevant information, including the ongoing revisions, can be found on their website. Also during the development of the future *EU Eco*-label, continuous consultation is foreseen with experts and stakeholders of manufacturers, supply chain industry, consumer organizations and NGOs. There is a special working group created with responsible units and Directorats of the European Commission.

4.5. Frequency of reassessment of the label

This is usually defined either in the criteria documents (in a general information part) or in the governance documents of the label (if applicable). Most of the labels formulate it as “as needed” or “as necessary”. How often it happens in reality depends on how well the criteria were formulated in the initial document and whether further clarifications or interpretations are necessary to fine-tune the definitions or the current criteria are expanded to increase the scope of the label. Sometimes there are also revisions on the labelling process itself and on some criteria because the label evolves over time and some requirements typically become stricter. Most of the

labels have already reassessed their standards at least once and published the revised versions on their websites.

Most of the changes are similar across all labels as expansion of their eligibility criteria, to be able to certify more applicants or to cover other types of financial products which were initially not included, and the tightening of certain exclusion thresholds for unsustainable activities. As to the procedures documents, there is a larger part of the labelling process that becomes transparent and more information can be found available from the side of the labelling organization. Transparency requirements of the label towards their applicants also become tighter: in the last revisions of many labels you clearly see the general trend of the increased demand for the higher level of disclosure of various sustainability aspects and indicators. The introduction of minimum standards of some labels on sustainability disclosure and reporting follow the legal requirements. Those labels which already had them in the optional requirements or were only encouraged now formalize them as mandatory criteria.

Some labels provide extra information as to how the reassessment of the standards takes place. For example, in case of both French labels, the accredited auditors send an annual report to the labelling organization and may propose changes of the standards depending on their practical implementation and findings. These proposed changes are discussed, if the Label Committee considers them necessary and then decisions are taken by the Committee, whether to implement them or not in the next revision. A similar mechanism works for other labels which use externally sourced verifiers or auditors. The youngest Belgian *Towards Sustainability* label has initiated its first revision cycle: on the official website of the label you can find an announcement of the review process which 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.

In case of the Nordic *Swan* label, for example, the frequency is defined as every three to four years or sooner as needed to initiate revisions of the label. As in case of other labels with strong governance and transparency, the revision or update of requirements includes an open public consultation prior to publishing of the reassessed standards.

4.6. Mechanism to submit public disputes

Is there an internal mechanism available for processing complaints? The complaints in this criterion imply both the appeals from the applicants who do not agree with the outcome of the verifying process, and from the retail investors who consider that the factual information on the labelled applicant does not comply with the label's criteria.

The former part is to a very limited extent covered by a few labels. The French *ISR* label defines a procedure on changing of the certifying body after a certification rejection in their Audit and Monitoring plan document. The other French *Greenfin* label defines their rules applicable to disputes in regard to different interpretations of the label rules by the accredited auditor and the applicant fund. These dispute rules are published in their Control and Monitoring Plan Guidelines on the government website of the Ministry of Environment, Energy and the Sea. The Nordic *Swan* label has developed a formalized procedure for appeals and complaints, which is directed and aimed for the applicant funds. As to other labels, this information is not available on the official website.

The latter part of the complaint aspect concerns the complaints of the retail investors who purchased an investment product labelled “sustainable” by one of the labels and found themselves deceived because the labelled product does not comply with the proclaimed label criteria. This aspect is not covered by any of the labels studied in this research. It is obvious that this is underdeveloped area that might at some moment arise more prominently as more queries emerge from the retail investors purchasing the labelled investment product.

4.7. Formalized procedures for major non-compliances resulting in label withdrawal

This criterion has already been discussed in the transparency dimension. In this section it is being assessed as part of the governance system of the SRI label. There are only few labels which cover and include a formalized procedure on suspension or withdrawal of the label. The majority of the labels stay either very general about it or it is poorly developed at least in the official documents or information available on their websites. The most elaborated here are the two French labels where non-compliance procedures are clearly documented with all possible outcomes including the withdrawn of the license.

The FNG label also describes in their Rules of Procedure the possible outcomes including the possibility of the license being withdrawn or downgraded, in case those non-conformities are detected but not resolved by the labelled fund. There is also some general information on procedure to be found in the regulations document for Nordic Ecolabelling Organization, but this is a unified document for all product types that they certify. In the criteria document developed specifically for the financial products, it is indicated that the license may be revoked if it is evident that the fund does not meet the requirements or if the fund cannot fully document that it does so. As we have already mentioned, there is also a detailed guideline on handling unplanned non-conformities resulting from the change of the ESG or controversy rating of the portfolio holding and which may lead to the *Nordic Ecolabelling* requirements no

longer being fulfilled. According to that procedure the fund manager must respond to the non-conformities within a strict time limit and the holdings must fulfil the label criteria within 24 months.

For other labels in this study there is either no information available in the official sources on requirement for the applicant to report on the major non-compliances with the label criteria during the label validity or this information is not sufficient for the clear guidelines on resolving the non-compliance (definition of non-compliances, possible solutions and specified time period given to solve them) and whether it might possibly result in license being revoked.

4.8. The application duration

There are different approaches to the certification process, thus different application durations. Some labels have a one-time submission per full application cycle, so that means that there is official call for applications followed by a deadline for all submissions (which happens one specific time during the calendar year). So there is just one full application cycle and the whole batch of applicants receives their label once per year with the same validity date (like the *FNG* label, for example). For some labels this is a continuous process when applicants can apply at *any* moment of the year without any pre-defined deadline for submissions (like the *Luxflag* labels). In that case the applicant does not have to wait for the beginning of the nearest application cycle and can just submit their application, and *Luxflag* accepts and reviews applications on the first-come, first-served basis. There is also another approach, when a fund doesn't have to wait for the whole year to apply because the label has several application cycles per year like the Belgian *Towards Sustainability* label, which arranges it on a quarterly basis.

In general the duration of the application (submission and verification process) lasts from 2 to 8 months depending on the label and its submission process. So, it can be as short as approximately two months for the *Luxflag* labels and as long as 8 months (depending on the factual submission date) for the *FNG* label. For most of the labels this is on average 3 to 6 months. This duration length depends a lot on the type of label (if it is with a grading system or just with a minimum standard) and if there is a compulsory on-site visit prior to the label award. Grading systems which allow more diversification need more verification time to cover the individual approach. Also if an on-site audit is mandatory, it also adds up extra time for the check-up. On the one hand one can argue that the duration of the application can also reflect the simplicity of the label requirements or its elaboration which requires more time for inspection. On the other hand, duration can also reflect the efficiency of the organization of labelling processes.

4.9. Follow-up after the label has been awarded

So far most labels issue their licenses for either one year validity (*Luxflag, Towards Sustainability, FNG, Greenfin*), three years (French *ISR*) or it is not limited by a fixed amount of time, but rather by the moment when the label criteria have changed (Austrian *Umweltzeichen* and Nordic *Swan*). In the latter group the labelled fund has to resubmit in case of new revisions or changes in the labeling criteria. The Nordic *Swan* label license, for example, is valid provided that the criteria are fulfilled and until the criteria expire. The terms of validity of the criteria may be extended or adjusted, in which case the license will be extended automatically and the licensee will be informed.

So in view of the above, the monitoring or follow-up of the labelled funds depends on the specifics of validity of the license. For some funds whose license is limited in time and is valid only for a year, monitoring happens mostly during the re-submission for the next term (*Luxflag, Towards Sustainability*). Among the one-year labels, *FNG* and *Greenfin* go a bit further and also monitor their labelled funds in between the certification cycles. *FNG* reserves the possibility to perform the verifying checks of already labelled fund at *any* moment during validity of the license. The auditor reserves the right to verify at any time that labelled funds still comply with the *FNG* label criteria. If any aspects of the labelled funds change, applicants are asked to submit information in order to check whether their compliance with the *FNG* label criteria has been compromised. The *Greenfin* label requires an intermediate check of the labelled fund prior to the next re-submission of the fund before the license expires.

The French *ISR* label has a license valid for three years with two additional interim audits at 12 and 24 months before the following application cycle. So the follow-up of the labelled applicants happens on an annual basis for *ISR*-labelled funds. Supplementary follow-up audits can also be performed if needed (mostly in case of relevant changes in the applicant or to check that a minor non-conformity that needs to be verified has been corrected).

The labelled funds with a license which is valid until criteria of the label are revised or the investment strategy of the labelled fund considerably alters, have to be checked or followed-up every time these changes take place (Austrian *Umweltzeichen* and Nordic *Swan*). The Austrian label in general indicates 4 years as the license validity, if there are no revisions following prior to it. The Nordic *Swan* label continuously monitors their labelled funds via a requirement to report on the portfolio composition every quarter on their website and by means of an annual compliance check, mandatory to maintain the validity of the license.

4.10. On-site audit

This is the important part of the labeling process for some labels. Here again there are different approaches to on-site audit depending on the label: it can be mandatory for every applicant or is optionally carried out if the competent body decides on its necessity on a case-by-case basis. Also there is a difference in terms when this on-site visit is performed: prior to awarding the label to assess whether the applicant is eligible or after the label was awarded to check the compliance with the label criteria during the validity of the license, or a combination of both.

In connection with the handling of the application, the Nordic Ecolabelling Organization normally performs initial on-site audits to ensure adherence to the requirements. Nordic Ecolabelling may also decide to check whether a fund fulfils the Nordic Swan Ecolabel requirements during the license period. This may involve a site visit in a form of a follow-up inspection of the labelled fund. Also both the French labels *ISR* and *Greenfin* labels require the initial audit (prior reward of the label) as well as an intermediate (follow-up) audit and renewal audit for monitoring the labelled funds. The Belgian *Towards Sustainability* label also mentions the on-site audit in their unofficial criteria guidelines but it is not specified if this an initial audit to handle the application of the new applicant fund or this is a monitoring audit for the renewal applicants. Overall, the presence of on-site audits of the label adds up to the credibility of the verifying or compliance process and delivers extra points for the labels which additionally perform this next to the desk work.

Figure 4.2. Overview of transparency criteria per label

Label	LuxFlag Climate Finance label (Luxembourg)	LuxFlag ESG label (Luxembourg)	ISR label (France)	Greenfin Label (formerly EETC label) (France)	Umweltzeichen label (Austria)	FNG label (Germany, Austria, Switzerland)	Swan Ecolabel (Nordic countries)	Towards Sustainability (Belgium)	EU Ecolabel (Technical report as of Dec. 2019) (EU)
Founder	A non-profit independent association created by group of seven public and private founding partners	A non-profit independent association created by group of seven public and private founding partners	French Finance Ministry	French Ministry for the Ecology, Sustainable Development and Energy	Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology - BMK	Owner FNG (Sustainable Investment Forum of German-speaking countries). A group of companies & organizations from Berlin	Nordic Council of Ministers	Febelfin (Belgian Financial Sector Federation)	The European Commission (Environment)
Body, responsible for development of criteria guidelines and revisions, Management*	Criteria are based on the Common Principles for Climate Change Mitigation and Adaptation Finance Tracking. No information on the process or body responsible for	No sufficient information on the selection of criteria, process of criteria development, or on the responsible body	The Label Committee on behalf of the public authorities	The Label Committee on behalf of the public authorities	Austrian Consumer Association (VKI)	The FNG Label Committee comprised of various stakeholders with interdisciplinary expertise	By experts of the Nordic Ecolabeling in cooperation with businesses and relevant stakeholders with knowledge and academics	CLA (Central labelling Agency). Board of Directors of CLA has the responsibility to supervise the CLA, update the quality standard and award the label	EU Ecolabelling Board. For the Financial product group Unit B5 - Circular Economy and Industrial Leadership, as well as Unit B1 - Finance & Economy of the

	the process.								Joint Research Centre (JRC) Directorate B - Growth and Innovation for the Directorate General for the Environment in collaboration with the Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) of the European Commission
Verifying Process is externally carried-out by a third-party	No, first the Lux-Flag Team and Management review the application and make an internal report. Then Eligibility Committee, which is a part of the labelling organization, verifies and	No, first the Lux-Flag Team and Management review the application and make an internal report. Then Eligibility Committee, which is a part of the labelling organization, verifies and	Yes, to 3 certification bodies (auditors) accredited by the Ministry: EY France, Novethic and Afnor	Yes, to 3 certification bodies (auditors) accredited by COFRAC (a semi-public body that ensures the quality of labelling organisations)	qualified control body from a list of control agencies, which is maintained and made available by the Austrian Consumer Association	Yes, is audited by the University of Hamburg	Not, it is a part of the labelling organization	Yes, is a partnership of 3 independent bodies (NGO and academics)	For other product groups yes – by competent body. Probably is going to be the similar scheme for the financial products

	analyzes it.	analyzes it.							
Independence of the decision taking committee (either from the verifier or from the labelling organization)	Yes to a certain extent, but within the same organization. Final decision on label award is taken by Board of Directors based on recommendation of the Eligibility Committee	Yes to a certain extent, but within the same organization. Final decision on label award is taken by Board of Directors based on recommendation of the Eligibility Committee	Yes, 3 completely independent certification bodies entitled to deliver the label are independent from the Label Committee	Yes, 3 completely independent certification bodies entitled to deliver the label are independent from the Label Committee	Yes, the decision on rewarding the label and application assessment is taken by the independent auditor (the qualified control body)	Yes, QNG takes a final decision based on the audit report completed by Hamburg University and assessment by FNG Label Committee	Not entirely, verification of the applications and awarding of the label takes place within Labelling Organization on the country level	Yes, the final decision is taken by a Board of Directors of CLA (Central Labelling Agency) based on a recommendation of the independent verifier and Eligibility Commission which is comprised of representatives from both financial and non-financial sectors	No information yet because the label is still in the development
Open and Consensus Based Standard Design	No information available	No information available	yes	Yes, a working group bringing together the representatives of all the stakeholders to draw the criteria and inspection drafts as well as a monitoring plan.	Yes, the guidelines and criteria are developed by a technical Committee made up of different stakeholders	three-year development process involving key stakeholders	Cooperation with relevant stakeholders, open public consultations for comments, which then are taken into consideration. The process is documented.	Yes, in consultation with a diverse group of financial and civil society stakeholders	Yes, during the EU Ecolabel development, continuous consultation is foreseen with experts and stakeholders of manufacturers, supply chain industry, consumer

									organizations and NGOs
Third Party Involved in Assessment*	No, In-House Eligibility Committee	No, In-House Eligibility Committee	Yes, Afnor, Novethic & EY France	Yes, Afnor, Novethic & EY France	Yes, authorised auditors	Yes, University of Hamburg	No, Country Level Labelling Office	Yes by Ethibel Forum, University of Antwerp and ICHEC Brussels Management School	Not yet official information, for other groups is an independent verifier for the assessment of the compliance
Application Duration*	No more than 2 months	No more than 2 months	No concrete information	Initial audit, follow-up at 6 months	No concrete information	4-8 months, only one application period yearly	2-6 months including inspection visit	Up to 6 months. Full awarding cycle consists of 3 months of application + 3 months of verification phases	No data yet, label development is still in process
Follow-up of non-conformities and compliance monitoring of the labelled funds during the validity of the license	Mid-year statement-letter of the labelled fund on adherence to the label criteria. Annual resubmission	Mid-year statement-letter of the labelled fund on adherence to the label criteria. Annual resubmission	Annual - Two Intermediary follow-up audits at 12 and 24 months before the renewal, or extra follow-up audits when the fund is significantly altered and there are minor non-conformities. Recertified	Annual monitoring audits before the renewal audit. (According to Control and Monitoring Plan Guidelines)	Annual update compliance check	Continuous: can verify at any time compliance of the labelled fund to the criteria. Also in case of any changes, the labelled fund has to notify and submit information to check if the compliance was	Ongoing inspections and random checks for companies holding a license for an Ecolabel. All companies are inspected by the Nordic Ecolabel at least once within the period for which their license is valid.	No official information	Annual but random checks are possible.

			every 3 years			compromised. Applicant has to keep label informed on any relevant changes during the validity period	Annual mandatory check from Nordic Swan. Licensee must have a system in place to guarantee the compliance and perform an internal audit to check the compliance every 12 months and send this report to Nordic Ecolabelling		
On-site Audit	no	no	Several audits: initial, follow-up and renewal audits	Yes, initial audit and intermediate checks	Not clear	No, verification is based on provided documentation and recorded telephone calls	Yes, Inspection visits by the Nordic Ecolabel of the applicant before a company is granted a licence. Also a site visit can happen during a license period as a follow-up inspection	Yes	Competent Body may carry out an on-site visit. Is decided based on necessity on a case-by-case basis.
Formalized procedures in case of major non-	No procedure on label withdrawal. The applicant	No procedure on label withdrawal. The applicant	Yes, formalized procedure with additional specific follow-	Yes, procedures are formalized in the Control and Monitoring	No Information	Yes, The applicant has one month to restore	There is a set of rules in case of breaching the criteria after the	No procedure described on the website. A short	The applicant should have management and internal control

compliances which might result in suspension or withdrawn of the label	should only have a divestment procedure in case of breaching of their own sustainability objectives	should only have a divestment procedure in case of breaching of their own ESG objective	up audit	Plan Guidelines. Depends on the classification of the non-compliances		compliance with the label criteria after non-conformity is detected by the QNG or University of Hamburg. If not resolved, the license is withdrawn or downgraded	label is rewarded or non-conformities found during the verification process: sell the holdings or implement formalized correction plan.	information in the unofficial technical Q&A	procedures to identify and correct any non-compliance with EU Ecolabel criteria
Frequency of Re-Assessment of Standards*	Might happen but no information on the changes or clarifications and developments	Prefer fixed criteria, but will update as needed	The accredited auditors send an annual report to the label holder and may propose changes of the standards	as often as the Label Committee considers necessary	Every 4 year or when needed	As needed	Every 3-4 years or sooner as needed. Revision of criteria includes an open public consultation	As needed, first review scheduled for 2021, then the next one in 2023.	As needed, the label evolves with the time
Mechanism to Submit Public Disputes	No	No	Partially for applicants: procedure on changing of the certifying body after a certification	Partially for applicants: rules applicable to disputes in regard to different interpretations of the label criteria by the accredited auditor and the applicant fund	No	Not clear, there are some recommendations of FNG Committee with regard to dealing with complaints	Partially for applicants: formalized procedure for appeals and complaints, which is directed and aimed for the applicant funds	No	No information yet

* Not included in the scoring in chapters 7 and 8.

Chapter 5. Stringency of the SRI label

This aspect looks at how strict or selective the label is in defining the eligible investment universe of the applicant and how broad (and/or deep) it is in the negative and positive screenings of the companies or countries. It also considers the variety of SRI strategies applied during the portfolio creation and whether they are compulsory according to the criteria of the label. The ESG integration strategy is not covered specifically in this research because it is so far a standard part of all SRI labels in this study. Consequently, there is no separate criterion on ESG integration as a separate sustainability strategy to compare among labels and no scores are given to assess it.

In many comparative studies of the European SRI labels the stringency aspect is the most commonly covered aspect, because it is straightforward to analyze the different types of SRI strategies and to compare the exclusionary thresholds. This study also compares the different SRI labels on how far or deep they go in their elimination process of the non-compliant or not-sustainable investments or in their positive selection requirements.

5.1. Negative selection or exclusions strategy

The common feature of all ESG Labels and some Green Labels in this study is the mandatory exclusionary screening of the starting investment universe. This negative screening applies to different kinds of issuers – to corporate issuers (companies), and to sovereign issuers (governments, quasi-government agencies or countries in general). Next to it, both issuers – companies and countries—can also be screened according to their behavior or business practices and excluded on the basis of their involvement in various controversies. Some labels make a distinction between these two forms of negative screening, others combine it under one general group “Exclusions strategy”. Some labels require the full negative screening of companies on both aspects but only require one aspect for the country screening (e.g. only controversy screening without ESG selection of the countries). What is certainly common for all labels in this study is that all labels require exclusions as a mandatory sustainability strategy.

5.1.1. Exclusions for companies

Most labels define the exclusionary screening in terms of what sectors or what kind of issuers should be excluded from the sustainable portfolio, as well as to what extent (setting an exclusionary threshold by a certain percentage of revenues/ reserves of the excluded activity or a threshold on the portfolio level). The only exceptions here are the French *ISR* label and *Luxflag*:

The methodology of *ISR* does not define a list of excluded business activities and corresponding thresholds, the fund managers are expected to develop their own exclusions and/or controversy criteria that correspond to their sustainability objectives. The *ISR* auditor has to check whether the ESG assessment methodology of the fund in fact results in the selection of ESG-compliant assets. So the focus of *ISR* label lays more on assuring the existence and implementation of the exclusionary policy of the fund rather than on defining specifically what a fund should exclude. In case of the *Luxflag ESG* and *Climate Finance* labels they do define avoided sectors or business activities, but do not specify the threshold which should be applied to determine whether a company or a country should be excluded or not. The absence of concrete thresholds results in possible misinterpretations of the criteria and lowers the transparency of the verifying and labelling processes.

5.1.2. Exclusions based on sector

We first discuss the most typical exclusions among the European sustainable labels of the environmental and social issues. We would like to point out that these sectoral exclusions can also be applied for ESG country assessment of public issuers as well (states, governments, government agencies, municipals, etc.). We will discuss in detail about country screening in chapter 5.1.4., after describing in detail controversial sectors such as energy industry and we will look at different approaches taken by the different labels. Finally, we mention also other sectoral exclusions which are additional or not so broadly applied by the majority of the labels in this study.

5.1.2.1. Most typical exclusions (environmental and social)

The most typical exclusions applied by most of the labels are generally accepted unsustainable business activities which without doubt have a negative effect: controversial weapons (usually hard exclusions with zero tolerance), conventional weapons (depending on the label from 5% to 10%), tobacco (from 5 to 10%), thermal coal (from 5% to 30%) and unconventional oil and gas companies (from 5% to 30%).⁸ Labels vary on the strictness of their approach: the strictest threshold of 5% is mostly required by the following labels: the French *Greenfin* label, the Austrian *Umweltzeichen* label, the *FNG* label and the Nordic *Swan* label. The Belgian *Towards Sustainability* label employs thresholds for thermal coal, unconventional oil and gas, and tobacco revenues which are supposed to become stricter over time: now they are set at the level of 10% and they should tighten to 5% in 2022 and 0% in 2025. The exclusion threshold for conventional

⁸ The percentages typically refer to the amount of revenues, income, turnover, or the reserves (in case of energy).

weapons remains unchanged at the level of 10% as defined by the Belgian *Towards Sustainability* label. The *Luxflag ESG* label does exclude ammunitions and weapons (without differentiation on controversial or conventional nature) as well as tobacco without defining the precise revenue threshold. It leaves the decision of sustainability and compliance of the exclusion policy to the review of their Eligibility Committee of the label. The thermal coal mining and unconventional oil and gas production are not explicitly mentioned in the exclusionary guidelines of the label, unless they can potentially be captured under the general category of “harmful environmental practices”, but again without pre-defined threshold. The other *Luxflag* label *Climate Finance* does exclude thermal coal, oil exploration with a corresponding threshold of 30%, and also mentions oil sands, but without specific threshold. Weapons and tobacco are not mentioned in the context of this green label, probably because they do not correspond for inclusion by the green taxonomy of the label. They are neither mentioned as non-green activities that should be excluded from diversification part.

5.1.2.2. Different approaches on exclusion of the energy sector

Other commonly imposed exclusions are typically referred to the energy sector such as oil and gas extraction (meaning the conventional methods of extraction), electricity generating utilities and nuclear power. There are different opinions on sustainability or on the controversial nature of conventional oil and gas or nuclear sources (power) which is also reflected in the approaches of the different labels. It is also logical that green labels take a more strict approach to investments in these sectors. The two green labels in this study exclude conventional oil and gas from sustainable portfolios, but again, with different revenue thresholds: the *Luxflag Climate Finance* label sets its threshold at the level of 30% of a firm’s revenues and only applicable for oil, but not for natural gas. The French *Greenfin* label is stricter and imposes a 5% revenue threshold on the whole fossil fuel sector, oil and gas included. The future *EU Eco*-label seems to adopt the similar position – a 5% revenue threshold on both oil and gas extraction.

Furthermore, it is interesting to note that some labels favor a continuous transition towards lower carbon models and view natural gas as a transitional energy source which has lower carbon intensity than coal or oil sources. In line with this view natural gas extraction is either not excluded at all or just limited to a certain extend. For example, the *FNG* label does not impose exclusions on the conventional oil and gas sector as well as on oil- and gas-based power generation because the label considers gas as a transitional source. In view of the lack of reliable data to systematically differentiate between oil and gas sources as many energy firms mostly report just one revenue figure, the label decides for now not to exclude conventional oil and gas

at all. The Belgian *Towards Sustainability* label takes a similar position on transitioning rather than excluding, but still limits investments in the oil and gas sector by the “positive” threshold of minimum 40% revenues that should come from natural gas sources as opposed to oil sources.

The same situation is with the electricity generating companies which are ultimately one of the highest emitting greenhouse gases sector: most labels exclude coal-powered generation, oil and nuclear sources, and limit to a certain extent the natural gas as alternative power source, because gas is considered more transitional in comparison to coal and oil. Nuclear sources are excluded or limited not because of their climate risk, but because of the other environmental problems that they impose.

The *Luxflag Climate Finance* label excludes new constructions of electric and thermal-powered plants and applies a 30% partial exclusion threshold for existing mining and power companies on their income derived from thermal coal. The two strictest labels in connection to climate risk are the French *Greenfin* label and the Nordic *Swan* label which exclude electricity generation from all fossil fuel sources (coal, oil and gas) and nuclear sources at a level of 5% threshold. The Nordic *Swan* label also has some exemption from this general rule for transitioning companies that fulfil their inclusion criteria. The future *EU eco*-label may adapt the same approach as the *Greenfin* label. The *FNG* label imposes exclusions on coal based electricity production (has become tighter in 2020 from 30 to 25%) and nuclear sources (5%). There are no exclusions on oil- and gas-based power generation, because it is not always feasible to differentiate these two sources due to missing data, as it was already mentioned above. Natural gas-based power production is seen as a transition technology and should therefore not be excluded.

The Belgian *Towards Sustainability* label takes a different position and uses two different thresholds to determine eligible electricity utilities to be included in a sustainable portfolio. The preferred metric is not a revenue-measured threshold, but a carbon intensity metric which corresponds to the two degree scenario of the Paris Agreement, and becomes tighter every year. Due to insufficient carbon intensity disclosure information it is not always possible to rely on this metric, so the energy mix can be used as alternative when carbon intensity data is not available for power generating companies. The energy mix thresholds are set at the level of 10% for coal sources, 30% for oil and gas and 30% for nuclear sources. Depending on which metric is used by the labelled fund, nuclear sources are restricted or not. So in case the energy mix is applied, electricity utilities with more than 30% based on nuclear sources would be excluded; if a carbon intensity metric is chosen by the fund, then there are no restrictions on nuclear energy

and even 100% nuclear-powered electricity provider is eligible to be included in the sustainable portfolio of the fund.

Nuclear plants, uranium extraction and the entire nuclear sector are also excluded by all labels with the threshold of 5% with the exception of the *Luxflag ESG* label (no threshold is specified), the *Luxflag Climate Finance* label (only excludes new projects and construction of new nuclear plants) and the Belgian *Towards Sustainability* label. The latter does not explicitly exclude the nuclear sector as it is, only indirectly via excluding electricity utility companies with more than 30% of their energy mix based on nuclear sources, and this only in case the energy mix threshold is used by the fund and not the carbon intensity metric.

5.1.2.3. Exemptions in exclusions on energy sector

An extra criterion was used in our study to highlight the ESG-labels with temporarily allowance of a certain amount of fossil fuel companies which normally fall under exclusions criteria of the label nevertheless to be included in sustainable portfolio. This conditional allowance of the energy companies meeting pre-defined inclusion criteria of the label is a sort of exemption from the general exclusion rules. These companies refer to conventional extraction oil and gas companies and power-generating utilities and substitute so called sustainable “transition” portfolio. Both the Nordic *Swan* label and the Belgian *Towards Sustainability* label favor decarbonization, but allow a limited amount of energy companies transitioning from their high-carbon fossil fuel model to low-carbon business model to be included in a sustainable portfolio. The Nordic Swan label allows that holdings that fulfil the exemption or inclusions criteria (75% investment for the last three years in renewables + 50% revenues coming from renewables, less than 0.1% in non-conventional oil and gas) can be included in sustainable portfolio. The criteria for transitioning companies which are not yet aligned with the Belgian *Towards Sustainability* main requirements but qualify for the phase-out are defined in relative terms: generally speaking the phase-out candidates should be within the best 50% of their peer group in transitioning their business models. The suggested best-in-class evaluation could consider indicators as the relative share of natural gas and renewables in the production mix, the absolute emissions, the emission intensity, or the amount of investments in renewables or in energy efficiency. The key parameter here is that the total share of these transitioning companies should not exceed 5% of the portfolio. This phase-out margin cannot include thermal coal extraction companies and from the beginning of 2021 cannot contain unconventional oil and gas companies, which were temporarily allowed to be included until the end of 2020.

The position of the Green Labels on transitioning companies in terms of a gradual shift to renewable energy is different because the green labels by definition are focused on green companies and their portfolio should be comprised primarily of green holdings. Different approaches of chosen taxonomy define the greenness of the portfolio at the company and at the portfolio level. Companies which do not meet the minimum green thresholds are regarded as companies from the “diversification” pocket. This pocket can be comprised of holdings from any sector unless it falls under the category of the excluded activity defined by the label. Because the fossil fuel sector is strictly regarded as unsustainable and is excluded, the transitioning exception cannot be made for those energy companies. The French *Greenfin* label and the future *EU Eco*-label define the so called “transition” category which is comprised of already green companies which are not pure players within the renewable sector, but have a certain amount of revenue coming from green activities (in comparison to some benchmark). Despite of the same name ‘transition’ is here defined as a positive dynamic in increasing share of their green revenues, rather than a transition of a fossil fuel company to a greener business model. This is because transition companies may not be represented by an energy company deriving more than 5% of their revenues from the exploration-production and exploitation of fossil fuels. So the idea of temporarily allowing these energy companies with activities above the exclusion threshold, even with a positive transition dynamics, is not supported (applied) by Green Labels.

5.1.2.4. Additional and optional exclusions

Tobacco is another typical sector being regarded as unsustainable and being pushed forward by some ESG Labels in this study. These labels take a similar approach and tackle certainly production and distribution of tobacco products and set their thresholds at a level of 5% (Nordic *Swan* label), or 10% (Belgian *Towards Sustainability* label). The *Luxflag ESG* label also excludes tobacco companies but the threshold is not defined. The future *EU Eco*-label has also plans to exclude tobacco from the sustainable portfolio of the labelled funds. The Austrian *Umweltzeichen* label as well as the *FNG* label and the green labels *Luxflag Climate Finance* and *Greenfin* do not exclude the tobacco companies from the diversification part of their portfolios

The other exclusions of various business sectors that are normally considered unethical or unsustainable are alcohol, gambling, pornography, fur, pesticides, and GMO. Most of them are not obligatory excluded by most labels in this study, with the exception of the *Luxflag ESG* label, which suggests these sectors are used for multiple exclusions strategy to screen the portfolio. The thresholds of the *Luxflag ESG* label are not specified and the assessment of sustainability is left to the expertise of the Eligibility and Labelling Committees of the label. The

only mandatory exclusion on GMO is imposed by the Austrian *Umweltzeichen* label (5%) and as optional for receiving extra points in the scoring system of the Nordic *Swan* label (5%). The GMO exclusion (5%) might also be implemented by the future *EU Eco*-label under condition if GMO product did not pass the risk assessment.

5.1.3. Exclusions based on business practices

Apart from sector-based exclusions, companies and states can be excluded based on their unsustainable business practices or behavior, which is usually defined as controversy screening. Under these types of exclusions performance or business practices of both companies and countries should be evaluated on their sustainability with respect to certain norms and principles, typically against violation of *UN Global Compact Principles*. In this case controversy screening refers to the exclusion of the issuers based on their involvement in major ESG controversies, different incidents because of their business behavior or methods that they apply. So the principal difference is that controversy refers to the individual behavior of a certain issuer, rather than belonging to the controversial sector (like tobacco, alcohol, etc.). Controversial company in this case can be considered performing within an unharmed business sector, but the way this company conducts its operations and the methods which it applies, can be considered and assessed controversial and not sustainable. Two ESG Labels require a mandatory screening of unsustainable business practices for both countries and companies to be done explicitly on the basis of *UN Global Compact Principles* (*FNG* label and the Belgian *Towards Sustainability* label). The portfolio manager should exclude all issuers violating these ten principles from their investment universe, and also regularly monitor their existing portfolio against these violations. The future *EU Eco*-label has plans to include countries and companies violating *UN Global Compact Principles* in their exclusion criteria as well. Most of the other labels do not explicitly link controversy screening just to *Ten UN Global Compact Principles*, but allow a broader interpretation of original UN principles or focus on just part of the *UN Global Compact Principles* like human rights and labor law (Austrian *Umweltzeichen* label) or harmful environmental practices (*Luxflag ESG* and *Climate Finance* label).

5.1.4. Country ESG screening

For those funds that invest in government debt or other securities issued by governments, public issuers or state-owned companies, most labels require the issuer (i.e., the country) to be evaluated on various ESG aspects. The assessment is done based on different approaches, varying from elaborated multiple-criteria screening to a minimum standard that the country has to meet to be

an eligible issuer according to the label. For example, the Belgian *Towards Sustainability* label sets minimum criteria for country screening based on exclusions of the countries violating basic principles of the *UN Global Compact*, and exclusions of countries which are subject to international sanctions. The first criterion refers to behavioral screening while the last one has to do more with politics focusing on governance aspect of ESG. Furthermore, the portfolio managers are encouraged to go beyond these minimum criteria and develop their own ESG methodology in regards to countries with an expanded assessment of social and environmental issues, but it stays rather a recommendation than a mandatory exclusion criterion.

There are no explicitly defined country screening criteria neither for the *Luxflag ESG* label, not for the *Luxflag Climate Finance* label. The same applies to both French labels, where the country or government criteria are not explicitly defined. The criteria on ESG aspects of the governments are poorly or not developed, so the grading of states based on their social (S), environmental (E) and political (G) characteristics is hardly required by most of the labels. In general, it is very obvious that most European SRI labels limit their country screening to behavioral exclusion or political aspects based on various sanctions lists. To sum up: the weak point of many European SRI labels is the over-focus on companies with a sophisticated elimination process for this type of issuer and poorly developed government screening with only a few general requirements for states as an issuer of securities.

Some labels attempt to compensate these weak country criteria with imposing, for example, a limit on the proportion of government bonds that can be included in a sustainable portfolio. Most of the labels in this study have portfolio restrictions on debt securities (excluding Green Bonds), varying from as strict as maximum 25% (the French *Greenfin* label, the *Luxflag Climate Finance* label), 50% (the Nordic *Swan* label) to 70% (the French *ISR* label). The future *EU Eco*-label will probably impose maximum 30% which can be invested in debt instruments other than green bonds. The Belgian *Towards Sustainability* label does not have any restrictions neither on bonds, nor on governments as issuers of debt securities, so 100% government debt fund is an eligible applicant to receive the *Towards Sustainability* Label.

Other labels that do not have restrictions on debt securities are the *FNG* label and the Austrian *Umweltzeichen* label (at least not in the publicly available criteria document in English). These funds, however, have a better elaborated country screening criteria which includes assessment of countries on various ESG aspects: political and social standards (level of democracy and political freedoms, states violating human rights, corruption levels, states with particularly high military budgets); environmental standards (countries which are not committed to climate change, states without objectives and measures aiming at the reduction of greenhouse

gases and at species protection, states with expansive policy concerning the further development of nuclear energy, etc.).

Exclusions are the mandatory part of all current SRI labels: the exclusionary screening is obligatory to meet the requirements of all labels presented in this study to be considered in line with sustainability criteria of SRI labels. To summarize all the above, exclusions traditionally are the major part of sustainability for financial products, and this feature remains a strong tool nowadays when current labels attempt to set a certain standard on what to consider “sustainable” or to regulate the market of sustainable product with introduction of the *EU Eco-label*.

5.2. Positive selection or best-in-class strategy

Best-in-class is another sustainability strategy applied by some investment funds during the portfolio construction. In contrast to exclusions as a mandatory sustainability strategy, most SRI labels do not use a mandatory best-in-class strategy to qualify fund as sustainable. Some ESG Labels require a certain level of selectivity in regard to portfolio construction as a mandatory criterion (e.g., the French *ISR* label, the Austrian *Umweltzeichen* label, the Nordic *Swan* label), but others leave it up to a fund to decide what positive sustainability strategies to choose or none.

Among the first group the definition of what are the “best performing companies” as well as the selectivity rate differs. For example, the French *ISR* label requires an average ESG rating for the portfolio to be significantly higher than the average ESG rating of the initial universe after eliminating the worst 20%. The Austrian *Umweltzeichen* label sets a minimum elimination threshold at the 50% level. This implies that any fund or financial product to be eligible to carry this label, should at least eliminate 50% of the starting universe based on ESG scores. The applicants with a higher selectivity rate are rewarded with extra points to receive a higher-graded label. The Nordic *Swan* label sets the minimum threshold of selectivity at a level of 50% reduction as “*more than 50% of the fund, measured by the value of the fund, must be invested in holdings with strong ESG practices as identified in the ESG analysis.*” The label does not explicitly define what “strong ESG practices” are and leaves it to the portfolio manager: the fund itself must clearly define criteria used for rating/assessment, and their chosen methodology and selection procedures should result in selection of investments with strong ESG practices. The bonus points in this system reward not a higher selectivity, but rather a broader one: if the fund can demonstrate that also all indirect investments are screened against best-in-class approach, extra points are received.

The *FNG* label does not include a positive screening in their minimum requirements, but funds with elaborated best-in-class assessment are rewarded with extra bonus points to qualify for a higher grade label. The elaborated positive screening with higher selectivity or higher ESG rates might result in extra 35% of the total score that can be granted.

Two ESG labels do not require a mandatory positive screening but it is left as an optional SRI strategy. The *Luxflag ESG* label requires all 100% portfolio to be screened either by using a best-in-class sustainability strategy, either using a multiple-exclusions strategy. The Belgian *Towards Sustainability* label allows a fund manager itself to choose a positive sustainability strategy (or none), under condition that a minimum number of three SRI strategies is met to qualify to carry the label. The mandatory strategies are exclusions and ESG integration with a free choice of a third strategy to compliment the two mandatory ones. In case best-in-class is chosen as an additional strategy, it is up to a portfolio manager to determine the selectivity rate. The label does not set a minimum selectivity threshold that needs to be met to consider this strategy as a valuable sustainable strategy.

5.3. Norm-Based Screening

In this chapter we would try to explain the differences in our understanding of three aspects which are very often confused and that causes a lot of misunderstanding in assessing the sustainability: norm-based screening, controversy screening and UN Global Compact Principles. Because sustainability as a concept is not strictly defined, a certain overlap of its various elements - sustainability strategies, is possible. Norm-based sustainability strategy in general implies the assessment of companies and countries against certain widely accepted international norms and conventions. In practice it is sometimes narrowed down and referred to as controversy screening, which in its turn very often comes down to assessment of different categories of issuers against the ten *UN Global Compact Principles*. These ten principles are derived from various international norms and conventions that cover violations of human rights, labor rights, environment and anti-corruption. As we already know from Exclusions Strategy (5.1.3.), the same norm (UN Global Compact Principles) is very often used in controversy screening to assess issuer's performance and business practices with respect to these norms and principles. In that case outcomes of norm-based screening and exclusionary screening based on business practices are often the same because both strategies use the same underlying principles - of UN Global Compact. As a result, sustainability assessment in case of the norm-based screening based on Global Compact and controversy screening is the same – exclusion or elimination of certain companies and countries with controversial behavior from sustainable universe. To sum up,

controversy screening can be a part of norm-based strategy when based on adherence to international norms or a part of exclusionary screening based on behavioral practices. To avoid confusions and double-counting of the sustainability strategies applied by an applicant to screen its portfolio, the clear definitions of these strategies and the place of controversy screening should be clarified in the criteria guidelines of the labels. It is certainly important for labels which require their applicants to use a certain number of sustainability strategies to be eligible for a label or disclose their sustainability profile according to a transparency code.

Norm-based screening is different from the exclusions strategy if exclusions are only limited to certain harmful or unethical sectors like weapons industry, tobacco production, thermal coal extraction, pornography, etc. If the exclusions strategy of the label is defined in such a way that it also contains the controversy screening, then there is an overlap with norm-based strategy. That is why the *UN Global Compact* violations can be often found within the Exclusions part of the label unless the label develops separately the Norm-Based Screening as of an independent sustainability strategy. In our comparative chart and methodology we would assess every element separately to be able to compare among the different approaches of the label. While assessing labels on the spectrum of sustainability strategies implied for possibility of comparison, we use the simplified definition: the exclusions of *UN Global Compact* violations as a part of the controversy screening, controversy screening is the part of Norm-Based Strategy when compared across the independent sustainable strategies.

In order to consider controversy screening as a part of Norm-Based Strategy, most ESG labels require a mandatory norm-based screening (often based on UN Global Principles violations) with the exception of the French *ISR* label (controversy criteria are not explicitly defined by the label, but can be elaborated by a fund manager as a part of the ESG integration process) and the *Luxflag ESG* label (controversy screening is not clearly defined covering only a few criteria from ILO conventions). All the other labels require mandatory controversy screening to be a clear part of the ESG integration process. Here the difference is in the level of implementation of this criterion: the Austrian *Umweltzeichen* label rewards with extra points for a thorough implementation and expanded multi-factored controversy screening. Both the *FNG* label and the Nordic *Swan* label require exclusion of companies having severe and structural violations from the investment universe on a regular basis. The Belgian *Towards Sustainability* label explicitly refers to ten Principles of the *UN Global Compact* as the basis for the norm-based screening. The portfolio manager should take appropriate action towards these companies depending on the severity of the violation and the structural character of the involvement. The range of investment decisions here ranges from engagement, marking company as a high risk and

putting it on a watch list or deciding to divest from it. The two Green Labels in this study, the French *Greenfin* label and the *Luxflag Climate Finance* label, do not explicitly have a requirement on controversy screening of the companies. The future *EU Eco*-label plans to include it in its requirements.

5.4. Engagement and voting

Active ownership for equity funds, through engagement and voting, is another sustainability strategy common for SRI labels. Most of the SRI labels in this study do not insist on an obligatory application but rather suggest it as an additional or voluntary strategy to receive extra points in grading system. The Belgian *Towards Sustainability* label does not consider it as a stand-alone independent strategy to be eligible for inclusion but it becomes obligatory in case of the applicant's exposure to the energy sector. In that case, the applicant should develop and formalize an engagement strategy that promotes the transition of energy sector companies towards a low-carbon model. The *Luxflag ESG* label also does not consider engagement and voting as a sufficient strategy if solely used and not combined with other ESG strategies. Regular votes and engagement on ESG issues are not obligatory by the Nordic *Swan* label, but are rewarded with extra point scores under certain conditions. Also the *FNG* label views engagement as an optional sustainability strategy to qualify for a higher star label. Both the French *ISR* label and the Austrian *Umweltzeichen* label require formalization of the engagement and voting policy. The *Umweltzeichen* label also requires that voting activities as well as engagement reports should be documented to receive bonus points. The future *EU Eco*-label is going to require a mandatory engagement on a regular basis with at least half of the companies that have less than 50% green activities (so called "transition pocket").

5.5. Thematic approach and impact funds

These two sustainability strategies are recognized ESG strategies and are inclusion or positive screening strategies. They allow selecting investment candidates according to a certain sustainable topic or desirable social or environment impact that one would like to achieve through investing in them. We discuss this criterion only for the ESG labels as the Green Labels such as the *Luxflag Climate Finance* label and the French *Greenfin* label by their nature are already highly thematic because of their environmental focus. In the assessment comparison of the labels in this study, all green labels receive the maximum point on that criterion.

There are two main groups within the ESG Labels present in this study: one group that takes the thematic and impact investments into account via reward of the applicants with extra

points in their grading systems and a second group that does not. Among the first group of ESG Labels (e.g. the Austrian *Umweltzeichen* label, the *FNG* label and the Nordic *Swan* label) these positive ESG strategies are not mandatory but optional and are rewarded with extra points. The defined criteria and fulfillment differ from one label to another, as well as the amount of extra points that a thematic or impact candidate receives. In general, this is a highly rewardable criterion in the grading system of all three labels that will enable this type of funds to distinguish itself on the sustainable products market. This criterion is also to a certain part mandatory for a part of financial products for the Austrian *Umweltzeichen* label due to its broad eligibility focus: because the (un)listed infrastructure, real estate funds as well as sustainable current and savings accounts can apply for the label, their compliance criteria are drafted in a way similar to a thematic/impact funds.

The Nordic *Swan* label has drafted their simplified taxonomy to determine what funds can be considered thematic funds. The focus lies here only on environmental themes, and depending on the minimum aggregated turnover through sustainable activities contributing to these themes, the applicant receives various bonus points. The higher share of environmental activities in the revenue of the company and the higher proportion of that company in the total portfolio, the higher bonus points are rewarded.

The second group of ESG-labels does not distinguish or highlight the thematic or impact investment funds. These are labels applying “pass-or-fail” approach without grading system and not requiring these positive strategies to be mandatory. As a result, these sustainability strategies are not obligatory and they cannot be additionally rewarded in this system because it has no grading. A certain minimum standard that such types of the SRI label define does not include them. Applying these strategies would be viewed as going beyond the minimum standard and is desirable and recommended but not reflected in the label itself. This, probably, explains the thin coverage on thematic and impact investments by the *Luxflag ESG* label, the French *ISR* label and the Belgian *Towards Sustainability* label.

In our assessment of this chapter, the stringency of the label criteria is determined in this study according to two dimensions: broadness of requirements and deepness of a specific criterion. Broadness or extension of the requirements corresponds to number of criteria in different aspects, for example exclusions covering more sectors and more business activities. The deepness or thoroughness of the label criteria is referred to a degree of involvement in supply chain (for example, not only extraction of the thermal coal is excluded but also the dedicated installation and exploration companies, dedicated transportation are taken into consideration. Also level of corresponding threshold (a lower threshold results in higher

elimination proportion) is considered when assessing different labels on their stringency. High importance is put on the positive screening and its selectivity: in general higher elimination of the starting universe results in smaller or more concentrated pool of selected candidates for investment. The system of positive selection which allows broader investable universe but still resulting in higher average ESG score of the portfolio is also considered as higher selectivity. All SRI labels are assessed and graded according to these principles.

Figure 5.1. Overview of the stringency criteria per label

Label	LuxFlag Climate Finance label (Luxembourg)	LuxFlag ESG label (Luxembourg)	ISR label (France)	Greenfin Label (formerly EETC label) (France)	Umweltzeichen label (Austria)	FNG label (Germany, Austria, Switzerland)	Swan Ecolabel (Nordic countries)	Towards Sustainability (Belgium)	EU Ecolabel (Technical report as of Dec. 2019) (EU)
Unconventional weapons	-	Yes, but no threshold specified	-	-	5%	0	0	0	-
Conventional weapons	-	Yes, but not threshold is specified	-	-	5%	5%	5%	10%	-
(Thermal) Coal Extraction	Thermal coal 30%	Not clearly indicated	-	5%	5%	5%	5%	10%	5%
Unconventional oil & gas Extraction	Oil sands 30%	Not clearly indicated	-	5%	5%	5% on oil sands and fracking	5%	10%	5%
Conventional oil & gas Extraction	30% for oil exploration	-	-	5%	5%	no	5%	Min 40% revenue from natural gas or maximum 60% revenues from oil	5%
Electricity generation	New constructions of electric and thermal-	-	-	From fossil fuel and nuclear sources – 5%	From coal, crude oil and nuclear sources	25% based on coal/5% nuclear	5%	IEA B2DS or energy mix Max 408	5% if based on the fossil fuel or nuclear

	powered plants; 30% for thermal coal power companies				5%			gCO2/kWh in 2020. Energy mix: 10% coal/30% oil and gas/30% nuclear	sources
Nuclear energy	New projects excluded	Yes, but no threshold is specified	-	5%	5%	5%	5%	30% if energy mix threshold is used. If carbon emission threshold is used, then no limitations	5%
Holdings in Transition to more renewables (exceptional allowance of the energy companies which are in the process of transition to a greener model)	Taxonomy used implies also transition but no qualification requirements for holdings or thresholds at portfolio level are indicated	-	-	No, holding in transition part is already a green holding which only increases its share of green activities. Not temporarily allowing the companies with excluded above the threshold activities in the portfolio even with a positive dynamics	-	-	Yes, holdings that fulfil the exemption criteria (75% investment for the last 3 years in renewables + 50% revenue, less than 0.1% in not- conventional oil and gas	Yes, 5% leeway of the portfolio for conventional oil/gas/electrici ty generation meeting certain qualification requirement	-
Tobacco	-	Yes, but no threshold is specified	-	-	-	-	5%	10%	yes

Gambling*	-	Yes, but no threshold is specified	-	-	-	-	-	No, optional	no
Alcohol*	-	Yes with the exception of beer and wine, but no threshold is specified	-	-	-	-	-	No, optional	no
Pornography*	-	Yes, but no threshold is specified	-	-	-	-	-	No, optional	yes
Restricted Hazardous chemicals*	-	-	-	-	-	-	-	No, optional	5%
Pesticides*	-	Yes, but no threshold is specified	-	-	-	-	-	No, optional	5%
UNGC violations	Not clear, is optional as part of ESG integration process	not explicitly mentioned, some parts as ILO' principles and generally harmful environmental practices	Not explicitly required. May be included in ESG assessment	-	Are included, but not mentioned explicitly. Controversy screening is not limited to UNGC and cover human rights and labor law, corruption, tax-fraud, harmful environmental	Yes, systematic and /or severe violations	Yes, defined as ILO's fundamental principles, human rights, severe environmental damage, gross corruption	Yes, systematic and severe violations. Portfolio manager decides what appropriate action to undertake depending on severity of violation	yes

					practices				
Carbon emission restrictions	Yes, Portfolio should be comprised of companies with activities reducing or limiting GHG emissions	Not explicitly mentioned	No, but must report on GHG emissions for first year	Portfolio should be compatible with +2°C Scenario or measure GHG emissions	Not, but measurement of the carbon footprint/risks of the portfolio published with the reduction targets for extra bonus points	Not mandatory, can receive extra points in the grading system for the higher label	Not mandatory, can receive extra points for transparency if report them	Only for investments in electricity generation	Most likely will be included in the final version
Deforestation or Severe Environmental Damages*	Yes	Yes	-	Implied, but not developed	yes	Not clear	yes	No explicit guidelines	5%
Animal Testing/ Animal Welfare*	-	No, only for endangered animals	-	-	yes	-	-	No explicit guidelines	no
Fur *	-	No, only for endangered animals	-	-		-	-	-	no
GMO	-	Yes, nut no threshold is specified	-	-	5%	-	<i>5% but not compulsory, voluntary for extra points</i>	No explicit guidelines	5% if didn't pass the risk assessment
Workplace discrimination *	Not clear	only on forced and child labour	-	-	yes	As a part of labor rights of ILO	Yes, part of ILO principles	As a part of UNGC violations	yes
Female Leadership*	-	Not clear	-	-	-	-	-	-	yes

Employee Safety*	Not clear	Not clear	-	-	yes	-	Yes as a part of ILO principles	Not clear	yes
Right to unionize*	Not clear	Not clear	-	-	yes	As a part of labor rights of ILO	Yes as a part of ILO principles	Not clear	yes
Government Bonds-UNGC or ILO violations	Not clear	Not clear	Not explicitly required. May be included in ESG rating	-	Partly, only on human rights and democracy	-	-	yes	yes
Government Bonds – Freedom House Countries	No, focus goes on green bonds and on use of proceeds rather than the issuer screening	-	-	-	States violating human rights and democracy	Excludes Not Free Countries	-	Not mandatory, manager is free to choose his exclusion criteria	no
Govt Bonds-Transparency International's Corruption Perceptions Index	-	-	-	-	-	Only top 60% of countries	Only top 70 best-ranked countries	Not mandatory, manager is free to choose his exclusion	Yes, if CPI score is lower than 38
Government Bonds – Sanctioned Countries	-	Not clear	-	-	-	-	Yes, EU or UN sanction list	Yes, EU or UN sanction list	Yes, if subject to EU or UN financial sanctions for special social violations
Government Bonds – Death Sentence	-	-	-	-	yes	-	-	-	-

Government Bonds – War*	-	-	-	-	No, but for the states with high military budget	-	-	-	-
Government Bonds – Nuclear Weapons	-	-	-	-	Not, only expansive policy on nuclear energy	Yes, if didn't ratify the Non-Proliferation of Nuclear Weapons	-	-	Yes, if didn't ratify the Non-Proliferation of Nuclear Weapons
Government Bonds – Environmental Protection	Not clear	Not clear	-	Implied, but not clearly defined	-	In general yes	In general yes	Not mandatory, manager is free to choose his exclusion	yes
Government Bonds – Paris Agreement	Not clear	Not clear	-	-	yes	yes	yes	Not mandatory, optional	yes
Government Bonds – Biodiversity	Not clear	-	-	Implied, but not clearly defined	yes	yes	Yes, not ratifying the UN Convention on Biological Diversity	-	yes
Government Bonds- Convention on International Trade of Endangered Species of Wild Fauna and Flora*	-	Not clear	-	-	-	-	-	-	yes

Negative/Exclusion Strategy criteria	Obligatory: the exclusion strategy must be applied by the applicant	obligatory even if the best-in-class is applied. In case exclusion is chosen as a main strategy to screen the portfolio, then only multiple exclusions are accepted	Is obligatory but is not defined by the label: fund managers are expected to develop their own exclusion and/or controversy criteria.	Obligatory strict (5%) and partial (33%) exclusions of specific sectors	Yes, at least 95 % of the turnover of the enterprise, 100% for green bonds and savings	Yes, obligatory exclusion criteria must be met. The exclusion criteria of the label should be also included in the public documents of the fund	Yes, obligatory exclusion criteria must be met	Yes, is mandatory to receive a label	yes
Positive/ Best In Class Strategy	-	Is not compulsory but optional	Yes, An average ESG rating for the portfolio must be significantly higher than the average ESG rating of the initial universe after eliminating the worst 20% of shares.	-	Yes, minimum 50% reduction of the starting universe; for higher-extra bonus points are rewarded	Is optional for extra points in grading system (for an elaborated positive screening with higher selectivity or ESG rate) extra 35% of the total score are granted.	Yes, More than 50% of the fund, measured by the value of the fund, must be invested in holdings with strong ESG practices. The label doesn't define what are strong ESG practices, this is left on a fund itself but they should score at least at a better half (top 50%).	Optional strategy/ criterion	Is an optional strategy
Active ownership for equity funds (Engagement + Voting	Not clear	solely used without other ESG strategies is not enough	Must formalize an ESG voting policy and adhere to it	-	Voting activities should be documented as well as engagement	Optional Sustainability strategy to qualify for a higher star	Regular votes and engagement on ESG issues are not obligatory	Is not regarded as a sufficient additional strategy, But obligatory in	Yes, it is mandatory to engage regularly with at least half of the

Strategy)					report for bonus points	label.	but rewarded with extra point scores under certain condition	case of the non-renewable energy and electricity utility sector	companies that have less than 50% green activities (so called “transition pocket”
Norm-based Strategy	Not clear, is optional as part of ESG integration process	Not clearly defined: a few criteria from ILO conventions	Criterion not explicitly defined	-	Yes, starting with minimum, who deeper implementation -who higher bonus points	Yes, systematic and/or severe violations of the UN GC principles	Yes, defined as ILO’s fundamental principles, human rights, severe environmental damage, gross corruption	Optional strategy/ criterion	Yes mandatory
Controversy screening requirement	Not clear, is optional as part of ESG integration process	Not clearly defined	Criterion not explicitly defined	-	Yes, starting with minimum threshold, who deeper implementation , who higher bonus points	Yes, systematic and/or severe violations of the UN GC principles	Yes, human rights, labor rights, environmental, protection, anti-corruption measures	Mandatory criterion as the part of exclusions strategy UNGC violations but not as a independent Norm-based strategy	Yes mandatory
Thematic/Impact Investments	Yes, because of the nature of a label itself is thematic with impact focus	Is not a mandatory sustainability strategy and is not rewarded because there is	Is not a mandatory sustainability strategy and is not rewarded because there is	Yes, because of the nature of a label itself is thematic with impact focus	Various criteria for eligibility are defined (topics and targets) as well as the degree of their fulfillment for a higher	Are not mandatory but highly rewarded with extra points in the grading system (up to 70% of the total score).	Thematic and impact funds with environmental focus receive extra points. Criteria for	Is not a mandatory sustainability strategy. Not developed in the inclusions	Yes, because of the nature of a label itself is thematic with impact focus

		no point system	no point system		label rating. These criteria are well developed due to infrastructure, real estate funds and sustainable current and savings accounts that are eligible for the label	For a selection of thematic or impact strategy – up to 35%; for publicly available targets and KPIs – 10% and if accompanies with corresponding engagement – 25%	inclusion are well-defined (a simplified taxonomy with a list of environmental topics and minimum revenue thresholds). Up to 4 extra points can be rewarded	criteria	
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* Not included in the scoring in chapters 7 and 8.

Chapter 6. Impact of the label

Impact of the label is measured in this study in terms of the number of labelled funds and the amount under management of these funds carrying a specific label. Information on launch date, application fee or annual fee, duration of the license is also presented here for more informative and illustrative purposes. These criteria will not be evaluated to determine their importance in the success of the label or its impact.

6.1. Date of establishment

If we look at the date of establishment for the labels under consideration we find that most European labels were launched between 2015 and 2017. Exceptions here are the pioneer of SRI investments, the Austrian *Umweltzeichen* label for financial products, established back in 2004. The most recent label is the Belgian *Towards Sustainability* label which was only established in 2019. The future *EU Eco*-label is still in development but its launch will probably happen in the near future.

6.2. Validity period of the license

The duration of the license or validity period depends on the concept of the label. Some labels issue it for a certain period of time and before expiry, the labelled funds are notified to prolong their membership and apply for re-certification. To meet the prolongation the labelled funds have to re-demonstrate their compliance. There is not much information in the publicly available sources about the recertification process (with the exception of both French labels), but it is possible that there is a simplified procedure for the re-certification of already labelled funds. The typical validity period of most SRI labels is one year (both *Luxflag* labels, the French *Greenfin* label, the *FNG* label and the Belgian *Towards Sustainability* label), while the French *ISR* is valid for the period of three years. The concept of the Austrian *Umweltzeichen* label and the Nordic *Swan* label implies that the license is valid until the next revision of the label criteria or if there are major changes in the sustainability policy and objectives of the fund itself. If these do not happen, then it is assumed that the license continues indefinitely. The Austrian *Umweltzeichen* label in general limits the license period to four years with label criteria revisions.

6.3. Label fees

The label fee is also charged differently depending on the concept of the label. The labels with limited validity of the license use the initial payment and the license fee usually includes auditing

cost and promotional costs. After the license expires, the licensed fund re-applies for the label prolongation and pays a renewal fee during the next application cycle. In the model of unlimited validity of the license (until the criteria of the label are revised), there is one-time single payment of the application fee, and then annual “subscription” fee is paid calculated on the basis of applicant’s assets under management figures. For example, the application fee of the Nordic *Swan* label is 3000 Euros and includes the auditing fee and the on-site visit. The renewal fee can vary from as little as 1.500€ per fund / license to as much as 10.000€ per license and 100,000 € per group company - at least 2,000 € per fund. A similar system is used by the Austrian *Umweltzeichen* label.

6.4. Operational regions

The operational regions we have discussed earlier in the Eligibility aspect of our comparative study of the European SRI labels (see Chapter 1). Once again, most labels operate in the country of their origin: a fund seeking a label must be registered for distribution in the country of the labelling organization. So a fund seeking an *FNG* label must be registered for distribution in Germany, Austria, Switzerland or Lichtenstein. A fund seeking the Belgian *Towards Sustainability* label should be commercialized in Belgium, for the Nordic *Swan* label a fund should be registered for distribution in one of more of the Nordic countries, etc. In most of the cases funds, operating on the territory of France, are applying for the French labels – *ISR* or *Greenfin*. The vast majority of the *Luxflag* labelled funds are also domiciled in Luxembourg, as well as the majority of Austrian *Umweltzeichen* funds are registered for distribution in Austria.

6.5. Number of labeled funds and AuM

The last dimension of our comparative study is the impact of the SRI label on the sustainable investments market. Success of any label we are going to measure with such indicators as the number of financial products carrying a specific label and the volume of labelled investments expressed in AuM. It is obvious that the ESG Labels are more “influential” and have a larger share of the sustainable investments market than Green Labels, and this is visible in both the number of labelled funds and the amounts of assets under management. Just the Belgian *Towards Sustainability* label itself, which is ESG-focused, has 12 times more euros invested than two green labels *Lux-FLAG Climate Finance* and *Greenfin* together. The absolute leaders are the multi-sector ESG labels like *Towards Sustainability*, the French *ISR* label and the *Lux-FLAG ESG* label as in assets under management and in the number of the labelled financial products that carry the label.

Figure 6.1. Overview of the impact criteria per label

Label	LuxFlag Climate Finance label (Luxembourg)	LuxFlag ESG label (Luxembourg)	ISR label (France)	Greenfin Label (formerly EETC label) (France)	Umweltzeichen label (Austria)	FNG label (Germany, Austria, Switzerland)	Swan Ecolabel (Nordic countries)	Towards Sustainability (Belgium)	EU Ecolabel (Technical report as of Dec. 2019) (EU)
Operational Regions*	must be authorized by a EU Member State	Primarily Europe; No region-based restrictions	France	France	Austria, Germany, France, Switzerland, Malta, Lux	Germany, Austria, Liechtenstein & Switzerland	Denmark, Finland, Iceland, Norway & Sweden	Primarily Belgium; No region-based restrictions	Registered, marketed or distributed in a Member State of the EU
Date Established*	September 2016	May 2014	January 2016	December 2015	2004	2015	June 2017	February 2019	Still in a process
Number of labelled Funds (Asset Managers)*	4	52	81	34	52	48	21	77	NA
Number of Labeled Products*	5	225	514	51	154	104	50	494	NA
Total Euros Invested	4 BN	125 BN	204 BN	15 BN	31.7 BN	33.8 BN	19.8 BN	230 BN	NA
Duration of the license (validity)	1 year	1 year	3 years	1 year	when criteria are revised (4 years normally or can be	1 calendar year	Need to re-submit not after a certain time period but	1 year	NA

period)*					earlier)		rather after criteria are revised		
Application Fee*	€3,000	€3,000 If successful	Not defined, depends on the accredited auditor	Not defined, depends on the accredited auditor	Depends on the annual sales generated in Austria with the products or services covered by the license agreement (between €160 to €640)	Processing fee €4200 or €3700 + VAT (it includes the auditing for EUROSIF transparency code and promotion costs)	€3,000 + VAT	Information upon request when apply for the label. Fee is charged per financial product	NA
Annual Fee*	none	none	No information on fees, depends on accredited auditor	No information on fees, depends on accredited auditor	Depends on the size of applicant: between €410 and €2560	none	0,0015% of the Fund's AUM	No information	NA

* Not included in the scoring in chapters 7 and 8.

Chapter 7. Comparative scores of labels

In the previous chapter we conducted a comparative study based on desk research of the texts of nine European SRI labels for certifying sustainable financial products. We analyzed the various labels across six dimensions, such as stringency, transparency and governance. Each dimension is discussed in detail in Chapters one to six. In our analysis we focus on the similarities and discrepancies among the various labels. Each chapter ends with a tabular overview of the different aspects per dimension. For instance, for the transparency dimension (see Table 3.1) we have 12 different aspects.

In this chapter we compare all labels across each dimension to gain deeper insights in the relative strong and weak dimensions of each label. We explicitly refrain from determining an overall “winner” among the various labels as this implies weighting the different dimensions. We opt for comparing labels per dimension and leave it up to the reader to determine what dimension he or she considers more important.

7.1. Methodology for scoring

In order to compare the labels per dimension we convert the summary tables at the end of each chapter into an overall score per dimension. For instance, we treat the 12 different aspects of the transparency dimension as 12 scoring items. Within each dimension only a certain number of criteria are selected for scoring and comparative analysis. The choice of criteria which are used for scoring is determined by their relevance (how important is their contribution to the assessment of the dimension) and whether the criterion can measure the dimension or it is only there for informative purpose. For example, in the governance dimension such criteria as application duration or frequency of re-assessment of standards or body responsible for the development of criteria guidelines and revisions are included purely for the information and illustrative purposes. These criteria are not included in the scoring of the governance dimension. The items in the summary tables that were only used for illustrative purposes and were not used to calculate the scores are indicated in the tables with an asterisk.

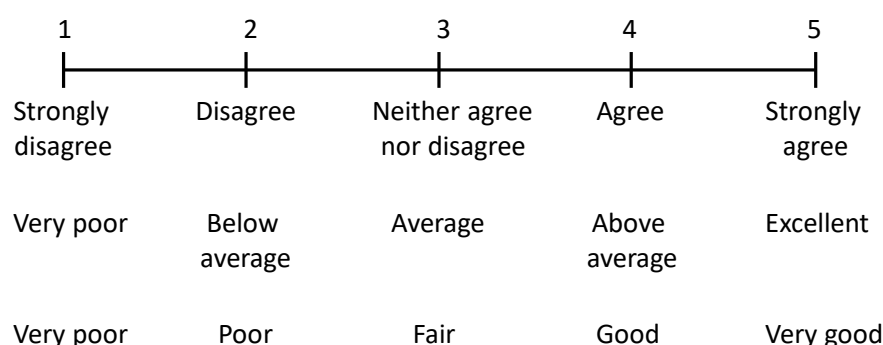
The criteria which are considered for the assessment of the governance dimension are, for example, whether the verifying committee is externally outsourced, whether the design of the label has open and consensus based standard with multiple stakeholders involved, whether the label has come mechanism in place to ensure the compliance monitoring during the validity of the license, whether there is onsite-audit organized by the label, whether there is a certain level of

independence during the decision making process, if there is a mechanism to submit public disputes, etc.

We use the well-known 5-point Likert scale to construct an ordinal ranking of each item. We grade each item that goes into our composite metric per dimension in terms of intensity. We therefore code each items on a five-point scale following categories such as “very poor”, “poor”, “fair”, “good”, and “very good” (See Figure 7.1).

Each label receives a score between 1 and 5 per items. To arrive at an overall score for this dimension, for each label all individual scores are summed. For instance, using 12 items each label receives a score out of a maximum of 60. Overall, we code 64 items across six dimensions for nine labels. Finally, we convert those scores to a 10-point scale for comparability across dimensions. In this chapter we discuss the scores of the various labels for each of the six dimensions.

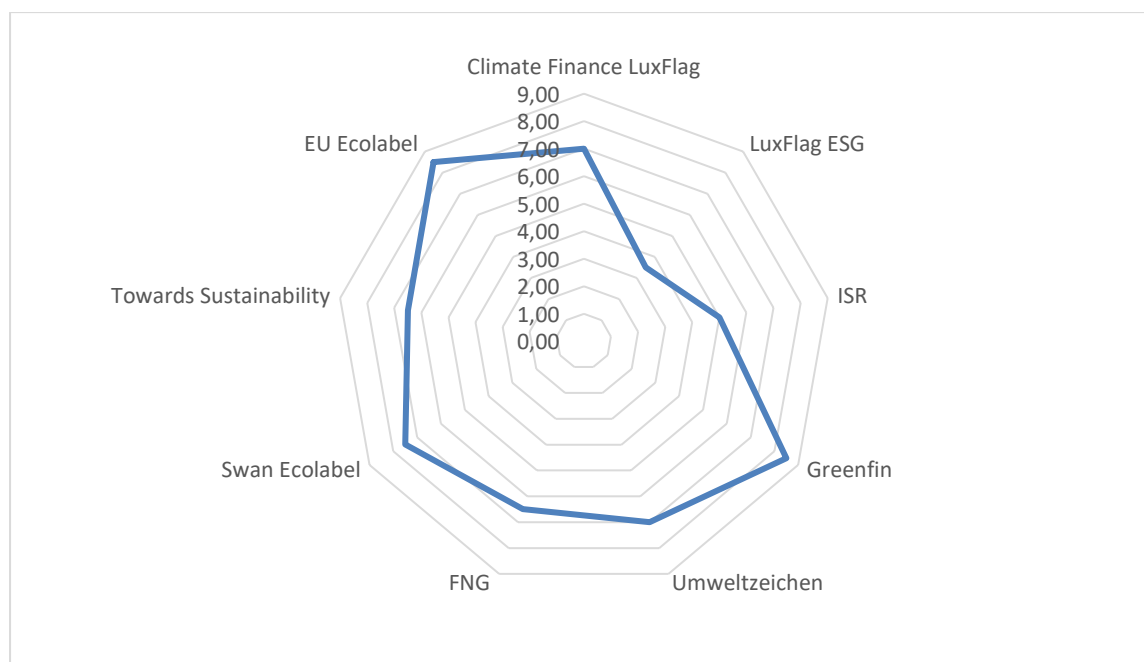
Figure 7.1. Examples of a five-point Likert scale in social science research



7.2. Eligibility criteria of the label

The highest scoring SRI labels on the first dimension are the French *Greenfin* label, the Nordic *Swan* label, and both the Austrian *Umweltzeichen* and the *Luxflag Climate Finance* label with the same amount of points. The labels were compared on their product scope (the ones with broader group definition scoring higher), the ESG analysis coverage and the environmental focus where available. Among the ESG-labels, the Austrian *Umweltzeichen* label has the broadest product scope including sustainable current accounts and saving products, non-securities in the infrastructural sector, real estate, and unit-linked life insurances. The Nordic *Swan* label is also an ESG-label with an environmental focus with a simplified taxonomy and rewarding of green portfolios. Both Green labels *Greenfin* and *Luxflag Climate Finance* also received high points for their thematic approach and the green focus of their applicants next to the consideration of certain ESG criteria. The comparative scores for all labels for this dimension are presented in Figure 7.2.

Figure 7.2. Overview of the eligibility scores



7.3. Structure and composition of the label

The leading labels according to the second dimension are the Nordic *Swan* label, the French *ISR* label sharing the same amount of points as the Belgian *Towards Sustainability* label, and the Austrian *Umweltzeichen* label. These labels cover various asset types and have clear requirements on various elements such as derivatives, green bonds, cash possessions, and Fund of Funds composition. Also the differentiated approach of certain labels with a grading system was rewarded with extra points, as well as mandatory requirements on a minimum ESG score for the applicants and the availability of a transitioning part of the portfolio for the companies in the energy sector. Figure 7.3 gives an overview of the comparative scores for all labels in our study for this dimension.

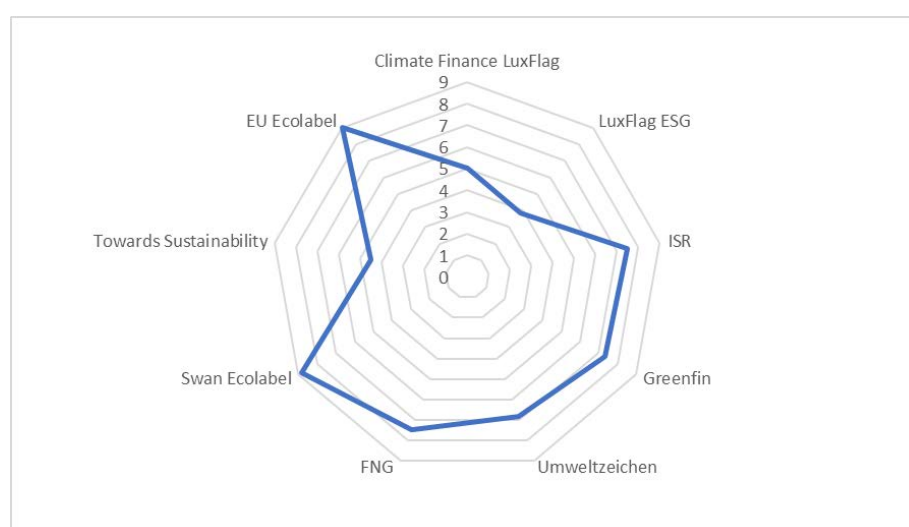
Figure 7.3. Overview of the structure & composition scores



7.4. Transparency of the label

The leading labels on this dimension are the Nordic *Swan* label, the French *ISR* label and the *FNG* label sharing equal amount of points, and the French *Greenfin* label. To remind, this dimension implies not only transparency requirements of the label towards the applicants, but also how transparent the label is itself on its criteria guidelines, labelling process, organizational structure as well as accessibility of the official information on the label, justification of the label requirements or areas without requirement, follow-up of the labelled funds, etc. The top performers demonstrated a high level of transparency on the above criteria and scored higher than the rest of the labels. The Nordic *Swan* label requires above the average disclosure of ESG-related information from its applicants and is the most transparent on the criteria development, follow-up of the non-compliances, and justification of the label requirements. The French *ISR* label and the *Greenfin* label score also high due to accessibility of various information related to the labels, documented audit process and non-compliances monitoring. The *FNG* label has requirements on the enhanced applicant transparency as well as on third party verification of the mandatory Eurosif Transparency Code declaration of the applicant which must be approved by one of the national SIFs. In case of criteria revisions, the label provides with rationalizations why specific changes were taken (or not undertaken) during the revision. A label-wide comparison can be found in Figure 7.4.

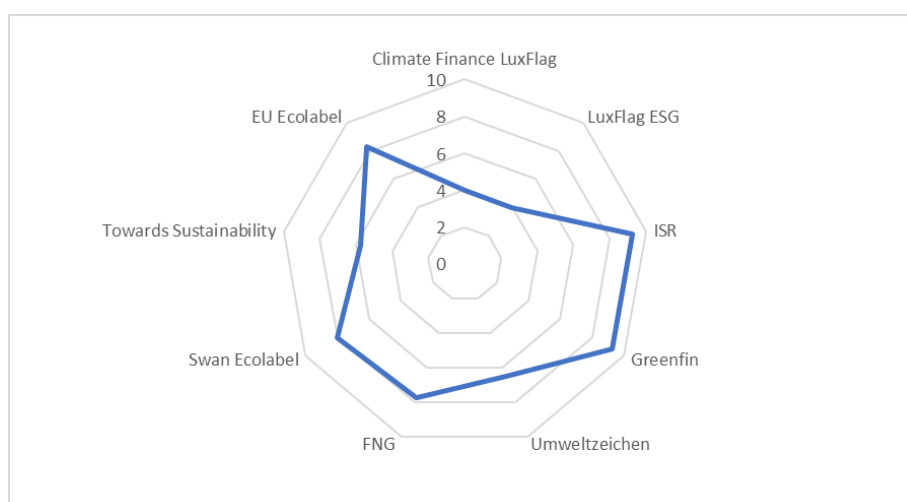
Figure 7.4. Overview of the transparency scores



7.5. Governance of the label

The highly-scoring SRI labels on this dimension are the French *ISR* label and the *Greenfin* label followed by the Nordic *Swan* label and the *FNG* label. High points are rewarded for labels demonstrating strong governance practices as open and consensus-based design where various stakeholders were involved, independence of the decision making on the label awarding, compliance monitoring of the labeled funds during the validity of the license, and availability of mechanism to submit public disputes, among others. The two public French labels demonstrate high levels of governance on those criteria. The whole process of the applicant assessment is outsourced to external audit companies which must be accredited by the government body responsible for that. These auditors are completely independent from the Ministry and can solely take a decision on whether to reward a label or not to the applicant based on their audit findings and label criteria. The Nordic *Swan* label, which is also a public label created by the Nordic Council of Ministers is managed by the country label labeling office, scores high on governance requirements as monitoring of the labelled funds, development of formalized procedures on withdrawal of the label, and conduct of on-site audit to check the applicant additionally. The *FNG* label is an NGO-initiated label which outsourced the auditing part of the labelling process to the University of Hamburg and has strong follow-up process of already labeled funds (See Figure 7.5. for further detailed scores).

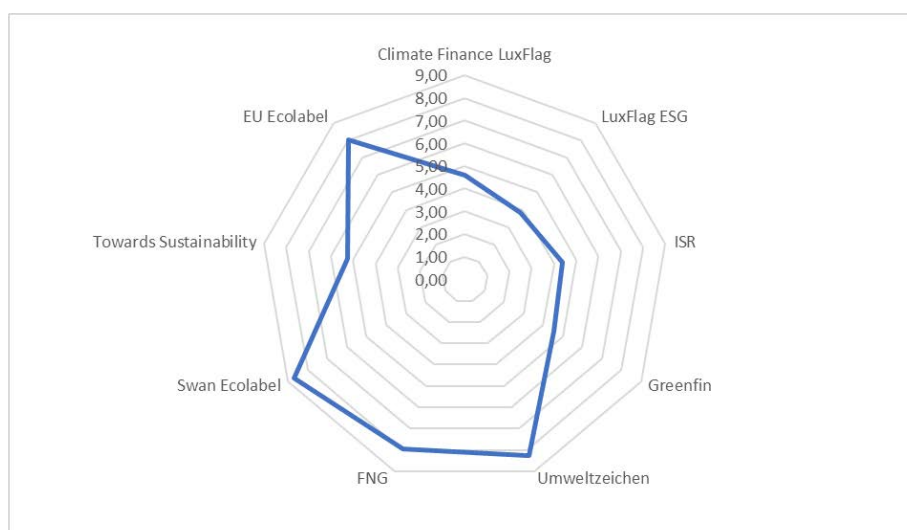
Figure 7.5. Overview of the governance scores



7.6. Stringency of the label

The highest scoring labels of this dimension are the Nordic *Swan* label, the Austrian *Umweltzeichen* label and the *FNG* label. To assess the stringency aspect the broadness and deepness of the exclusion requirements applied by the labels were considered as well as the importance of positive “inclusion” criteria demanded by the labels. The higher selectivity of the investable universe during negative and positive screening results in higher scores that labels receive in this comparative analysis. Figure 7.6 gives an overview of the various label on stringency. It is worth mentioning, that all three leaders on the stringency aspect are ESG-labels with a grading system. It allows them to differentiate on the various types of applicants or to reward superior ESG-performance. These labels give extra points for higher than minimum ESG performance of the applicant and encourage the applicants to go beyond the minimum standards.

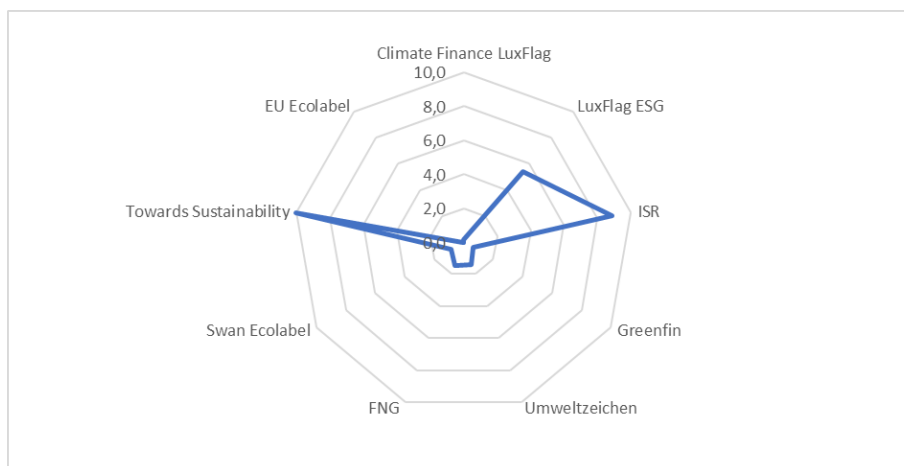
Figure 7.6. Overview of the stringency scores



7.7. Impact of the label

The top “impact SRI labels” are again the ESG-labels: the Belgian *Towards Sustainability* label, the French *ISR* label and *Luxflag ESG* label. The gap between those top winners and the rest is tremendous, indicating that broad cross-sectoral labels focused on minimum ESG standards have a much more market higher share of the sustainable finance market than ESG-labels with a grading system or thematic green labels. The leaders of the impact dimension are the labels scoring lower on the stringency dimension, and vice versa. All SRI labels are facing the same challenge: it is finding a compromise between setting your requirements high enough to increase the selectivity of the sustainable investment universe, but at the same time to ensure that these criteria are realistic enough to be achieved by the applicants to have a considerable impact. See Figure 7.7 for the impact scores of the different labels.

Figure 7.7. Overview of the impact scores



Chapter 8. Brief overview of the labels

While the previous chapters compared all SRI labels over the six dimensions used in this study, the current chapter gives a brief overview of the various labels included in our study. We briefly describe their main features and their scores on the six dimensions. It allows to analyze per label its relative strengths and weaknesses.

8.1. The ISR label

Type: ESG-focused public label

Country of origin: France

Date established: January 2016

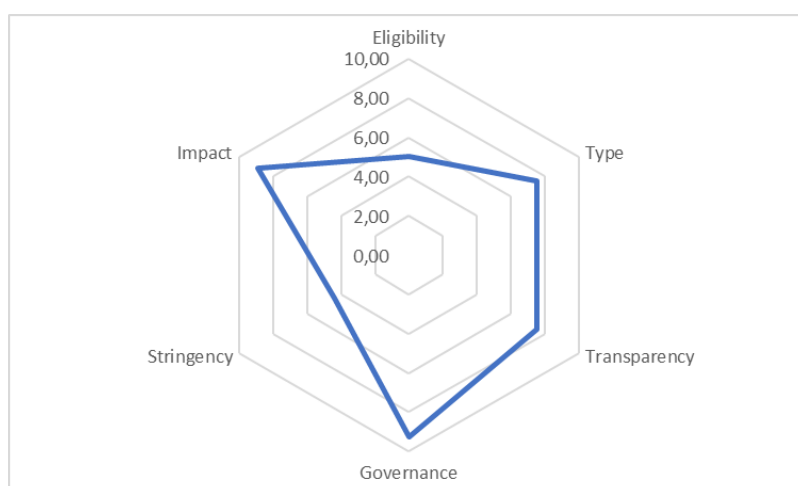
Main features: The *ISR* label is a public French label created on the initiative and support of the French Ministry of Finance. The labelling process is outsourced to three independent accredited auditors. It is a ESG-focused SRI label with a system of “pass-or-fail” without grading scale. The French *ISR* label does not serve as an indicator of what to consider sustainable as there are no exclusions that have to be met or specification of other requirements. This label is focused on the ESG process and ensures that the applicant in fact selects its investment candidates according to their own ESG policy. To be more clear: the label makes sure that the chosen ESG policy of the applicant results in the corresponding ESG portfolio. The portfolio manager is free to determine itself their ESG principles, to develop their own exclusion or/and inclusion policy, screen their portfolio against these ESG principles and be transparent about these principles and their processes.

The French *ISR* label scores very high on the following sustainability dimensions in this study: governance, transparency, structure and composition and finally the impact. The strong points are supported by unified label criteria applicable for different types of financial products, a very clear and transparent labelling process formalized in the audit documents available for the general public, the independence of the applicants’ assessment and issuance of the label from the labelling organization itself and a considerable share of the sustainable investments market.

“Weaker” elements of the label include the stringency because this SRI label does not attempt to define what is a sustainable investment in comparison to all other SRI labels. This is left up to a portfolio manager and the label only ensures that the chosen ESG principles of the financial product result in the sustainable portfolio corresponding to their own principles. In this

way, the *ISR* label only roughly encourages the shift to the sustainable investments not defining what sustainable is. For example, one will not find mandatory exclusions on weapons or tobacco, or the fossil fuel sector with a corresponding threshold imposed by the *ISR* label. Neither will the label define what are positive inclusion criteria favored by the label. The label requires negative screening without concertizing what exclusions must imply and to what extent. On the other hand, the label requires a mandatory 80% selectivity of the investable universe. So generally speaking, this ESG-label is more principle and processes-oriented rather than imposing what are considered sustainable investments. Figure 8.1 presents the score of the *ISR* label along the six dimensions of this study.

Figure 8.1. Overview of the scores for the *ISR* label



8.2. The Greenfin label

Type: Thematic green public label

Country of origin: France

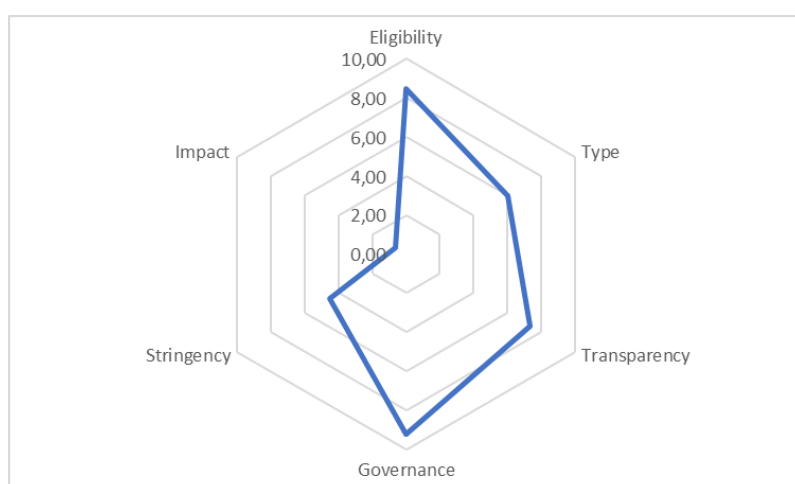
Date established: December 2015

Main features: The *Greenfin* label is the former *EETC* French green label. It has been created on the initiative of and is supported by the French Ministry for Climate, Action, Environment, Energy, Mobility, Innovation and Technology (BMK). The labelling process is outsourced to three independent accredited auditors. The taxonomy of the label is initially based on that of the *Climate Bond Initiative* (CBI).

The strong sustainability dimensions of *Greenfin* label according to our comparative label study are: governance, transparency and eligibility. This public label scores high on its transparency as in terms of transparency requirements towards the applicants as well as on its own transparency: due to outsourcing of the labelling process to the accredited auditors the criteria guidelines and audit documents are very clear and accessible to general public. The high scores on governance are determined by the high level of independence enjoyed by the accredited auditors which do not only assess the applicant, but also independently take a final decision on whether to award a label or not. There is a well-developed compliance monitoring of the rewarded funds and the whole labeling process is well documented.

On the “weaker” side is a limited scope of the label because it is rather a niche label for climate-oriented financial products. This also accounts for its rather low impact score in the market share of sustainable financial products. See Figure 8.2 for a complete overview of all scores for the *Greenfin* label.

Figure 8.2. Overview of the scores for the *Greenfin* label



8.3. The Swan label

Type: ESG-focused public label with simplified green taxonomy

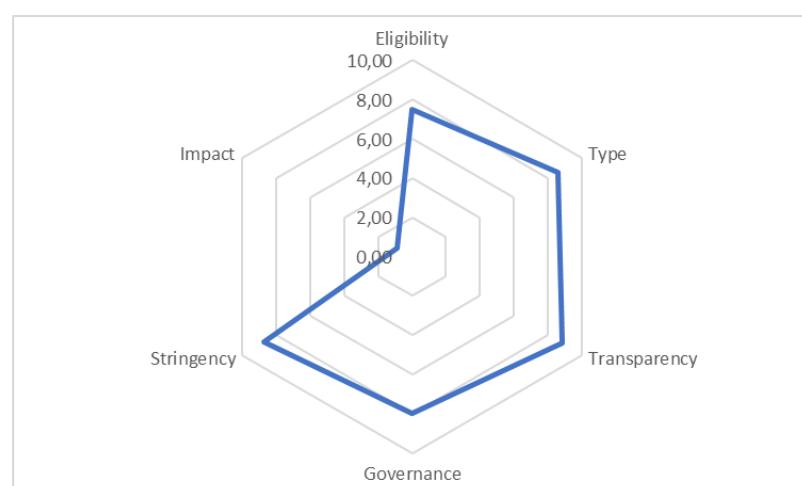
Country of origin: Nordic countries (Sweden, Denmark, Norway, Finland and Iceland)

Date established: June 2017

Main features: The Nordic *Swan* label is a public ESG label of the Nordic group of countries. It was created on the initiative of the Nordic Council of Ministers and is operated through the country-level labeling offices. The Nordic *Swan* label is a mainly ESG-focused SRI label with a point system, the environmental focus is supported by a simplified green taxonomy and is rewarded with extra points in the grading system. The label sets a minimum passing score to be able to qualify for the label providing some kind of the minimum benchmark for sustainable products. At the same time the Nordic *Swan* label allows differentiation among its applicants based on the type of applicant and its performance. The labeling process happens in-house within the country labelling organization office.

This label received high scores on transparency, governance, eligibility criteria, structure and composition and stringency. The label developed a balanced methodology based on rather strict but achievable criteria of exclusions and positive screening. The Nordic *Swan* label also encourages the transitioning of the conventional fossil fuel companies in the energy sector to the greener and less carbonized model. The label transparency is remarkable among the rest of the SRI labels. The only dimension that the label scored lower than similar ESG labels is the impact dimension. Also due to constraints of the registration of the financial product in one of the Nordic states, it remains mostly a regional SRI label with clear influence in the Nordic sustainable market. All scores of the six dimension can be found in Figure 8.3.

Figure 8.3. Overview of the scores for the *Swan* label



8.4. The Umweltzeichen label

Type: ESG-focused public label

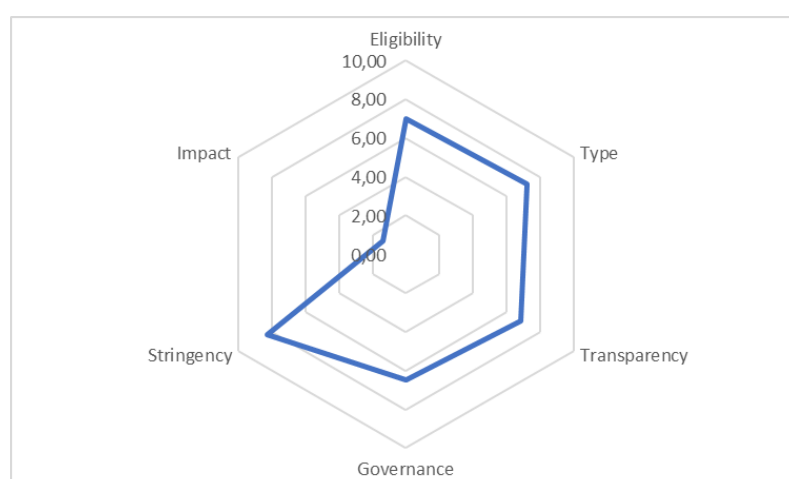
Country of origin: Austria

Date established: 2004

Main features: The Austrian *Umweltzeichen* label is the pioneer – the first European SRI label established back in 2004. In fact it is a multi-product eco label which also introduced a financial investments product category back in 2004. It is a public ESG-label with a grading system which differentiates on the ESG performance of the applicant and the type of applicant. The label for investment products was founded by Federal Ministry of Climate, Action, Environment, Energy, Mobility, Innovation and Technology with criteria guidelines developed by Austrian Consumer Association.

The label scores high on three sustainability aspects in this study – stringency, its broad eligibility criteria and the structure and composition of the label. The last aspect implies that the label requirements cover various asset classes. Also the Austrian *Umweltzeichen* label is the only SRI label which requires a mandatory 50% reduction of the starting investment universe of any financial product as a minimum benchmark to qualify for the label. The higher selectivity is rewarded with the extra points in the grading system. The “development” areas are the label’s transparency on the criteria development process with justification of the label requirements and the lack of label criteria on non-compliances once the label has been rewarded. A similar drawback corresponds to the governance aspect as the lack of formalized procedures in case of non-compliances which might result in withdrawn of the label and the absence of the mechanism to submit public disputes. Figure 8.4 compares the scores along the six dimension of this study for the *Umweltzeichen* label.

Figure 8.4. Overview of the scores for the Umweltzeichen label



8.5. The Luxflag ESG label

Type: ESG-focused private label

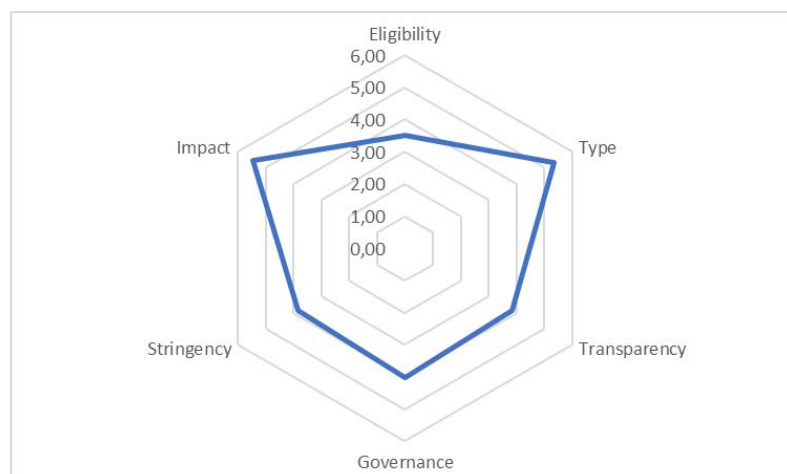
Country of origin: Luxembourg

Date established: May 2014

Main features: The *Luxflag ESG* label is one of the five SRI labels that have been introduced with the initiative of the financial industry of Luxembourg. It is a cross-sectoral fund label with affirmation on ESG/Sustainability orientations. This label implies a “pass-or-fail” system without grading system and sets a minimum benchmark for the sustainable product. Among the strongest sustainability dimensions of this label is its impact in terms of the number of the labeled funds and the amounts under management. *Luxflag* next to two other ESG-focused labels *Towards Sustainability* and *ISR* are the biggest “influencers” in terms of how many funds and financial products carry their SRI label. Such success has also its downsides as the *Luxflag ESG* label scores relatively low on other sustainability dimensions as stringency, transparency, governance and eligibility criteria. The last one is defined rather general and is not clear if special cases of financial products are eligible for the label and what are specific requirements in that case. Also the exclusion criteria of the label are rather vague as the exclusion thresholds are not specified in the criteria documents. In general, there is little information to be found in the official sources and the ones which are available are very short and sometimes not sufficient. On other hand, *Luxflag* positions themselves as a label with robust structure, the labelling

organization controls all stages of the labeling process from reviewing of the application till taking a final decision, and having a few but achievable requirements allows the label to influence the largest category of the responsible investing market with a huge impact potential. See Figure 8.5. for all scores of this label.

Figure 8.5. Overview of the scores for the Luxflag ESG label



8.6. The Luxflag Climate Finance label

Type: Private thematic green label

Country of origin: Luxembourg

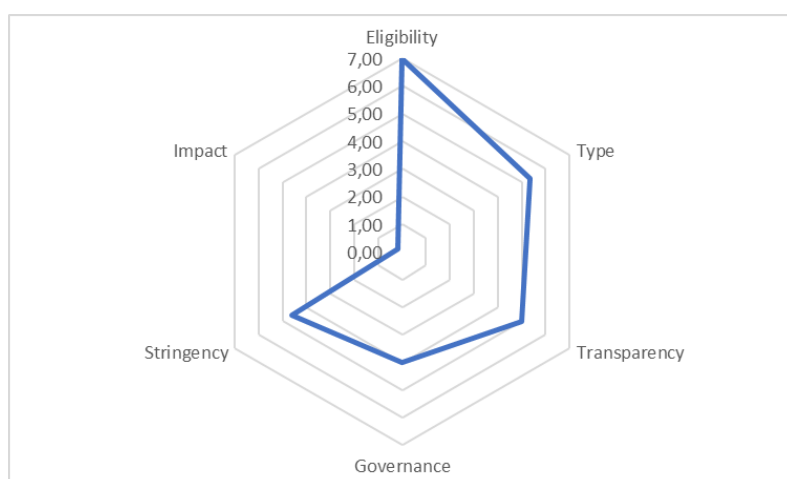
Date established: September 2016

Main features: The *Luxflag Climate Finance* label is one of the five SRI labels that have been introduced with the initiative of the financial industry of Luxembourg. It is classified by *Luxflag* organization under category of thematic fund label with impact and ESG consideration. The objective of this label is to highlight those investment products which invest at least 75% of total assets in investments relate to mitigation and adaptation of climate change or cross-cutting activities. The Climate Finance label employs their own taxonomy which is based on *Common Principles for Climate Change Mitigation and Adaptation Finance Tracking* developed by the *International Development Finance Club*.

The label scores high on eligibility criteria because of its relatively high share of “green portfolio” required by the label requirements: in comparison to the other green labels, Climate Finance sets its minimum threshold of the aggregated turnover from eco-activities at the level of

37,5%. The downside of such a high minimum eligibility requirement is that there are only five financial products that were able to receive its certificate which is reflected in its low impact score. The other sustainability dimensions are just on the average compared to the other SRI labels in this study. This *Luxflag* label scores a bit higher on transparency and stringency than its “bother” *Luxflag ESG* label. Figure 8.6 summarizes the scores for the different dimension of the *Luxflag Climate Finance* label.

Figure 8.6. Overview of the scores for the *Luxflag Climate Finance* label



8.7. The Towards Sustainability label

Type: ESG-focused private label

Country of origin: Belgium

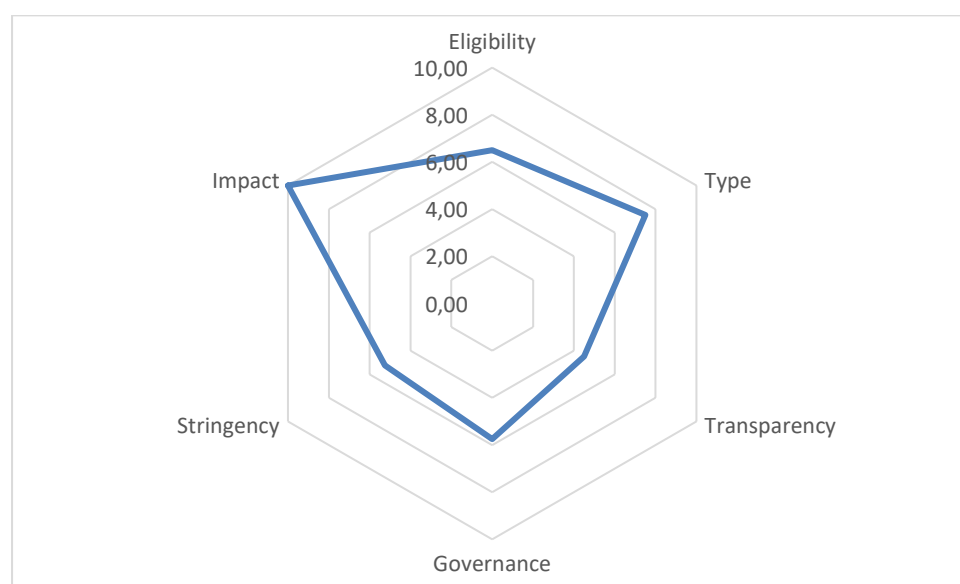
Date established: February 2019

Main features: This is the “youngest” ESG label in the European responsible investing market. It was created on the initiative of Febelfin – the Belgian Financial Sector Federation. This label implies a “pass-or-fail” approach without a grading system and sets a minimum benchmark for the sustainable product which is referred as a Quality Standard. The applicants have to meet all mandatory requirements to be eligible to receive a label, they are also encouraged to go beyond the label criteria, but there is no reward for it in the current system.

Due to the fact that *Towards Sustainability* is the most recent label, it has an expanded product scope and a lot of assets classes and special financial vehicles are covered by the criteria

guidelines. The Belgian label also takes a different approach on transitioning companies in the energy sector allowing exceptional phase-out of the fossil fuel companies which are on their way to decarbonization. That is why this label scores high on the structure and composition of the label. The label also scores the highest on the impact having the highest number of the labeled funds and assets under management than any other SRI label in this study. This, of course, is explained to a certain extent by relatively low scores on stringency. The label scores low on transparency due to lack of clear criteria guidelines, transparency criteria towards the applicants as well its own transparency on criteria justification, contradictory eligibility criteria for the issuers and not sufficient information on the labeling process. Also fair governance score reflects the poor follow-up of the applicant after the label has been rewarded and the lack of formalized procedures on non-compliances resulting in withdrawn of the label and a lack of any mechanism to submit public disputes. Figure 8.7 sums up the scores over all dimensions.

Figure 8.7. Overview of the scores for the Towards Sustainability label



8.8. The FNG label

Type: ESG-focused private label

Country of origin: Germany

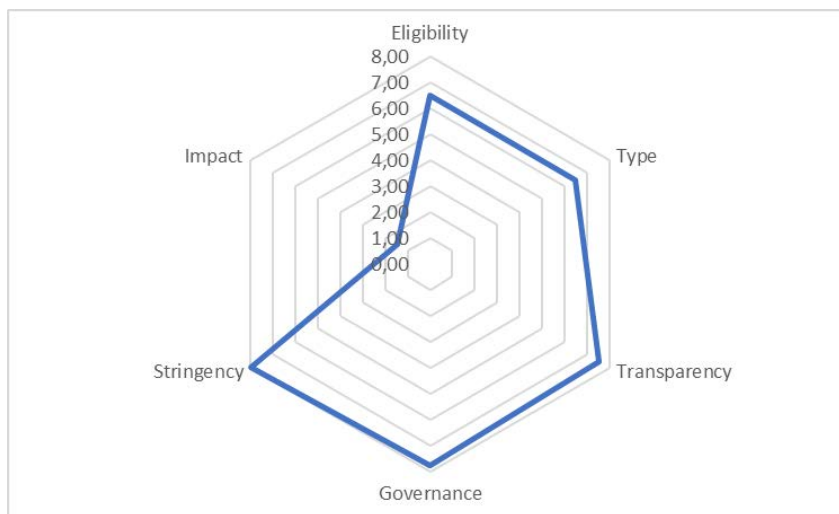
Date established: 2015

Main features: The *FNG* label is an ESG-focused label of the German-speaking countries (Germany, Austria, Switzerland). The owner of the label is *FNG* – a sustainable investment forum, an NGO initiated in Berlin. The *FNG* label employs a grading system, thus allowing differentiation among the applicants which is reflected in the number of stars on the label itself. To be eligible for the *FNG* label, an applicant should meet at least the minimum requirements, so called the basic label: this is in fact a minimum benchmark of the label. If an applicant wants to receive additional stars which correspond to superior quality of the ESG processes, it has to meet additional criteria rewarded with extra points.

This label scores high on sustainability dimensions as transparency, governance and stringency. The strong transparency features are an additional requirement on fully completed and publicly available *Eurosif* Transparency Code declaration, which must be approved by one of the national SIFs. There are also additional points rewarded for enhanced applicant transparency in such aspects as communications on CO2 data, SDG contribution including reporting on special KPIs or other impact measurements, as well as transparency requirements on derivatives.

Strong governance points reflect the relative separation of the labeling process: the audit of the applicants is carried out by the external party (Hamburg University) and a formalized follow-up of the applicants once the label has been rewarded. Considerable points in stringency affect the impact of this ESG label, which is relatively low in comparison to other ESG-labels without grading system. Another downside is the limited product scope of the label which until the latest revision focused mainly on the UCITS compliant mutual funds: now specific exemptions as structured funds, microfinance, fund of funds are eligible for application only after prior consultation. Also eligibility criteria for green bonds, on fund of fund composition, or requirements on cash possessions are not developed or reflected in the official criteria guidelines. Figure 8.8 sums up the scores of this label.

Figure 8.8. Overview of the scores for the FNG label



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