

EU Retail Funds' Environmental Impact Claims Do Not Comply with Regulatory Guidance

Analysis of a sample of 230 funds against the criteria of the EU Multi-Stakeholder Dialogue on Environmental Claims

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ABOUT: The 2° Investing Initiative is the leading global think tank on sustainable finance and the main beneficiary of European research funding on the topic. 2° Investing Initiative. The organization is non-for-profit and noncommercial. It helps develop the regulatory frameworks, performance metrics, data and tools to support this evolution. 2° Investing Initiative has introduced the climate scenario analysis of investment and lending portfolios into regulatory frameworks (France, EU, California), investors and banks practices (for more than 900 users and €60Tn of assets) and supervisory practice (UK, EU, California, Japan). 2° Investing Initiative research on the suitability assessment test in Europe triggered, via the HLEG, the reform of MIFID and IDD introduced by the EC regulatory package on sustainable finance.

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FOREWORD

Over the past several decades, the European Union has led several action plans intended to put the economy on a more sustainable growth plan (see, for instance, the [Sustainable Consumption and Production Action Plan](#) – 2008; [EU Action plan for the circular economy](#) – 2015)

Many of these initiatives are built upon the strength of the European consumption market and aim to help match the demands of environmentally-minded consumers with firms that want to gain new market share by making their production methods more sustainable.

Indeed, since the end of the 20th century, public environmental awareness has been on the rise. Following a series of major crises caused by human activities in the 1980s, this growing conscientiousness quickly transformed into willingness to generate positive impact in the real world through individual purchasing decisions.

However, along with the emergence of “*environmental consumerism*” (Gussow (A.), *Green consumerism*, Business, p. 18-19) came the temptation for certain market players to take advantage of consumers' favorable view of green products – by using environmental arguments as a mere marketing tool, without designing or modifying production processes in a way that would enable the creation of products and services with a real impact.

This phenomenon, also known as greenwashing, rapidly emerged as a major threat to market integrity, to consumers' interest in making sustainability-related purchase decisions, as well as to the beneficial environmental effects that could arise from responsible consumers' behavior.

To tackle these shortcomings, the EU has been engaged for more than a decade now in an unprecedented effort to standardize environmental impact assessment methodologies, which should ultimately serve to create a harmonized framework on which all public policies will be based (see in particular EC's communication [Building the single market for green products](#), 2013).

In addition, a reinforced legal framework was put into place across the EU through the *Unfair Commercial Practices Directive* of 2005. A 2016 report on this topic ([EU's Multi-stakeholders dialogue on environmental claims, Compliance criteria](#)) later clarified its application to environmental claims.

Now, the climate crisis has made it more critical than ever to reorient the real economy towards sustainable growth. In this context, the financial sector has been called upon to play a central role, because the achievement of any sustainability goals will require shifting considerable amounts of capital. This led the EU to launch an ambitious Action Plan on financing sustainable growth in 2018 ([EU's Action plan: financing sustainable growth](#), 2018).

Notably, this initiative and the new sustainability-related duties it creates for the financial sector coincide with climate-aware retail investors' demand for financial products and services that could enable them to have an impact on the environment (**Section 1**).

The apparent alignment of consumers demand and these new regulations could appear to be the ideal situation for achieving both economic and environmental policy objectives. However, there are concerns that several of these regulatory initiatives may not achieve their objectives.

On the bright side, a number of sustainability-related concepts and requirements are being rapidly introduced in financial operators' duties. But so far, no clear and in-depth analysis has been made regarding how the investment products and strategies developed in that frame should be assessed in terms of their actual impact in the real economy - in other words, what is the actual 'investor impact' they can take credit for.

By not addressing this crucial aspect, policymakers might well be hampering the much-needed “*shifting of the trillions*”, paving the way for widespread greenwashing in the future and, by doing so, jeopardizing their very own environmental policy objectives.

As a result, this study aims to highlight the considerable dangers arising from downward standardization of environmental concepts in the financial sector.

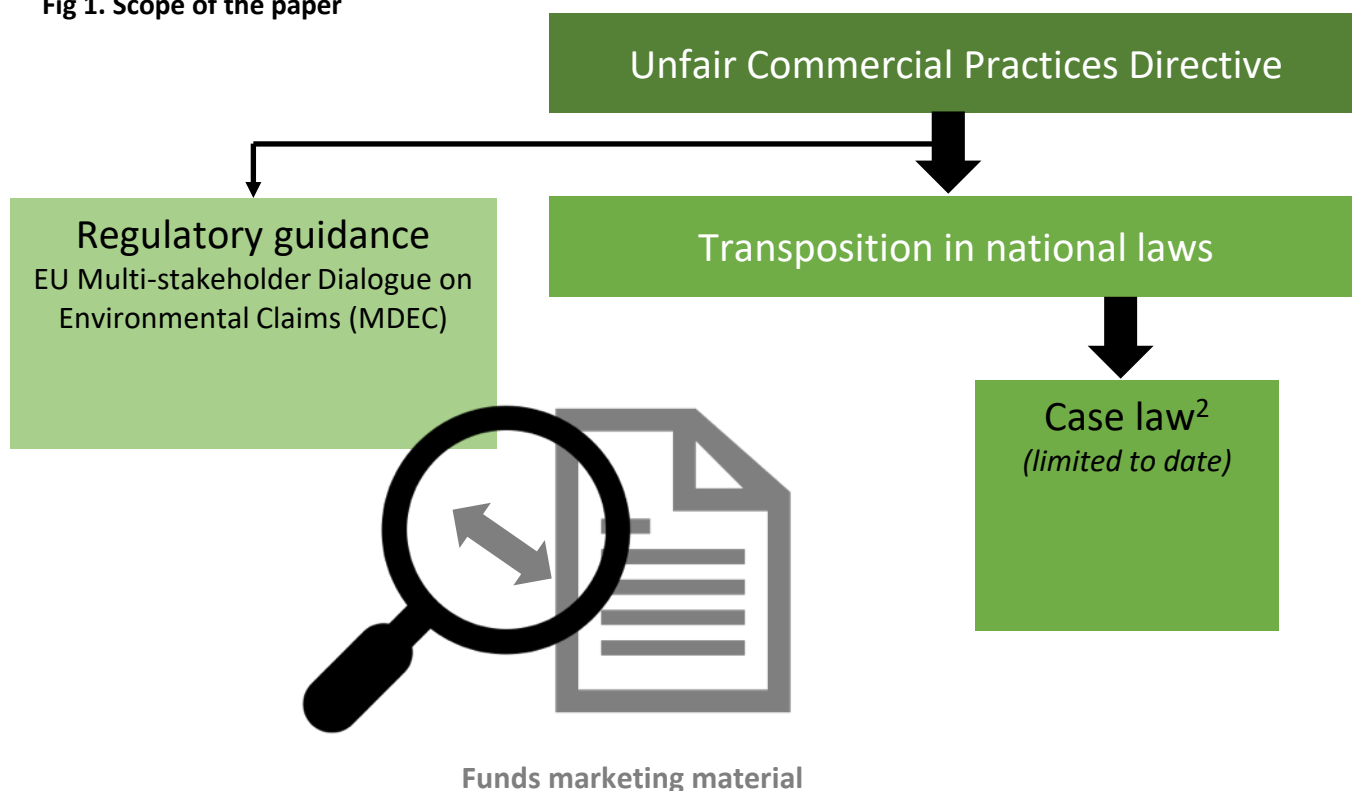
Indeed, consumers’ growing interest in financial products with an actual impact is confronted with the inability of the market to provide for a reliable methodological framework to measure such investors’ contribution regarding mainstream instruments invested in liquid assets and securities (**Section 2**).

In addition, our most recent research shows a proliferation of environmental impact claims related to such mainstream products in the market, which raises serious questions as to their compatibility with existing high-level regulatory guidance on EU consumer protection rules (**Section 3**).

This situation obviously carries mis-selling and legal risks for individual companies in the sector, but above all it carries risks in terms of achievement of the sustainable finance action plan’s objectives.

This is why 2DII¹ calls for a collective and ambitious reflection and makes first recommendations as to the next steps that could be implemented to tackle this situation (**Section 4**).

Fig 1. Scope of the paper



1- 2° Investing Initiative is an independent, non-for-profit think tank that first [introduced a plan to align EU financial regulation with climate and environmental policy goals](#) in 2012. The organization has been the primary beneficiary of EC research grants on sustainable finance since then and its CEO is a member of the EC High-Level Expert Group on Sustainable Finance (HLEG).

2 – The review of transposition rules and case law in each Member States’ jurisdiction is out of scope of the present analysis and will be explored in an upcoming EC-funded project (2020-2023). The assumptions made in this paper on existing case law are based on the EC’s [“Consumer market study on environmental claims for non-food products”](#) (2014)

EXECUTIVE SUMMARY

I – SURVEY RESULTS

40% OF RETAIL CLIENTS WANT TO HAVE AN ENVIRONMENTAL IMPACT WITH THEIR SAVINGS

According to our surveys, 65% to 85% of retail investors in Germany and France say they want to invest more sustainably when asked. These results are aligned with results from other studies from various authors in France and Germany, but also in other countries. Additionally, we surveyed consumers about their willingness to accept lower returns as the price to pay for investing more sustainably. Most respondents accepted the suggested trade-off, and two recent studies by the Universities of Maastricht and Cambridge suggest that consumers actually ‘walk the talk’. However, “*being interested in sustainable investment products*” (or whatever other umbrella term) doesn’t say much about what outcomes consumer actually expect and why. The main objective of our surveys was to help a panel of consumers “interested in sustainable products” identify the outcomes they expect to see and disentangle the means and the end. Our research led to the conclusion that, once the confusion between the means and the end is cleared, consumers only pursue three end-goals:

- *Optimizing return on investment*
- *Avoiding guilt by association*
- *Having an impact in the real economy.*

The last appears to be consumers’ main goal, with 40-50% mentioning this as their main objective when choosing more sustainable investments or mentioning skepticism about impact as the main reason for not choosing these products. In addition, consumers’ sustainability expectations should be more clearly revealed and considered in the near future (at least in theory) through the introduction of ESG preferences into the suitability assessment to be performed by financial institutions when providing investment advice. Our concern is that in the absence of reliable mainstream impact products in the market – those able to truly match such impact-focused investors – there is a large risk that significant mis-selling will take place.

II – STATE OF THE ART LITERATURE REVIEW AND LEGAL FRAMEWORK

SUBSTANTIATION OF ENVIRONMENTAL IMPACT CLAIMS: OBLIGATIONS AND OBSTACLES

Over the past 20 years, many sustainability-related investment techniques (and related products) have been developed by asset managers in the area of mainstream financial products: e.g. exclusion, positive screening, thematic investing, impact investing, shareholder action, etc.

While one could argue that each of these techniques may indirectly contribute to reorienting investments in the real economy, most of them are not explicitly designed to deliver this outcome, and do not provide any measurement of their effectiveness in delivering this type of benefit. In addition, there is almost no academic research on how those strategies could actually have such an impact in the real economy, as shown by recent academic papers and confirmed by our own review of existing literature.

Therefore, we identify a significant gap in the tools and methodologies available to assess what can be defined as ‘investor impact’ (as opposed to the ‘company impact’, i.e. the impact of the investee). This is particularly problematic since the regulatory guidance applicable to environmental claims sets the bar relatively high regarding the required standard of evidence, as such claims must be supported by *“robust, independent, verifiable and generally recognized evidence which takes into account the latest scientific findings and methods”*, built for example upon the latest developments of EU’s initiative to create standards in environmental footprint assessment. The applicable guidance is also quite demanding as to the content and presentation of environmental claims, which should always be presented *“in a clear, specific, accurate and unambiguous manner, to ensure that consumers are not misled”*. Our review of market practices led us to identify major misalignments in regard of these indications.

III – COMPLIANCE

99% ENVIRONMENTAL IMPACT CLAIMS REVIEWED ARE MISALIGNED WITH REGULATORY GUIDANCE

In the second half of 2019, we reviewed 230 European retail funds, representing €139 billion in assets under management (AuM), explicitly presented as having a link to environmental characteristics through the implementation of socially responsible investing (SRI), green thematic and green bond approaches. For each of the funds, we searched online sustainability-related commercial communications available and gathered, in parallel, information on the investment strategies and techniques implemented in order to understand how to interpret the marketing material.

Our analysis concluded that 52% of the funds of our sample made environmental impact claims, almost all of which were misaligned with the applicable regulatory guidance. Mainly, they failed either the ‘substantiation test’ (by being unable to reflect a “*verifiable environmental benefit or improvement*” due to the essence of the financial products and investment strategies to which they relate) or the ‘accuracy test’ (as they were incorrect, unclear or too broad to be in line with the compliance criteria).

In addition, in Q3 2019, we surveyed 2,000 German retail investors and 2,000 French retail investors in order to assess the extent to which they were confused by environmental impact claims of the kind we had identified. We found that the concept of environmental impact was unclear to a large majority of respondents and, what’s worse, that environmental impact claims were actually confusing to them. That being said, our analysis also led us to the conclusion that while legal risks exist and could increase in the future (e.g. in the wake of a significant development of environmental litigation), current enforcement trends regarding environmental misleading claims in the EU suggest that risks might presently be rather low.

IV – NEXT STEPS AND RECOMMENDATIONS

First, it appears necessary to build evidence on the "environmental impact" of different investment strategies and techniques, understood as their ability to contribute to the reorientation of investments in the real economy from unsustainable (e.g. coal-fired power production) to sustainable activities (e.g. renewable power production) that generate GHG emission reductions and other sustainability impacts – in other words to address the ‘investor impact’ assessment gap. Financial products should be analyzed based on the investment strategies’ effectiveness in delivering these outcomes, in terms of the influence they have on decision-making in the real economy (which is a complex issue). In addition, we recommend clarifying the compliance criteria applicable to financial products, by building a specific interpretative framework upon the existing principles. Last but not least, it appears crucial to regulate in a careful and smart way building on in-depth analysis regarding what investment products can contribute to in terms of measurable impact and should, therefore, be promoted to help achieve the ambitious policy objectives set out in the action plan on sustainable finance.

CHAPTER 1 – SURVEY RESULTS

40% OF RETAIL CLIENTS WANT TO HAVE
AN ENVIRONMENTAL IMPACT WITH
THEIR SAVINGS

KEY FACTS AND FIGURES

- Two-thirds of retail investors have sustainability investment objectives
- 40% of retail investors want to have a measurable environmental impact with their savings
- Interest for sustainable investment products is driven by social preferences, with a majority of investors ready to accept trade-offs on returns
- Fear of greenwashing is a major obstacle

2/3 of retail clients are interested in sustainability

Two-thirds of retail investors say they want to invest sustainably.

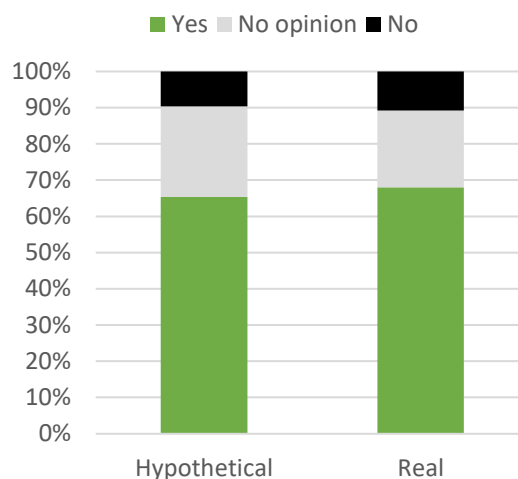
Our surveys show that 65% to 85% of retail investors in Germany and France say they want to invest more sustainably when they are asked. These results are aligned with the results from other studies from different authors in France and Germany, but also in other countries (see table). In line with other studies, we also found that interest is correlated with age: investors under 40 are more likely to interpret the questions correctly and to be interested.

Willingness to sacrifice returns. We surveyed consumers about their willingness to accept lower returns on investment, as the price to pay for investing more sustainably. We set the bar relatively high (-5% on the total amount received at retirement, the equivalent of doubling the management fees), assuming most respondents will reject the trade-off (see p. 12). But it turned out that most respondents accepted the suggested trade-off and almost all respondents accepted some trade-offs.

Retail investors seem to walk the talk. The first logical explanation for such behavior that comes to mind is a potential gap between the hypothetical case of a survey, and what consumers would actually do if they had a ‘real choice’. However, two recent studies by the Universities of Maastricht and Cambridge suggest that consumers actually ‘walk the talk’ (see Fig. 2). While more research would be necessary to confirm those findings, our working hypothesis is that this situation results from the combination of two factors:

- The pivotal role of social norms in the decision-making process on the one hand; and
- The hyperbolic discounting of the potential financial downsides, due to its uncertainty and long-term nature

Fig. 2: Do you favor investing your pension savings in a sustainable manner?



Source: University of Maastricht, [“Get Real, Individuals Prefer More Sustainable Investments”](#) (2019)

(1)	Gutsche et al, 2017	Characterizing German (Sustainable) Investors	1,001 representative German respondents	Link 1
(2)	Natixis, 2016	Mind shift: getting past the screens of responsible investing	7,100 respondents, 22 countries	Link 2
(3)	MorganStanley, 2017	Sustainable Signals: new data from the individual investor	1,000 respondents USA	Link 3
(4)	Schroeders, 2017	Global Perspectives on sustainable investing	22,000 respondents 30 countries	Link 4
(5)	Wisdom Council, 2017	Insights: responsible investing	1,000 respondents	Link 5
(6)	Arabesque, 2017	The investing enlightenment	600 institutional investors 759 individual investors	Link 6
(7)	Wisdom Council/ UKSIF, 2017	Attitudes to Ethical and Sustainable Investment and Finance in the UK	1,000 respondents UK	Link 7
(8)	HLEG, 2018	Financing a Sustainable European Economy	-	Link 8
(9)	EU, 2018	Distribution systems of retail investment products across the European Union	-	Link 9
(10)	Maastricht University 2019	“Get Real, Individuals Prefer More Sustainable Investments”	1,700 NL	Link 10
(11)	University of Cambridge 2019	“Walking the talk: Understanding consumer demand for sustainable investing”	2,000 respondents USA	Link 11

Fig. 3: You inherit a big multinational company and become the main shareholder and decision-maker; would you advance some of the issues below?

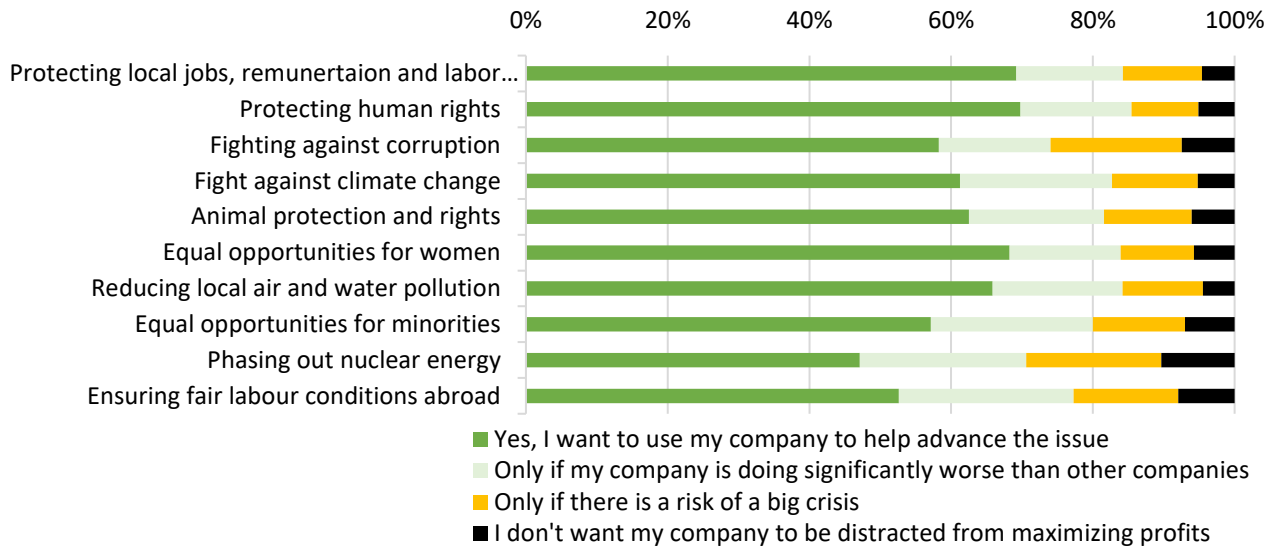


Fig. 4: Are you interested in investing a part of your money in “impact” funds?

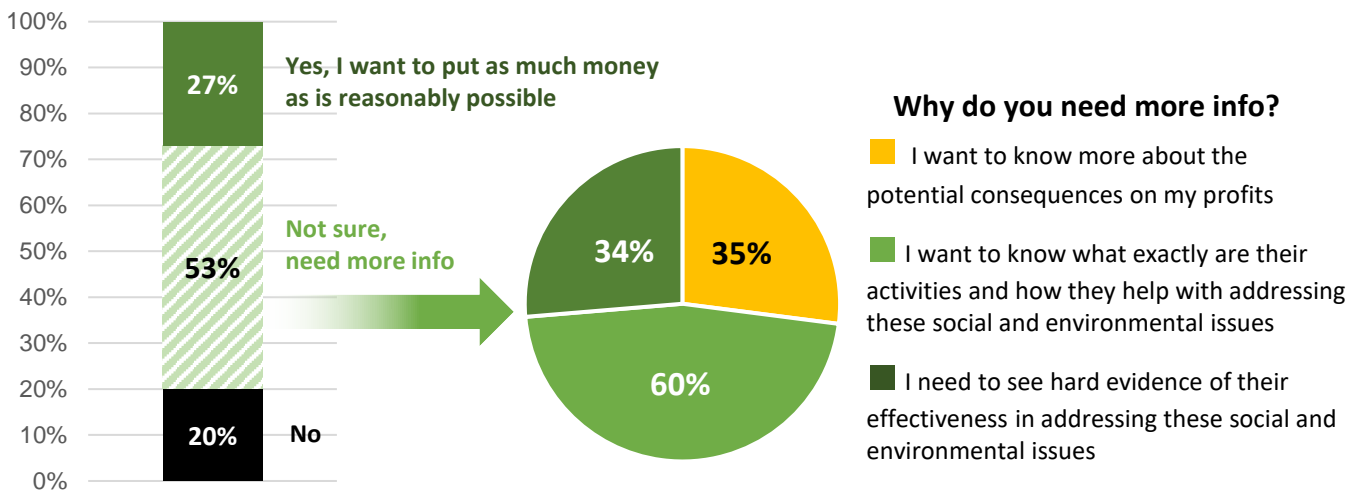
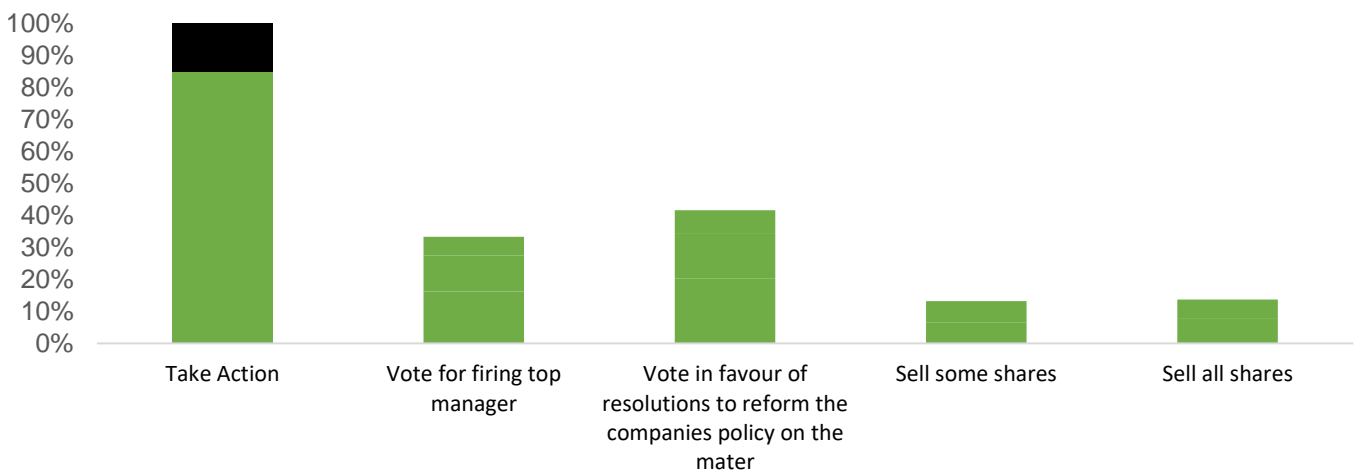


Fig. 5: How would you respond to ethical, social or environmental concerns with your investments?



Retail clients want to have an impact in the real economy

The pyramid of objectives. “Being interested in sustainable investment products” (or whatever other umbrella term) doesn’t say much about what outcomes consumer actually expect and why. The main objective of this study was to help a panel of consumers “interested in sustainable products” identify the outcomes they expect to see and disentangle the means and the end. Our research led to the conclusion that, once the confusion between the means and the end is cleared, there are only three end-goals pursued by consumers:

- **Optimizing return on investment**
- **Avoiding guilt by association**
- **Having an impact in the real economy**, which seem to be the main end goal for consumers (see Fig. 6).

The pivotal role of social norms. Consumer research on environmental objectives highlights a big paradox:

- On the one hand, when asked, consumers seem willing to sacrifice thousands of euros in order to pursue their environmental investment objectives
- On the other hand, most of them never dedicated any time or brain space to the topic or may have never considered the issue. The explanation seems to lie in the pivotal role of ‘social norms’ at each stage of the decision-making process.

In other words, when i) consumers face complex new questions, and ii) the expected psychological benefits (self-esteem, altruism) depend on social norms, they tend to do what they perceive as ‘the normal thing’ to do. This ‘auto-pilot mode’ can apply to specific steps of a rational decision-making process (Fig 7), or the entire process. Such a situation obviously creates very fertile ground for confusing marketing and mis-selling. An additional source of complexity relates to the fact that social norms are not yet established on the topic: for most consumers, it is unclear what ‘the normal thing to do’ is. Therefore, the way the questions on non-financial objectives are framed, and the very existence of these questions in the first place, convey a message on what the norm is and are therefore likely to heavily influence consumers’ decisions.

Fig. 6: Percentage of consumers who prioritize “Having an impact”



Fig. 7: Rational decision-making process



Fig. 8: Pyramid of objectives

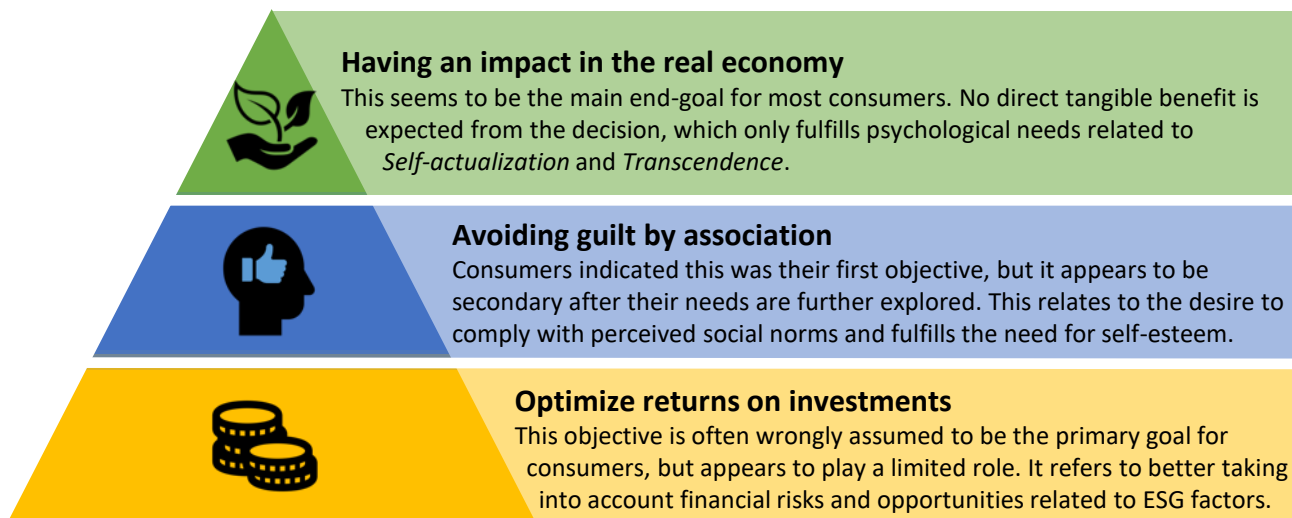


Fig. 9: Why did you choose this/these action(s)?

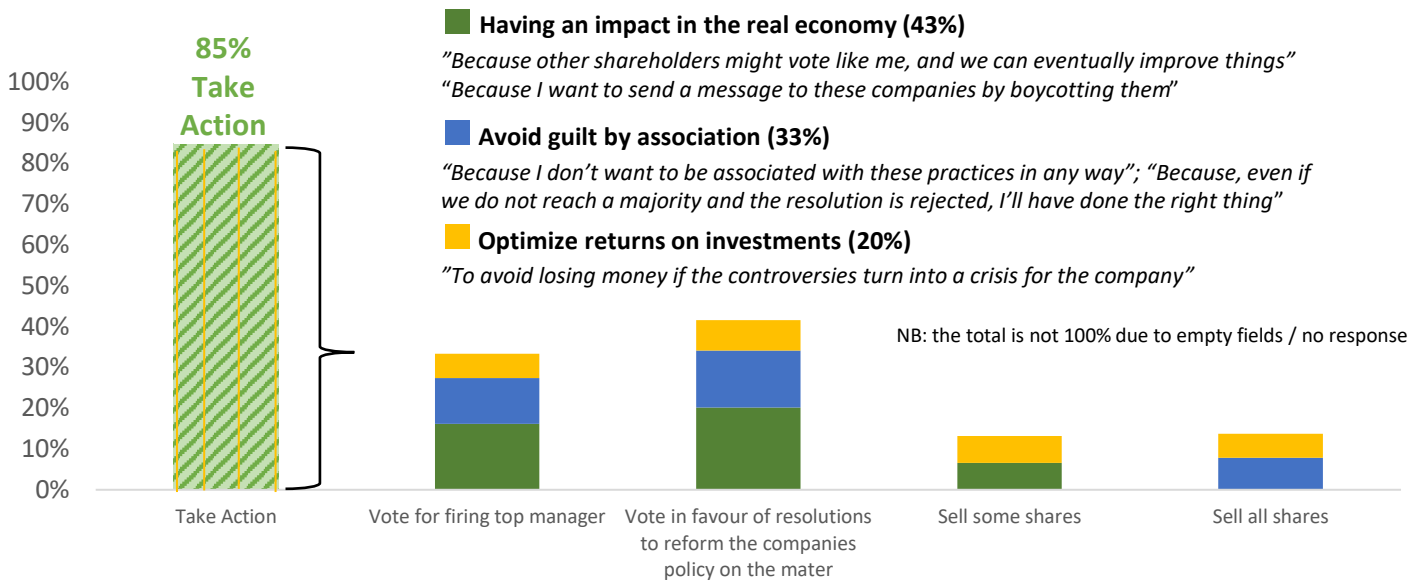
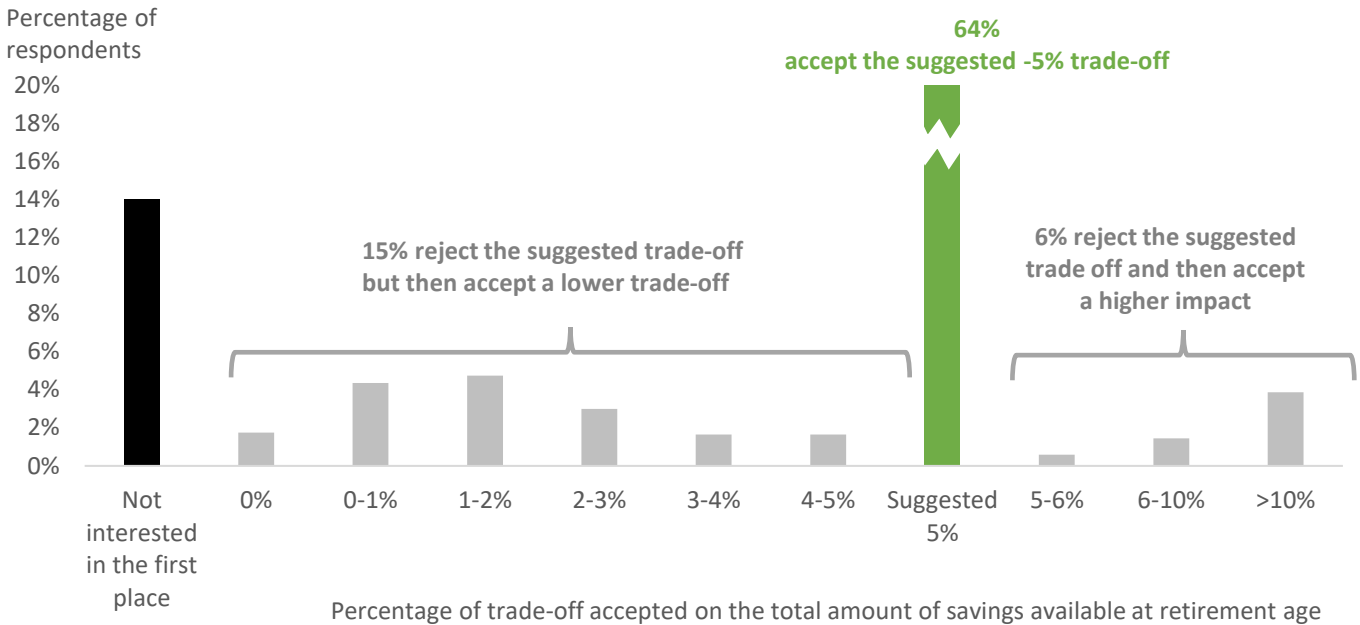


Fig. 10: Do you accept to pay more/earn less?



POSSIBLE EXPLANATION: HYPERBOLIC DISCOUNTING

Behavioral economics tells us that given two similar rewards, animals and humans show a preference for one that arrives sooner rather than later. They are said to *discount* the value of the later reward. Discounting is called "hyperbolic" when individuals reveal a strong tendency to become more impatient when rewards are more imminent¹. They make choices today that their future self would prefer not to have made, despite knowing the same information.

Applied to the case of preferences for sustainable investment, it could be argued that the psychological rewards related to more sustainable choices (e.g. self-esteem – see p. 11) are immediate and certain, while the downside on financial returns are uncertain and only have consequences in the far future. The application of hyperbolic discount could therefore lead to fully value the psychological rewards and entirely discount the financial downside.

1. See for instance ["Uncertainty and Hyperbolic Discounting"](#) (Dasgupta, Maskin)

THE CASE FOR ASKING RETAIL CLIENTS ABOUT TRADE-OFFS

The performance of SRI/ESG. Over the past 20 years, most SRI/ESG portfolio managers have designed and promoted strategies based on the idea that SRI/ESG integration is a factor of financial overperformance and challenged the idea that SRI/ESG comes with a cost. Similarly, consumer protection organizations do not want to see SRI/ESG used as an excuse for higher fees or lower financial performance (see next page). These positions are backed by many studies¹ on the financial performance of SRI/ESG products (vs. standard products) that find no to limited differences, or even over-performance of SRI/ESG. In this context, the simple fact of questioning consumers about their willingness to accept trade-offs for social or environmental impacts raise legitimate concerns for multiple stakeholders.

SRI/ESG ≠ impact investing. SRI/ESG strategies are explicitly designed to ensure similar returns, fees and risk exposure as their standard equivalent (e.g. low tracking error SRI funds). Meanwhile, few studies² explored the social or environmental impact of SRI/ESG strategies. The available evidence suggests that most SRI/ESG products are not explicitly designed and managed to deliver a measurable impact and might have no measurable impact. As a result, the above-mentioned conclusions on the financial performance of SRI/ESG might not apply to ‘impact investing’ products.

Trade-offs as a possibility. More critically, academic literature suggests that strong evidence of impact is almost exclusively associated with mechanisms that come with trade-offs compared to the profile of standard retail investment products. Indeed, most impact investing approaches historically relate to public finance (e.g. concessionary lending) and illiquid assets (e.g. micro-loans, social or cleantech VC, etc.), which come with higher risk and transaction costs. Therefore, it is of utmost importance to ensure that when such kind of products are offered to retail investors, the higher risks possibly associated are transparently communicated.

This being said, there is no particular reason to consider ex-ante that, once they will be properly developed, all types of mainstream ‘investor impact’ products will necessarily deliver below market returns. For example, the literature identifies the possibility, in theory, to deliver measurable impact on liquid assets, notably through shareholder engagement. It can be reasonably assumed that scale economies related with the mainstreaming of such products will offset the additional cost of impact management and measurement. However, this effect needs to be confirmed in practice and might be more difficult to achieve for other kinds of strategies.

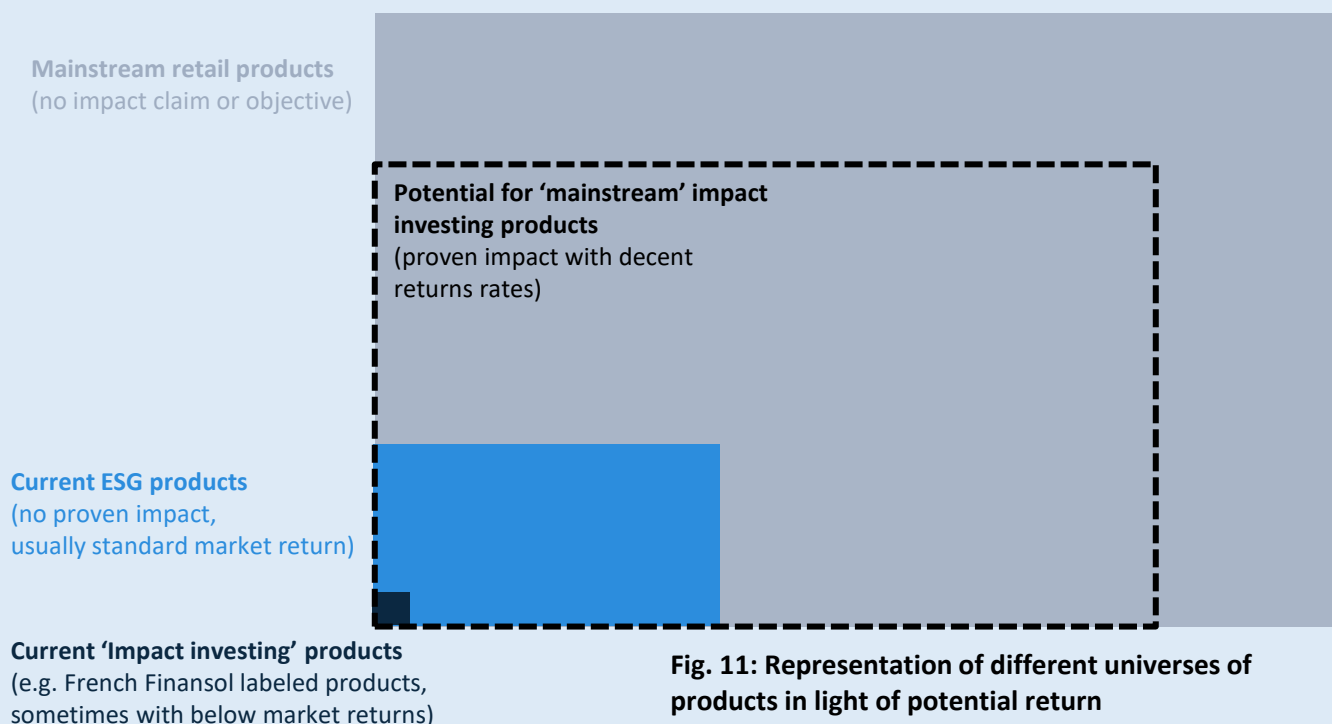


Fig. 11: Representation of different universes of products in light of potential return

¹ [Can Socially Responsible Investments Be Compatible with Financial Performance? A Meta-analysis](#) (Kim 2019)

² [Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact](#) (Kolbel et al. 2019)

THE RISK OF UNJUSTIFIED LOWER RETURNS

In any case, if confirmed, the willingness of retail investors to accept trade offs for impact would come with risks of seeing product manufacturers increasing their margins or justifying poor performance. Consumer protection stakeholders such as BETTER FINANCE, the European Federation of Investors and Financial Services Users¹, have warned policymakers against a similar risk in the context of the debate on ESG/low carbon indices.

“As BETTER FINANCE, the EU-level representative of individual investors, continuously pointed out, the EU citizens as savers are by nature mostly long-term driven since 67% of their total assets are deployed in long-term investments (versus only 37% for pension funds - despite their purely long-term horizon - and 11% for insurers) and their main saving goals are long-term: retirement, housing, children’s studies, transmission of wealth, etc.

For these reasons EU citizens as savers have a great need for “sustainable finance” products. Accordingly, sustainable finance needs to acquire and retain the trust of EU citizens, as they are the main source of long-term funding for the EU economy. This is a challenge given the current very low confidence of EU consumers in finance as a whole. Retail Finance is yet again ranked as one of the worst performing consumer markets “where consumers suffer the highest detriment (financial loss or waste of time) in case of problems”².

Therefore, BETTER FINANCE underlines that sustainable finance products must be exemplary in compliance with consumer and investor protection rules as well as ensure “long-term and sustainable value creation” and pension adequacy (i.e. with the highest probability of providing decent real returns to EU citizens as savers and current or future pensioners over the long-term). “Decent” returns are returns that at the very least do not destroy the value of their lifetime’s savings: i.e. net (after charges) real (after inflation) returns that are positive over the long-term, and sufficiently high to allow EU citizens to get an adequate pension replacement income³.

Consumer protection minded stakeholders, including BETTER FINANCE, challenge the idea that small investors and pension savers should accept lower long term returns when saving into ESG products, seeing no rationale for accepting lower long term returns for ESG retail investment products. There is no reason why long term returns of investments into sustainable activities and assets should be lower than the average ones of global capital markets. In fact there are clear reasons for the opposite to occur. Actually, there is more and more academic evidence that ESG investments are performing better than mainstream ones over the long term⁴: a positive long term performance of ESG products in real terms (after the deduction of inflation) is needed to reach pension adequacy, as pensions are and will more and more rely on pensions savings. Therefore, for the sake of transparency, intelligibility, trust and integrity, all ESG products aimed at retail savers should benchmark their long term performance against simple objective capital market indices, not switching to a plethora of complex, non intelligible and therefore misleading ESG specific indices. The use of those in key information documents should be restricted to professional investors”.

¹ See more at www.betterfinance.eu

² Based on the worrying findings of the newest 2018 edition of the “EU Consumer Markets Scoreboard”; See 2018 Consumer Markets Scoreboard “Making markets work for consumers” https://ec.europa.eu/info/sites/info/files/eujus15a-1816-i02_-_the_consumer_markets_scoreboard_2018_-_accessibility_final.pdf, page 9.

³ https://betterfinance.eu/wp-content/uploads/publications/PP_-_SUSTAINABLE_FINANCE_-_2017_0714.pdf

⁴ <https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917>: “Through analyzing what is by far the most comprehensive dataset on existing ESG—CFP research to date, we find that the business case for ESG investing is empirically well founded. Investing in ESG pays financially. Furthermore, we highlight that the positive ESG impact on CFP is stable over time. Based on the data, we are able to derive conclusions for portfolio and nonportfolio studies, different asset classes, regions, and categories of E, S, and G. Particularly promising results are obtained when we differentiate between regions, nonportfolio studies, and asset classes other than equities.”

<https://blogs.cfainstitute.org/investor/2019/09/03/esg-investing-can-you-have-your-cake-and-eat-it-too/>

ESG investing, even in a rudimentary, mechanical form, has generated returns that are highly competitive relative to the benchmark.

Retail clients fear greenwashing

As shown in the figures above (see p. 11), when asked about their goals and motivations, a majority of people surveyed declared that they want to leverage their power as shareholders and debt investors to generate positive changes in the real economy, which is largely consistent with the policy goals of the EC.

Importantly, these investors don't trust marketing claims and want to see evidence that the investment strategy is effective in delivering the desired outcomes.

Indeed, it is well recognized that the development of 'greenwashing' practices in the market fuels consumers' skepticism about environment-related information and, eventually, can lead to a drop in purchase decisions based on such incentives.

This is also true in the financial sector, where the fear of 'impact washing' was found to be the largest obstacle to the integration of sustainability criteria in investment decisions, well ahead of the fear of lesser returns (see p. 10).

The EU's TEG itself identifies that greenwashing practices in the financial field would lead to a "loss of confidence of retail investors who could be discouraged to invest in green assets [and to] potentially reduced investment in sustainable development" ([TEG's Report on the Taxonomy, p. 96, 2019](#)).

Then, even though a massive expectation for impact-related financial products exists on the demand side, and could be used to reorient considerable amounts of savings towards sustainable growth, we identify present failures in the market that could easily hinder this outcome.

As discussed below, most SRI, ESG and green thematic retail funds, invested in liquid assets and securities, would not be suitable products for impact-minded retail investors. This is due to the fact that they are not essentially designed to generate "investor impact" (as they are generally focused on "company impact" only – see definitions below, p. 20) and, therefore, do not provide evidence that they do.

Yet a significant number of actors in the financial sector continue to promote those funds, in a way or another, by making environmental impact marketing claims.

*Surveys show that EU consumers would be keen on buying more green products. However, the same surveys show that there is a 'value-action gap' and a 'trust gap'. For example: while 75% of EU citizens say they are ready to buy green products, only 17% had actually done so in the month before the survey. The reasons given for this vary, including both **a lack of trust on the environmental information provided by producers and retailers, and a limited availability of green products at affordable prices.** Furthermore, often the environmental performance of products is not communicated in a way that is comparable, thus limiting the ability to make informed choices.*

*The number of green claims is growing, but they are, at the same time, becoming more superficial and vaguer in their use of terminology. **This contributes to deteriorating consumer trust: 48% of consumers do not trust the environmental performance information communicated on products. Increasingly, the perception is that companies are competing on the basis of their claims rather than on the basis of the underlying environmental performance.*** [EC's Communication Building the Single Market for Green Products \(2013\)](#)

"As we have noted, if consumers find it difficult to validate firms' claims about the products they are offered, there will be a risk of greenwashing. This could undermine confidence in the green finance sector, leading to unsatisfied demand, reduced participation and competition and insufficient investment in the transition to net zero emissions". [UK FCA's Climate change and green finance feedback statement, p. 27, 2019](#)

Revealing consumers' environmental expectations

REFORMS TO INTEGRATE ESG CONSIDERATIONS INTO INVESTMENT ADVICE AND PORTFOLIO MANAGEMENT

As noted in the HLEG report, “EU citizens expect their sustainable funds to enable them to have a positive impact on the economy, but they lack the concrete tools to identify corresponding investment products”. Against this backdrop, supported by the data mentioned above, the HLEG recommended “[**requiring investment advisers to ask about, and then respond to, retail investors' preferences about the sustainable impact of their investments, as a routine component of financial advice**]” ([HLEG report](#), p. 28).

Based on this recommendation, the EC's action plan included in Action 4 the objective to better integrate sustainability into financial advice.

To implement this action, the EC introduced Draft Delegated Acts amending the abovementioned directives to **clarify** “that investment firms providing financial advice and portfolio management **should carry out a mandatory assessment** of ESG preferences of their clients in a questionnaire addressed to them. These investment firms **should then take these ESG preferences into account** in the selection process of the financial products that are offered to these clients” ([Draft delegated Regulation amending Regulation 2017/565](#), version of March 2018).

If they were well-implemented, these acts would lead to a situation where 2/5 of the clients should be recommended products with environmental impact, in accordance with their specific expectations in that regard.

CONCERNS RAISED BY THE EC'S INITIAL APPROACH TO THE REFORM

However, the current approach of the EC raises concerns as to the ability of the Draft delegated regulation to really contribute to the achievement of this outcome.

First, the proposed definition of investment products possibly related to ESG preferences (based on the Disclosure regulation definitions) appears unable to allow the identification of instruments focused on “investor impact” (the ones that could possibly match the expectations of impact-focused customers - see below Chapter 2).

Second, in the latest version of the draft delegated acts, ESG considerations have been explicitly differentiated from investment objectives and relegated to a secondary position in relation to them ([Draft delegated regulation amending Regulation 2017/565](#), Version of January 2019).

We fear that this approach is not fully consistent with the texts from which the EC derives its delegation of powers and with the HLEG's recommendation. It also raises concerns about the ability of the reform to achieve the targeted outcomes. Indeed, there is a risk that, as currently framed, the suitability assessment test will not help reveal retail investors' expectations of impact. What's worse, it might allow financial advisors and asset managers to offer, to impact-focused consumers, non-impactful financial products as soon as they could be related in some way to sustainability characteristics.

“By providing advice, investment firms and insurance distributors can play a central role in reorienting the financial system towards sustainability. Prior to the advisory process, these intermediaries are required to assess clients' investment objectives and risk tolerance in order to recommend suitable financial instruments or insurance products. However, investors' and beneficiaries' preferences as regards sustainability are often not sufficiently taken into account when advice is given. The Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD) require investment firms and insurance distributors to offer 'suitable' products to meet their clients' needs, when offering advice. For this reason, those firms should ask about their clients' preferences (such as environmental, social and governance factors) and take them into account when assessing the range of financial instruments and insurance products to be recommended, i.e. in the product selection process and suitability assessment” [EC's Action Plan: Financing Sustainable Growth, Action 4](#)

The information regarding the investment objectives of the client includes information on the length of time for which the client wishes to hold the investment, his/her preferences regarding risk taking, risk profile, and the purposes of the investment. However, the information about investment objectives generally relates to financial objectives, while non-financial objectives of the client, such as environmental, social and governance (ESG) preferences, are usually not addressed. Existing suitability assessments generally do not include questions on ESG preferences of clients, while the majority of the clients would not raise the ESG issue themselves. As a result, investment firms consistently do not give appropriate consideration to ESG factors in the selection process”. [Explanatory Memorandum to the Draft Delegated Regulation](#)

CHAPTER 2: STATE OF THE ART LITERATURE REVIEW AND LEGAL FRAMEWORK

SUBSTANTIATION OF ENVIRONMENTAL IMPACT CLAIMS: OBLIGATIONS AND OBSTACLES

KEY FACTS AND FIGURES

- Academic literature distinguishes ‘company impact’ and ‘investor impact’
- ‘Investor impact’ is defined as the *‘change that investor activity (engagement, capital allocation...) achieves in company impact’*
- There is no ex-ante evidence to substantiate claims on investor impact for mainstream retail products
- Methodological frameworks to measure investor impact are nascent
- The regulatory framework governing environmental claims does not allow for unsubstantiated claims and confusion between investor impact and company impact

Assessing environmental benefits of sustainable investment strategies: position of the problem

A challenge that can easily be addressed in theory...

In the '60s and '70s, the first environmental claims made by packaging producers were also poorly substantiated. To bridge this gap, engineers developed Life-Cycle Analysis (LCA). Asset managers making environmental impact claims today face a similar situation. However, the methodological challenge is different: in the 60s the challenge was the quantification of environmental benefits related to a given feature (e.g. organic farming, fuel efficiency). Today, this problem is largely solved, but asset managers face a different set of questions (see Fig. 13 below): assessing the effects of certain investment practices (divestment, shareholder activism, etc.) on the behavior of the investees targeted, and potentially defining a way (modelling, accounting) to allocate the results of collective actions to individual participants in those actions.

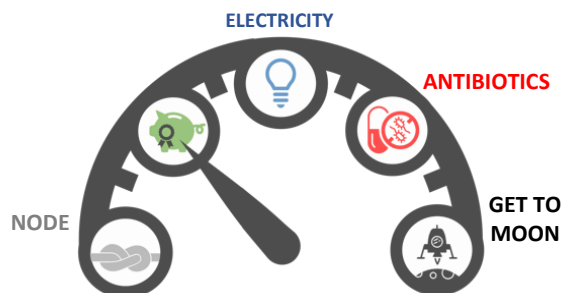
In principle, a closer look at these challenges suggests that they can be addressed, by importing and adapting a set of proven research methods from the social sciences and economics. The 'Quantification' and 'Attribution' step of Fig. 13 might take time to reach for certain approaches, but distinguishing what works and what doesn't seems to be low-hanging fruit in most cases. Overall, in terms of complexity, the methodological challenge seems closer to the invention of the node than the Apollo program (Fig. 12).

...but is not in practice

However, state-of-the-art reviews (see next page) suggest that methodological development in this field are in their infancy:

- There is almost no academic research on the effectiveness of various investing techniques and the few papers only reach a low level of evidence (see p. 20);
- Most asset managers making claims simply assume that their theory of change is correct and effective (see Chapter 3);
- The few initiatives from the industry (e.g. IMP) to address the gap are in their infancy and largely ignored by regulators.

Fig. 12: Magnitude of the methodological challenge related to investor impact assessment



"Rigorously assessing the impact of a given company is only one part of the equation for investors. To assess the impact of an investment, the strategy that an investor uses to contribute to the impact of the company is considered alongside the impact of the company itself". [Impact Management Project, Having a positive impact through public markets investments - 2019](#)

"Just because an investee is doing great things doesn't mean that your investment will help the investee do more or better." Paul Brest, [The G8 Task Force Report: Making Impact or Making Believe?, 2014](#)

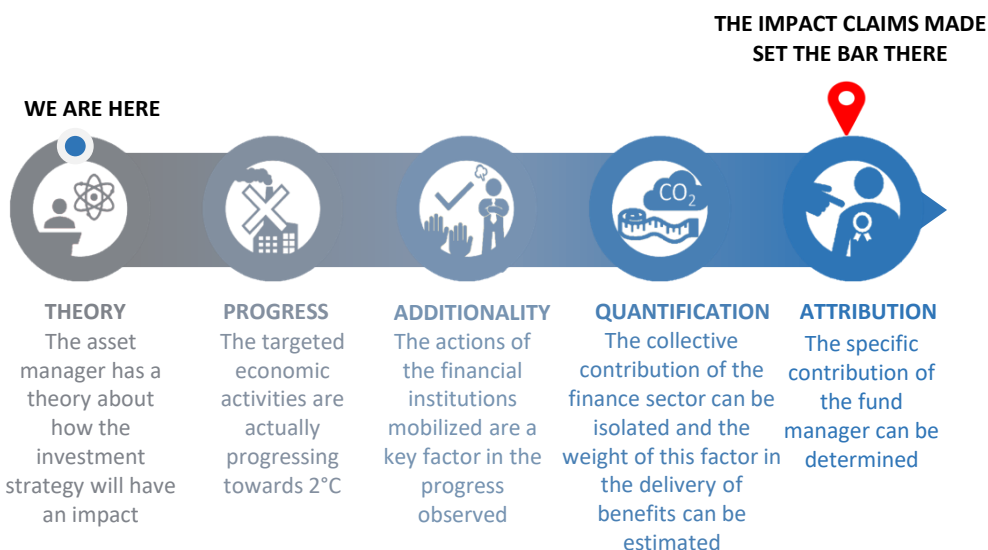


Fig. 13: The five steps towards substantiation of impact claims

The absence of ex-ante evidence

ACKNOWLEDGING A GAP: THE LACK OF ACADEMIC LITERATURE ADDRESSING THE ACTUAL IMPACT OF ESG-RELATED INVESTMENT STRATEGIES IN THE REAL ECONOMY

In a 2019 paper, a multi-academic research team reviewed the existing literature on demonstrable impacts of sustainable investment techniques in the real economy (see next page, Kölbel, Heeb, Paetzold, Busch: [Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact – 2019](#)).

We also conducted our own literature research in 2019 with the aim to identify academic work analyzing the links between different ESG-related sustainable investment strategies and their actual contribution to real sustainability outcomes (see below).

Both reviews come to the same conclusions by acknowledging a significant gap of ex-ante evidence on this topic and the absence of studies providing for robust elements to substantiate investor impact in those strategies. This led us to draw the following figure to illustrate where we position today’s state-of-the-art and market practices on this issue in regard of a basic scale of evidence.

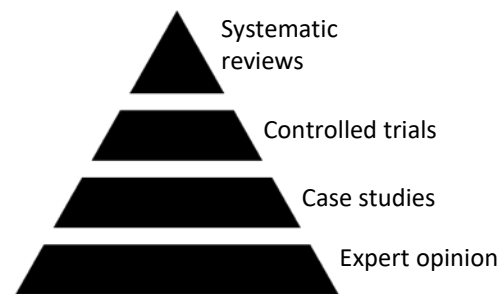


Fig. 14: An example of scale of evidence
Based on Mupepele, An evidence assessment tool for ecosystem services and conservation studies (2015)

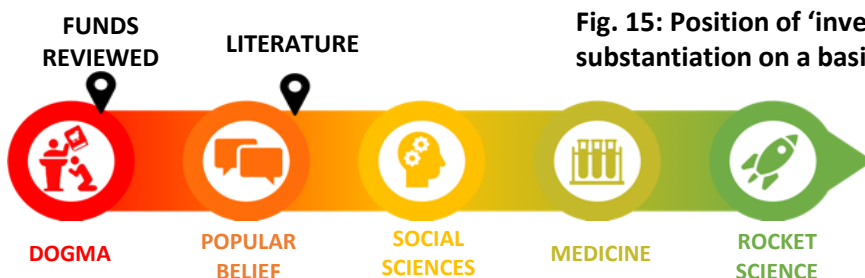


Fig. 15: Position of ‘investor impact’ substantiation on a basic scale of evidence

	Main studies identified	Principal methodological pathways
Divestment	<p>Teoh, Welch & Wazzan (1999) The effect of socially activist investment policies on the financial markets.</p> <p>Schepard (2013) Stranded assets and the Fossil Fuel Divestment Campaign: what does divestment mean for the evaluation of fossil fuel assets?</p> <p>Kosow & Gaßner (2008) Methods of future and scenario analysis.</p> <p>Ritchie & Dowlatabadi (2014) Understanding the shadow impacts of investment and divestment decisions: Adapting economic input–output models to calculate biophysical factors of financial returns.</p> <p>Davies, S. W. (2018) The unintended consequences of divestment.</p> <p>Ning Ding et al. (2018), When Does a Stock Boycott Work? Evidence from a Clinical Study of the Sudan Divestment Campaign</p> <p>Dordi, T. & Weber, O. (2019) The Impact of Divestment Announcements on the Share Price of Fossil Fuel Stocks</p> <p>Kiyar & Wittneben (2015) Carbon as Investment Risk—The Influence of Fossil Fuel Divestment on Decision Making at Germany’s Main Power Providers.</p>	<ul style="list-style-type: none"> • Event studies • Case studies • Scenario analysis • Qualitative analysis
ESG Integration (Including Thematic Investing)	<p>Mansson, Jacobsson & Edwall (2017) The Impact from Sustainable Responsible Investment.</p> <p>Kotsantonis, Pinney & Serafeim (2016) ESG Integration in Investment Management: Myths and Realities</p> <p>Mackenzie, Rees & Rodionova, (2013) Do Responsible Investment Indices Improve Corporate Social Responsibility? FTSE4Good 's Impact on Environmental Management</p> <p>Yadav, Han & Rho (2016) Impact of Environmental Performance on Firm Value for Sustainable Investment: Evidence from Large US Firms</p>	<ul style="list-style-type: none"> • Qualitative analysis • Case studies

Source: 2DII State-of-the-art review

KEY EXCERPTS FROM ACADEMIC LITERATURE

Kölbel, Heeb, Paetzold, Busch: [Beyond returns: Investigating the Social and Environmental Impact of Sustainable Investing](#) (2018) and [Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact](#) (2019).

[Beyond returns: Investigating the Social and Environmental Impact of Sustainable Investing](#) (2018)

“This results in a problematic research gap: while SI is assumed to be a tool to improve the world, its impact on environmental and social outcomes is unclear. It is unknown, for instance, whether the enormous growth of SI has contributed in a meaningful way to a reduction of global greenhouse gas emissions. This knowledge gap has an important ethical dimension because important goals ought to be pursued with effective means (Singer, 2015). SI has both the potential to greatly facilitate the achievement of global development goals, as well as to divert substantial human and financial resources from other, more effective means”.

[Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact](#) (2019)

*“There are growing expectations that sustainable investing (SI)—that is, investing that takes environmental, social, and governance (ESG) information into account—will contribute to the achievement of societal goals. (...). Yet in spite of these high expectations, little is known about the actual impact investors make through SI. **We define investor impact as the change that investor activities achieve in company impact, and company impact as the change that company activities achieve in social and environmental parameters.** These definitions are consistent with prior academic literature (Brest, Gilson, & Wolfson, 2018) as well as with the view of leading institutions in the field of impact evaluation (IFC, 2019)”.*

“To date, academic literature on SI has also neglected the concept of investor impact. Many studies rely in their analysis on ESG metrics, which can be interpreted as a proxy for company impact (...). As a consequence, there is a gap regarding the mechanisms of investor impact in the literature on SI”.

“Shareholder engagement emerges as the most reliable mechanism for investors seeking impact, in the sense that it has been clearly demonstrated empirically. The impact of capital allocation is less reliable, since different parts of the mechanism have been studied empirically, but not yet in combination. Indirect impact mechanisms, which include stigmatization, endorsement, benchmarking, and demonstration, have hardly any empirical support in the literature so far”.

“However, there is no empirical evidence that explicitly links sustainable investors’ screening approaches to changes in ESG practices. There is some evidence that screening approaches affect asset prices, and theoretical models that predict an effect on ESG practices. There remains, however, considerable uncertainty as to whether the model assumptions hold in practice”.

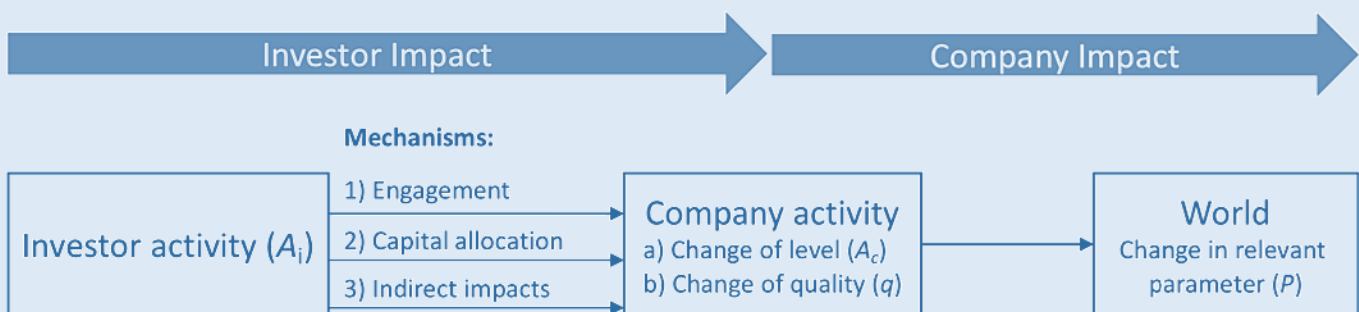


Figure extracted from Kölbel, Heeb, Paetzold, Busch: [Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact](#) (2019)

“The concept of investor impact is only beginning to take root in the SI industry. Currently, most SI funds either exclude firms operating in harmful industries or focus on companies that have in the past performed well on metrics of ESG performance. This is a static approach, which ignores that impact is fundamentally about change. Companies can and do change over time, and investors make an impact by triggering or accelerating such change. Due to a lack of suitable metrics for investor impact, however, very few investors analyze how their activities cause companies to change. As a result, the majority of the USD 30 billion that are deployed in SI today (GSIA, 2018) is invested in ways that promise only modest and perhaps even negligible investor impact”.

Kölbel, Heeb, Paetzold, Busch: [Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact \(2019\)](#)

Mechanism	Empirical Evidence	Key Determinants
Shareholder engagement	Entire mechanism has been analyzed. Evidence for effect on quality of company activity.	<ol style="list-style-type: none"> 1. Investor influence (+) 2. Company’s level of ESG experience (+) 3. Cost of requested reform (-)
Capital allocation		
Incentivizing improvements	Key parts of the mechanism have been analyzed separately. Indications for effect on quality of company activity.	<ol style="list-style-type: none"> 1. Market share of investors applying a screening approach (+) 2. Substitutability of affected assets (-) 3. Cost of requested reform (-)
Affecting growth	Key parts of the mechanism have been analyzed separately. Indications for effect on level of company activity.	<ol style="list-style-type: none"> 1. Improvement in financing conditions (+) 2. Size of company (-) 3. Age of company (-) 4. Maturity of financial markets (-)
Indirect impacts		
Stigmatization	No evidence.	
Endorsement	Some parts of the mechanism have been analyzed in isolation. Insufficient evidence for effect on level or quality of company activity.	<ol style="list-style-type: none"> 1. ESG reputation prior to endorsement (-)
Benchmarking	Some parts of the mechanism have been analyzed in isolation. Insufficient evidence for effect on level or quality of company activity.	<ol style="list-style-type: none"> 1. Consistency of ESG benchmarks (+)
Demonstration	No evidence	

Table extracted from Kölbel, Heeb, Paetzold, Busch: [Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact \(2019\)](#)

Mainstreaming investor impact: a conceptual challenge

*Thematic investing identifies and allocates capital to themes or assets **related** to certain environmental or social outcomes, such as clean energy, energy efficiency or sustainable agriculture.*

*Impact investing is a subset of thematic investing **that aims to ensure that investments lead to additionality of impact** – meaning a social or environmental outcome **would not have been achieved without that particular investment**. It also requires adequate measuring and monitoring of the investment's impact on environmental or social outcomes.*

[PRI, An introduction to responsible investment: listed equity \(2017\)](#)

"While not exclusive to impact investing, the direct and measurable effects achieved through impact investments often distinguish this approach from other categories of Responsible Investment (RI) (e.g., ESG Integration and ESG-screened funds), which tend to be more indirect and, therefore, more difficult to measure."

[GIIN Initiative for Institutional Impact Investment](#)

WHO CARES ABOUT INVESTOR IMPACT?

Historically, the only type of investment strategy that includes, by design, a measurement of investors' impact on non-financial parameters is "impact investing".

According to Eurosif, "*Definitions around the key requirements for impact investing which differentiate it from other strategies are:*

- **Intentionality:** *the intention of an investor to generate a positive and measurable social and environmental impact;*
- **Additionality:** *fulfilling a positive impact beyond the provision of private capital;*
- **Measurement:** *being able to account for, in a transparent way, the financial, social and environmental performance of investments."* ([Eurosif European SRI study 2018](#))

It is worth noting that less than 1% of "socially responsible" assets under management deploy to this approach, which makes it a niche currently unable by itself to "*shift the trillions*" towards sustainable growth.

THE CHALLENGE OF MAINSTREAMING IMPACT INVESTING

This specific investment strategy, designed to produce benefits in the real economy, logically appears as one of the most promising avenues to tackle the challenges raised by the SDGs and the environmental and climate crisis.

However, the challenge then becomes scaling up this impact approach in the financial sector.

As acknowledged in a World Economic Forum's publication in 2014, "*there are multiple perspectives at play in the dialogue around bringing more mainstream capital to impact investing. One perspective calls for broadening the definition of impact investing. Leaders of mainstream investing organizations often note that impact investing should be defined broadly enough to allow capital markets' participants to embrace a range of opportunities. This argument contends that when impact investing is too narrowly defined, it risks reinforcing the perception that it is a niche activity, hindering its ability to scale. The second perspective advocates that a limited and precise definition will not hinder scale but rather that it will actually drive adoption and advance development of the impact investing approach (...). While recognizing that impact investing is closely related to other sustainable/responsible investing approaches, it remains distinct in intentionality, approach and implementation*". ([WEF, Charting the course: How mainstream investors can design visionary and pragmatic impact investing strategies \(2014\)](#)).

A closer look at the debate reveals two ways to address the challenge:

- The first way consists in applying the traditional impact investing methodological concepts (intentionality, additionality, measurement) to liquid assets, by using suitable mechanisms (e.g. engagement);
- The second one, consists in stretching the definition of "impact investing" to make existing SRI/ESG approaches such as thematic green investment eligible. This approach involves abandoning the 'additionality' criteria and using portfolio exposure as a proxy for impact measurement.

ADAPTING IMPACT INVESTING TECHNIQUES TO LIQUID ASSETS

The first approach focuses on “investor impact”, as defined p. 20, and aligned with the fundamental criteria of impact investing: intentionality, additionality and measurement. This approach requires investors to implement a methodological framework allowing them to assess not only the final environmental impact of the investee (i.e. the “company impact”) – which is already a challenge – but also the possible causality between their actions as investors/bank (e.g. engagement, reallocation) and those results.

The development and pilot-testing of a methodological framework adapted to liquid assets is still in its infancy. The most prominent initiative is the Impact Management Project, which convened a practitioner community of over 2,000 organizations to debate and find consensus (norms) on technical topics, and share best practices, and notably aims at developing standards for impact measurement, management and reporting (IMP Structured Network). To date, their definitions, taxonomy of relevant ‘mechanism’ are broadly aligned with the conceptual framework developed in academic research (see p. 20).

STRETCHING THE DEFINITION OF IMPACT INVESTING

The second approach consists in ‘stretching’ the definition of impact investing by abandoning the objective of additionality or using proxies instead of measurement. Most strategies focus on allocating capital to companies that “*deliver products or services to benefit society and the environment*”, estimating the positive impact of those companies’ activities, and claiming responsibility for those impacts as the investor – without any evidence to back the claim. Such an approach enables asset managers to re-categorize sectorial and thematic strategies as ‘impact investing’.

Although this simplistic approach seems under-represented in the academic literature and the above-mentioned investor consensus-building exercise (IMP), it appears to be dominant in marketing practices.

Interestingly, some ESG investor associations have started to stretch their definition to fit the marketing practices: for instance, the UNPRI developed a new definition in 2018 that appears essentially inconsistent with the one developed only one year before by the same institution (see quotes on the right).

However, given the mindset of average customers when it comes to appreciate the benefits generated by green purchasing (see p. 25), this practice appears as a powerful – though confusing – tool to catch consumers’ attention on the products associated to that kind of claims.

“Thematic investing identifies and allocates capital to themes or assets related to certain environmental or social outcomes, such as clean energy, energy efficiency or sustainable agriculture.

Impact investing is a subset of thematic investing that aims to ensure that investments lead to additionality of impact – meaning a social or environmental outcome would not have been achieved without that particular investment. It also requires adequate measuring and monitoring of the investment’s impact on environmental or social outcomes.”

[PRI, An introduction to responsible investment: listed equity \(2017\)](#)

“As the impact investing ecosystem grows in size and complexity, traditional impact investing definitions, metrics, business models and investment vehicles need to be re-evaluated. Part of the evolution of this ecosystem involves expanding the scope of the original definition of impact investing to be more flexible and inclusive; in other words, to be more mainstream.

For instance, the traditional impact investing model is usually associated with the theory of change, the concept of additionality and purpose-driven companies. However, the mainstream impact approach focuses on liquid and mature businesses that deliver products or services to benefit society and the environment.”

[PRI Impact Investing Market Map \(2018\)](#)

THE DEBATE ABOUT 'SYSTEM CHANGE' ARGUMENTS

"Everyone knows that enterprises have enormous impacts on people and the planet - but what do investors specifically add to those impacts?"

The concept of "investor contribution" is under scrutiny. Public markets investors are not just being asked about the impact of the enterprises they invest in; they're being challenged as to how they're making any difference to that impact. Even within private markets, where investments in untested geographies or business models have long been assumed to be impactful, asset managers are increasingly challenged to demonstrate and disclose their value added. (...).

IMP consensus on investor contribution strategies:

An investment's impact is a function of:

- 1. The impact of the underlying asset(s) / enterprise(s) that the investment supports, and*
- 2. The contribution that the investor makes to enable the enterprise(s) (or intermediary investment manager) to achieve that impact.*

The first two phases of the IMP achieved consensus on four strategies by which investors can contribute to the impact of the enterprises in which they invest (...):

- Signal that impact matters,*
- Engage actively,*
- Grow new or undersupplied capital markets,*
- Provide flexible capital."*

Grow new or undersupplied capital markets

"Investors should self-classify their investor contribution as "grow new or undersupplied capital markets" if they have reason to believe that their investment itself directly caused or will cause:

- A change in the amount, cost or terms of capital available to an enterprise that enables it to deliver impact that would likely not otherwise occur, or*
- A change in the price of the enterprise's securities, which in turn pressures the enterprise to increase its social and/or environmental impact and/or rewards it for doing so. (...)*

The consensus of investors in public equity markets is that the widely distributed nature of those markets means that purchases and sales of small blocks of shares do not generally influence the market prices of securities or the behaviour of the underlying enterprises. In such circumstances, it is not reasonable to expect public equities transactions to meet the above definition of "growing new or undersupplied capital markets".

Signal that impact matters

"Investors in public markets often describe the impact of "signaling that impact matters" strategies in terms of the contribution to systems change. That is, if all other investors did the same, it would lead to a "pricing in" of social and environmental impacts by the capital markets.

This is a topic of debate. Some public markets investors describe themselves as participating in or contributing to systems change in capital markets, while also acknowledging that their investments do not directly cause a change to people and planet. Other public markets investors point out that there are still empirical questions that would need to be addressed before concluding that the collective action of investors in public markets causes a change in corporate behavior (...).

In general, "systems change" arguments about the impact of investing in public markets tend to be speculative, depending on the possible behavior of large numbers of other investors now or in the future. Some investors and asset owners find these arguments satisfactory; others do not. Empirically, much will depend on the proportion of investors that are "impact-motivated" versus "impact-neutral", and on the specific goals and tactics of both."

Impact Management Project, [Investor contribution in public and private markets - Discussion document](#) – 2019



IN THE BRAIN OF A CONSUMER: TAKING CREDIT FOR THE BENEFITS OF GREEN PURCHASING

When considering investment in a 'sustainable' financial product, our research suggests that consumers primarily look for environmental benefits (see Chapter 1). Then they tend to apply to the investment decision the same mental frame as for any green purchase. We describe it below for cars and organic food purchases. In both cases, the claim that the product is 'green' is associated with a concrete product feature, which translates directly into a measurable environmental benefit. The important part is that there is a causal and linear relationship between the purchasing decision on the one hand, and the environmental benefit on the other hand. The customer can therefore take credit for the environmental benefit: his/her decision is a necessary condition for the environmental benefit to materialize.

Purchasing a green car

In a 'green' (e.g. electric or efficient) car purchase, the benefit (fuel savings) is directly under the control of the consumer: the measurement and attribution is therefore straightforward. The car is a tool that helps the consumer save his/her own carbon emissions.

The diagram shows a linear flow from **PURCHASE** (hand holding money) to **CLAIM** (green car with leaf), **FEATURE** (engine with lightning bolt), and **BENEFIT** (truck with X). A ribbon icon labeled **ATTRIBUTION** connects the purchase to the benefit.

Purchasing organic products

In the case of organic food purchase, the attribution is a bit more indirect: the environmental benefit occurs during the production of the good. The consumer doesn't see it. Besides, the linear relationship between the purchase and the environmental benefit relies on the assumption that the product consumed will be replaced: the consumption therefore triggers the production. This perfect elasticity of production might not be entirely accurate due to factors such as stocks and effects on prices, but taking a linear relationship as a proxy when considering attribution remains a reasonable assumption. This is the logic behind attributing quantified environmental benefits to certain products and related purchases.

The diagram shows a linear flow from **PURCHASE** (hand holding money) to **CLAIM** (apple with tag), **FEATURE** (person with X), and **BENEFIT** (bee). A ribbon icon labeled **ATTRIBUTION** connects purchase to benefit, and a circular icon labeled **ASSUMPTION** (apple with leaf) is also connected to the attribution path.

Investing in a 'sustainable fund'

In the case of the investment in a 'sustainable fund' the logic is much more complex: there is not a direct relationship between the product 'feature' (e.g. SRI process, fund composition) and the expected environmental benefit in the real economy. The benefit is at best uncertain: for instance, purchasing stocks of a windfarm operator or selling stocks of a coal-fire power plan operator does not add or withdraw power production capacity. The potential effect is much more complex and definitely not linear. Estimating at collective level the effect (and therefore the environmental benefits) of such transactions would require observation and economic modelling. The attribution of the estimated environmental benefit to a subset of transactions related to a fund would be additional calculation step. In the funds covered by our research, we found no attempt by the asset managers to model (or even discuss) how their investment strategy actually contributed to environmental benefits (see Chapter 3). However, many of them still suggest in their claims the existence of a causal link, and in many cases – confusingly – use metrics related to the investees companies in order to attribute the alleged impact to the consumer. Doing so they exploit the inability of most consumers to differentiate the cases related to green goods purchase and the specific case of sustainable investment.

The diagram shows a flow from **PURCHASE** (hand holding money) to **CLAIM** (piggy bank with tag), **FEATURE** (gears and funnel), and **BENEFIT** (factory with X and wind turbine). A ribbon icon labeled **ATTRIBUTION** connects purchase to benefit, but it is crossed out with a red 'X'. A circular icon labeled **ASSUMPTION** (apple with leaf) is also present, but it is also crossed out with a red 'X'.

SHAREHOLDER ENGAGEMENT: A PROMISING AVENUE FOR INVESTOR IMPACT ASSESSMENT

“Shareholder engagement emerges as the most reliable mechanism for investors seeking impact, in the sense that it has been clearly demonstrated empirically”.

Kölbel, Heeb, Paetzold, Busch: [Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact](#) (2019).

Of all present mainstream investment strategies we examined, shareholder engagement seems the most promising in terms of bridging the investor impact assessment gap in the near future.

Indeed, this technique’s potential impact is the most documented from an empirical perspective and the methodological tools to implement in order to create an assessment framework are close to traditional environmental management tools (mainly: setting precise objectives, a clear theory of change, KPIs to measure the results of the intervention and report on achievements/non-achievements).

AN ILLUSTRATION OF GOOD PRACTICE: HERMES SDG ENGAGEMENT EQUITY FUND

As a matter of fact, our research allowed us to identify one example of an engagement-focused fund related to an impact claim that appears to show relevant practices in terms of public communication.

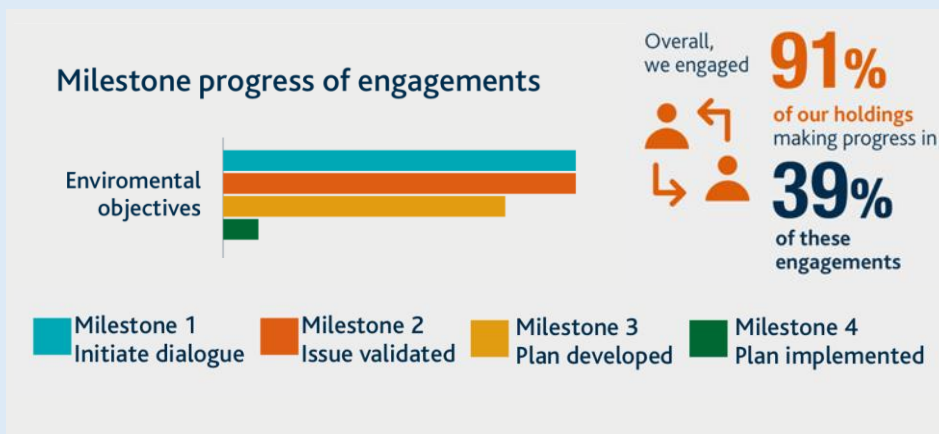
This fund has focused its strategy on measuring the impact of its engagement actions and provides a developed narrative as to its theory of change, a straightforward statement as to the uncertainties faced when assessing its actual investor impact and a clear presentation of the methodology followed to track and report on the results of the implemented strategy.

As it is a rather recent product, there is insufficient data so far to make an in-depth analysis of its exact level of compatibility with the MDEC framework, which is why we categorized it as ‘relevant’ at this point of our analysis (see below Chapter 3). However, the avenues opened by this kind of products appear to be the most promising to enable the development of mainstream financial products with a demonstrable ambition to produce outcomes in the real economy. Such an approach also coincides with the next steps of scientific experimentation envisioned by the above-mentioned researchers, and 2DII’s research team.

EXCERPTS FROM HERMES SDG ENGAGEMENT EQUITY FUND MARKETING MATERIAL

“Launched in January 2018, the Hermes SDG Engagement Equity Fund has the dual purpose of delivering attractive returns and measurable real-world impact. We seek this by targeting both investment outperformance and positive social and environmental change by engaging with companies to help deliver the Sustainable Development Goals (SDGs).”

“However, the real-world impact of our engagements may not be immediately quantifiable, or comparable across companies in the portfolio. (...) we are committed to reporting both on the progress and outcomes of our engagement efforts. (...) we use narratives to communicate how our corporate engagement has generated real changes within companies. (...) Importantly, the companies will corroborate the narratives after meeting any of the SDG objectives – ensuring integrity and adding credibility to our claims of effective engagement and additionality.”



Standard of evidence: the regulatory framework sets the bar relatively high

THE COMPLIANCE CRITERIA ON ENVIRONMENTAL CLAIMS

Regulation on misleading claims

In order to foster consumers' confidence across Europe, the EU adopted in 2005 a renewed regulatory framework on unfair commercial practices aimed at prohibiting any practice *"that materially distorts or is likely to materially distort the economic behaviour with regard to the product of the average consumer whom it reaches or to whom it is addressed"* ([Unfair commercial practices directive \(UCPD\)](#), art. 5.2.b).

Among those, a misleading practice is one that *"contains false information and is therefore untruthful or in any way, including overall presentation, deceives or is likely to deceive the average consumer, even if the information is factually correct, in relation to one or more of the following elements, and in either case causes or is likely to cause him to take a transactional decision that he would not have taken otherwise: (...) the main characteristics of the product"* ([UCPD](#), art. 6).

Regulation on greenwashing for all products

Regarding especially green marketing claims the European Consumer Agenda adopted by the EU in 2012, acknowledged that *"consumers should be supported in easily identifying the truly sustainable choice" and that "effective tools are needed to protect them against misleading and unfounded environmental and health claims"* ([European Consumer Agenda, 2012](#), p. 5).

To that effect, the EU gathered a Multi-Stakeholder Dialogue on Environmental Claims (MDEC), which defined a set of compliance criteria aimed at tackling misleading green allegations and greenwashing, in light of the two following principles of interpretation established by the EC:

- *"Based on the general clauses of the UCPD, particularly Articles 6 and 7, traders must present their green claims in a clear, specific, accurate and unambiguous manner, to ensure that consumers are not misled"*.
- *"Based on Article 12 of the UCPD, traders must have the evidence to support their claims and be ready to provide it to competent enforcement authorities in an understandable way if the claim is challenged"* ([EC's guidance on UCPD, 2016, p. 97](#)).

These MDEC guidelines are a piece of *soft law* established without prejudice of the *"national courts and authorities (...) case-by-case assessment of whether a claim is misleading either in its content or in the way it is presented to consumers, taking into account its impact on the average consumer's purchasing decisions."* (MDEC 2016).

The same caveat applies to the assessment performed in this paper, as it is a preliminary approach based on the MDEC guidelines, and not a thorough and case-by-case legal analysis based on each Member States' legislation applicable to marketing claims, which exceeds the scope of this work.



THE REQUIRED STANDARD OF EVIDENCE

A constant feature of institutional initiatives to regulate environmental claims is the requirement for robust scientific evidence to support the environmental attributes associated with the product or service.

Actually, from a market regulation perspective, the main risk identified regarding environmental claims is that the technical difficulty to assess their reality for an average consumer may be used in an opportunistic way by traders, tempted by benefiting from the advantages of an environmentally-friendly image at no cost.

Therefore, the MDEC Compliance Criteria state that *"In accordance with the UCPD, any claim or information in advertising and marketing (whether it is environmental or not) must be correct and not misleading. As such, claims should be **based on robust, independent, verifiable and generally recognized evidence which takes into account the latest scientific findings and methods.**"*

In addition, the Compliance Criteria specify that *"Unless traders are aware about the most significant environmental aspects, it is recommended that **traders perform a life cycle assessment (LCA) taking into account the pilot phase of the Product Environmental Footprint and the Organisation Environmental Footprint in 2013-2016**".* ([MDEC Compliance Criteria](#))

This specific requirement is worth noticing because it goes **beyond the usual standard required in similar frameworks** at international level and sets the bar particularly high, by referring to the EU's initiative to create a comprehensive LCA framework for common consumer goods through its *Single Market for Green Products* initiative (see p. 28).



BUILDING THE SINGLE MARKET FOR GREEN PRODUCTS

In 2008, the EC launched the “Sustainable Consumption and Production Action Plan”, an ambitious initiative to develop a standardized methodological framework to assess the environmental impact of products and organizations, with the objective to:

- “Establish a common methodological approach to enable Member States and the private sector to assess, display and benchmark the environmental performance of products, services and companies based on a comprehensive assessment of environmental impacts over the life-cycle ('environmental footprint')
- Ensure better understanding of consumer behavior and provide better information on the environmental footprints of products, including preventing the use of misleading claims, and refining eco-labelling scheme” [EC’s Communication: Roadmap to a resource efficient Europe](#) (2011)

Actions related to this policy were implemented, under supervision of DG ENVIR, through the adoption of the communication “Building the Single Market for Green Products” in 2013 ([COM\(2013\) 196](#)), and led to the development of two methods based on Life Cycle Analysis to be tested by stakeholders during a “pilot phase” that took place from 2013 to 2018 with the participation of more than 280 companies and organizations.

The EC is currently considering how to include these methods in policies, based on the results of the pilot phase.

We see no relevant reason to set the bar lower, in terms of reflection on the establishment of methodological assessment standards, when it comes to the evidence required from so-called “green” or “impact” financial products to support their claims.

Extracts from EC’s Communication [Building the single market for green products](#) (2013)

*“Green products’ exist in any product category regardless of being ecolabelled or marketed as green; **it is their environmental performance that defines them as ‘green’**. Higher market uptake of such products combines societal benefits of reduced environmental damage with higher satisfaction of consumers”.*

“In 2010, the Council of the European Union called on the Commission to develop a harmonised method for the calculation of the environmental footprint of products. Since then, the Commission has been working on the basis of existing LCA approaches and international standards, introducing further methodological specifications necessary to achieve more consistent, comparable and accurate results. This work, supported by a consultation process as well as by a road-testing exercise in collaboration with industry, has culminated in the development of the Product Environmental Footprint (PEF) and Organisation Environmental Footprint (OEF) methods”.

*“The general objective of the EU action in this area is to contribute to improving the availability of clear, reliable and comparable information on the environmental performance of products and organisations to all relevant stakeholders, including to players along the entire supply chain. To achieve this objective, the Commission, **on the basis of many years’ work with stakeholders and the scientific community, is providing two methods to assess and benchmark environmental performance**. These methods are robust (science-based), comprehensive (in that they will cover the whole life cycle of products or organisations and a range of environmental aspects) and eventually will support the comparability of performances.*

The EU action aims to reduce the current uncertainty on what constitutes a green product and a green organisation. It is a step towards a more integrated internal market, where products and organisations that are genuinely green are recognised by consumers”.

CRITERIA USED FOR ASSESSING THE IMPACT CLAIMS

CONTENT OF THE CLAIM

“In order not to be misleading, environmental claims should reflect a verifiable environmental benefit or improvement and this should be communicated in a precise manner to consumers” (MDEC, § 2.1.).

- Focus on the main environmental impacts
- Clarity on which aspects of the product the claim relates to
- Benefit beyond what is already considered as a common practice in the relevant market or required by law

PRESENTATION OF THE CLAIM

“Once the content of the claim has been established (section 2.1), it should be presented in a way that is accurate, clear, specific and unambiguous to ensure consumers are not misled about the intended meaning, and are thus able to make informed purchasing choices”.(MDEC, § 2.2.).

- Truthful wording as to the benefit achieved
- Clear scope and boundaries of the claim
- Avoidance of vague, ambiguous and broad claims

SUBSTANTIATION OF THE CLAIM

“In accordance with the UCPD, any claim or information in advertising and marketing (whether it is environmental or not) must be correct and not misleading. As such, claims should be based on robust, independent, verifiable and generally recognised evidence which takes into account the latest scientific findings and methods” (MDEC, § 2.3.)

- Clear and robust evidence measured using the most appropriate methods.
- Avoidance of claims on future aspirations
- Availability to the public of information relevant to support the claim

CLAIMS TO BE ESPECIALLY AVOIDED ACCORDING TO THE COMPLIANCE CRITERIA

Vague ambiguous and broad claims (MDEC, § 2.2):
*“Traders should avoid using **vague, ambiguous and broad "general environmental benefit" claims** which are difficult, if not impossible, to substantiate”.*

- *“Examples (not exhaustive) of general environmental benefit claims could include: "environmentally friendly", (...) **"good for the environment", "sustainable", "green", "carbon friendly", "carbon neutral", (...) "an ethically correct choice"***
- *“In case traders choose to use general broad claims, they should be **accompanied by clear and prominent qualifying language that limits the claim to a specific benefit or benefits**”*
- *“The use of a general benefit claim (presented without further qualifications) may be justified (...) **if the life cycle assessment studies of the product have proven its excellent environmental performance.** These studies should be made **according to recognised or generally accepted methods** applicable to the relevant product type and should be third-party verified. **If such methods have not yet been developed** in the relevant field, **traders should refrain from using general benefit claims**”*

Claims on scientifically uncertain environmental impacts (MDEC § 2.3.): *“**Evidence should be clear and robust, and claims should be measured using the most appropriate methods.** Independent third party testing should be made available for the competent bodies if the claim is challenged. **If expert studies give rise to significant disagreement or doubt over environmental impacts, the trader should refrain from marketing the message altogether**”.*

Claims on future aspirations (MDEC § 2.3.):
*“Traders should rather communicate about environmental achievements **instead of aspirations of future environmental performance**, which by definition are not eligible for substantiation by evidence. This does not prevent companies from communicating on future environmental efforts (via Corporate Social Responsibility reporting or also advertising) if they deem this necessary or useful. Nevertheless, in order to avoid the risk of being accused of greenwashing practices, companies **should only do this when they have established a realistic plan with clear targets and timescales, involved relevant stakeholders and ensured third party monitoring of commitments**”.*

CHAPTER 3: COMPLIANCE

99% ENVIRONMENTAL IMPACT CLAIMS REVIEWED ARE MISALIGNED WITH REGULATORY GUIDANCE

KEY FACTS AND FIGURES

- We reviewed the claims of 230 ‘sustainability’ funds available to European retail investors
- 52% of funds make environmental ‘investor impact’ claims
- None of them substantiate the claims with scientific evidence meeting regulatory guidance constraints
- 8% of the claims are incorrect, 61% are unclear, 81% are too broad, and 99% have at least one of those characteristics
- We only found one practice potentially consistent with the regulatory guidance

Almost no impact claim passes the ‘accuracy test’

METHODOLOGY AND SCOPE

Fund selection

In the second half of 2019, we reviewed 230 European funds representing €139 billion in AuM, explicitly presented as having a link to environmental issues through the implementation of SRI, green thematic and green bond approaches (see Fig. 16).

The scope of fund analysis initially focused on a panel of ‘impact’ funds holding an environmental certification in France, Germany and Luxembourg. The section then focused on funds that had been awarded the following labels: TEEC, LuxFlag, FNG, and ISR.

The analysis was subsequently expanded to the largest SRI/ESG funds by AUM available to EU retail investors. The fund-level financial data was sourced from Lippers.

Marketing documents analyzed

For each of the funds selected, we searched online sustainability-related commercial communications available: specific to the fund itself (KIDs and other relevant documents), as well as documents referring direct or indirectly to the product in the corporate communication of the financial institution commercializing it.

In parallel, we gathered the information on the investment strategies and techniques implemented in each fund, in order to understand how to interpret the marketing material.

Focus of the analysis: impact-related claims

Each of these documents were thoroughly cross-referenced and assessed multiple times to ensure the consistency and accuracy of the analysis.

We focused our analysis on elements of commercial communications that attempted to establish an explicit causality between the action of investing in a fund and the occurrence of real impacts in the real economy and/or on the environment.

Our examination of environmental impact claims led us to differentiate four types of material (see Fig. 17):

- The Key Information Document (regulated);
- The marketing material specific to the product or sufficiently related to it (labeled ‘direct’ in the chart), and targeted at consumers;
- The sections of the website dedicated to sustainability and the financial institutions that referred to sustainability-related products¹;
- The online marketing material related to sustainability and specific products available behind a ‘confirm your professional status’ wall²

1. These claims being related by the same institution to the funds marketed as “sustainable”, we considered that they fell within the scope of this analysis (labeled ‘indirect’ in the chart).
 2. We included these materials since it can be transferred to retail investors via financial advisors or used as a basis for the representations made by advisors, as revealed by mystery shopping visits we also performed in Q4 2019 (see upcoming study) - which also suggest that the advisors do not have enough knowledge to correct problematic claims included in such material.

Fig. 16: Funds studied by strategy (230 funds)

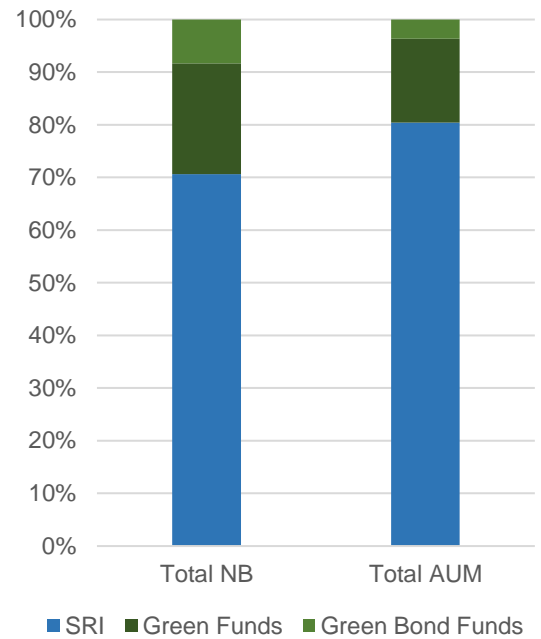
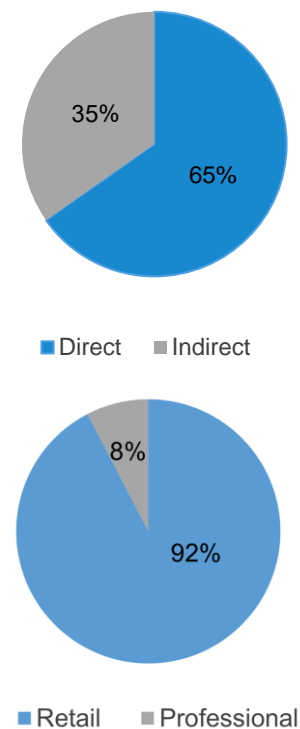


Fig. 17: Source of marketing material



DISCLAIMER

The findings below are a preliminary approach based on the high-principle guidelines included in the MDEC. They are subject to review and modifications, as our research regarding marketing material is still ongoing. In addition, the analysis provided is not based on a case-by-case legal study of the reviewed marketing material in light of each Member State's applicable legislation. As such these findings do not constitute a legal opinion but reveal compatibility tendencies in light of the interpretative principles included in the MDEC Report.

MAIN FINDINGS

52% of funds make environmental impact claims

Our analysis concluded that 52% of the funds in our sample (€58 billion AuM) made such claims, while the other 48% (€81 billion AuM) made no claim as regards to the environmental impact of the investment strategy (see Fig. 18).

No impact claims appear indisputably compatible with the MDEC principles

The main and more concerning finding of our study is that, at this point, we were not able to find a single case where the impact claims could indisputably be deemed compatible with the regulatory guidance applicable to environmental marketing claims under EU law.

All funds fail the 'substantiation test'

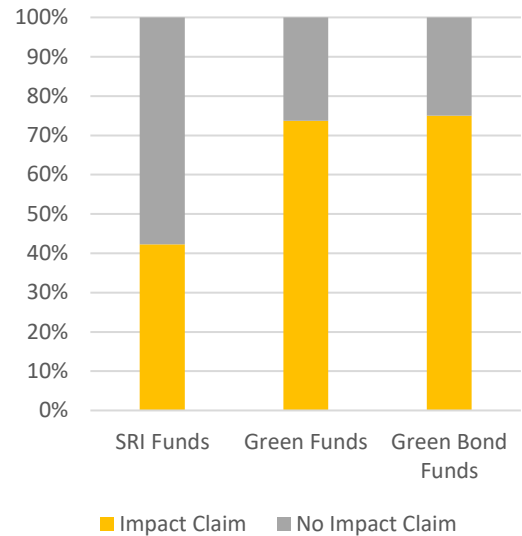
First, as discussed Chapter 2, by their very nature, most of the impact claims assessed appear unable to reflect a *"verifiable environmental benefit or improvement"* due to the essence of the financial products and investment strategies to which they relate (SRI/ESG, Green thematic, Green bonds):

- Most of these strategies have not been designed with the objective to manage the environmental impact of the investment decisions in the real economy;
- Even so-called "impact investing" funds, which are supposedly designed to deliver such outcomes, do not provide any convincing measurement of their effectiveness in terms of "investor impact" (see above, p. 23).

As a consequence, the verifiability of the claim, which is a major requirement of the MDEC Compliance Criteria as to its content, is logically impossible.

It is possible, regarding some of the funds of our sample, that such measurement features and tools are not accessible to the public and only communicated to actual customers. However, based on our knowledge of the market, we consider improbable that if such material existed it would not be presented in the corresponding marketing communications regarding sustainability practices.

Fig. 18: Frequency of product-related environmental impact claims across all documents examined



Almost all funds fail the ‘accuracy test’

In addition to this general acknowledgement, the claims assessed are often problematic in light of several Compliance Criteria regarding their accuracy (see Fig. 19 and next pages):

- 8% of the claims are **incorrect** as they inaccurately link an investment in a fund to a specific environmental outcome in explicit terms;
- 61% are **unclear** as to the aspect of the financial product that generates the environmental impact/benefit;
- 81% are **too broad** to be substantiated.

And 99% have at least one of those characteristics.

Based on our assessment of the overall profile of the funds’ communication, we further categorized them on a scale of controversial intensity (Fig. 20).

At this point of our analysis, we found only one practice potentially consistent with the regulatory guidance, namely a fund which bases its impact strategy on measuring and reporting on the specific results of each of its engagement actions (see details, p. 26).

The next following pages discuss the main issues behind our findings on the controversial side of our sample and provide representative examples of the kind of shortcomings identified¹.

Fig. 19: Frequency of problematic claims per main MDEC criteria (in % of funds associated to an impact claim)

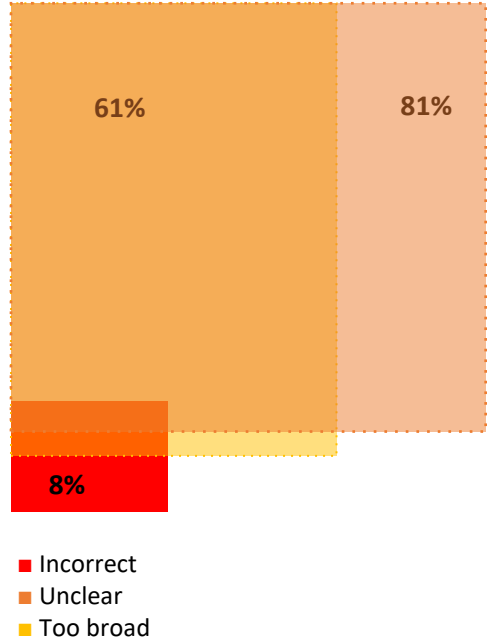
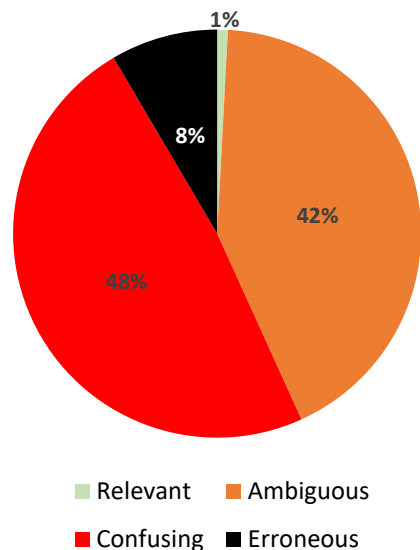


Fig. 20: Funds categorized by severity of the misalignment with MDEC guidelines (in % of funds associated with an impact claim)



¹The quoted examples of claims have been anonymized (name changed, figures altered) and slightly re-worded (no change in the meaning and key messages though) in order to preserve the anonymity of the asset manager.

TOP FIVE MARKETING TRICKS

As discussed p. 25, a significant number of fund managers exploit the parallel between green purchase (e.g. cars, organic products) and investing to suggest environmental outcomes that are not supported by evidence (see Chapter 2)

1

Environmental benefits of investees' activities **= Investing in the fund leads to environmental benefits**

The fund manager suggests that there is a causal link between a specific allocation of capital to a company in a portfolio and environmental benefits generated by the investee, where there is no solid evidence to support such a statement.

See examples p. 35, 36. and consumer interpretation p. 39, 40 (Fig. 28, 29, 30)



2

Changes in portfolio boundaries **= GHG emission reductions in the real economy**

The fund manager ambiguously presents changes in the exposure of a portfolio to environmental features (e.g. carbon footprint) as if they corresponded to an equivalent outcome – often quantified – in the real world, which is technically incorrect.

See examples p. 35 and consumer interpretation p. 40 (Fig. 30)



3

Investees are better than their peers **= Investing in the fund reduces GHG emissions**

The fund manager suggests that an ESG best-in-class approach can be specifically related to an actual environmental outcome, which is not supported by any evidence, and is most probably incorrect.

See examples p. 36.



4

Earmarking green activities **= Financing more green projects**

The fund manager suggests that earmarking implies additionality and measurable investors' contribution when the current framework and practices do not provide the tools to substantiate such conclusions.

See examples p. 36 and consumer interpretation p. 40 (Fig. 30)



5

Any ESG process implemented **= Environmental outcomes in the real economy**

The fund manager suggests that an ESG integration approach can be specifically related to an actual environmental outcome, which is not supported by any evidence, and is most probably incorrect.

See examples p. 35, 36.



INCORRECT CLAIMS

8% of funds that make impact claims inaccurately link an investment in a fund to a specific environmental outcome in explicit terms.

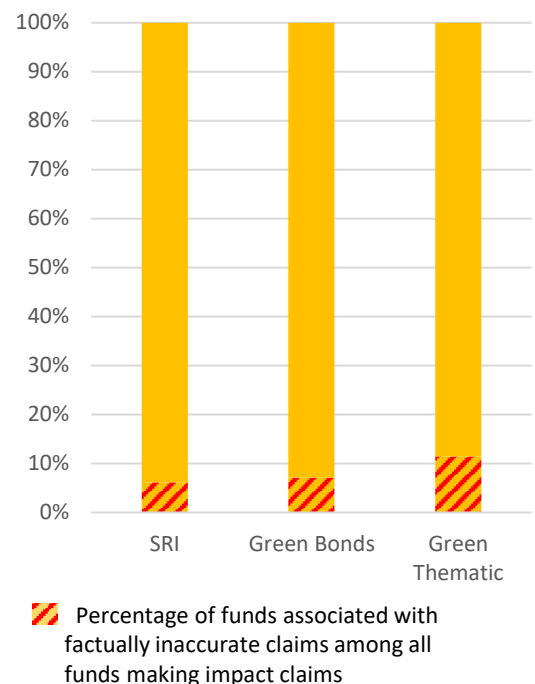
The main inaccuracies are based on two confusions, sometimes combined:

- Confusing the impact of certain economic activities of the investee companies with the impact of the investment strategy itself (see discussion Chapter 2);
- Comparing an indicator associated with the companies in the portfolio (usually their carbon footprint) with the market average and presenting the difference as “a reduction” in the real economy.

Beyond this, our survey suggests that such claims are misinterpreted by consumers (see p. 38 and seq.). When reading the first claims below, close to 70% understand that their investment will directly lead to additional outcomes in the real economy.

In this context, SRI funds associated with the carbon intensity of companies (CO₂/M€ invested) seem to deserve a special place in ‘Greenwashers’ Hell’. Indeed, the indicator combines a powerful confusing effect (see Fig 31 p. 40), with a complete lack of relevance to inform investment decisions (the indicator being based on industry average emission factors in most cases, and fluctuating with stock prices¹).

Fig. 21: Frequency of incorrect impact claims



Source: 2DII analysis 2019

Representative examples of claims

“Our fund is designed to have a real impact on the environment and enables our clients to take real action on the issue of climate change. An investment of 5 million in our fund allows you to reduce carbon emissions by 4200 tons, the equivalent of taking 1900 cars off the roads.”

“Our fund invests in environmentally innovative companies. By investing in our fund, you reduce greenhouse gas emissions by 25% compared to an investment in a conventional fund.”

“Take action on climate change: with our fund you can find out how many tons of carbon you have saved while reducing the carbon footprint of your investments”.

¹See [Hit and miss - about TCFD disclosure guidance for financial institutions](#), 2DII (2015)

UNCLEAR CLAIMS

61% of funds that make impact claims in our sample are unclear as to the aspect of the financial product that is supposed to generate the environmental impact/benefit they pretend.

As a matter of fact, the claimed environmental benefit should logically be related to the investment strategy implemented:

- This is what most consumers expect from financial products (see p. 11, 12);
- And how they tend to interpret any environmental claim made on a financial products (see p. 25).

However, most of the impact claims assessed maintain an apparently voluntary ambiguity between the impact attributable to the investment strategy and the one of the companies in which the funds are invested. Based on our consumer survey, this type of ambiguity confuse a majority of consumers (see p. 38 and seq.).

In this category, the special place in ‘Greenwashers’ Hell’ belongs to Green Bond funds, which often combine two tricks:

- A majority of the funds reviewed maintain an ambiguity between the ‘use of proceeds’ (earmarking) and the actual targeted financing of the activities;
- In most cases, the wording also suggests that the instrument leads to additional investment in the earmarked green activities.

Beyond these considerations, our consumer survey shows that most consumers are actually confused (see p. 38 and seq.). The concept of earmarking is indeed particularly counter-intuitive: only 2% of consumers associate “green bonds” with such a bizarre scheme¹.

Representative examples of claims

“Through their investment in companies committed to climate change, investors can make a positive contribution to the future of our planet while achieving a good financial result”.

“Our fund invests in companies committed to climate change, which allows it to have a positive impact on greenhouse gas emissions and living conditions on our planet”.

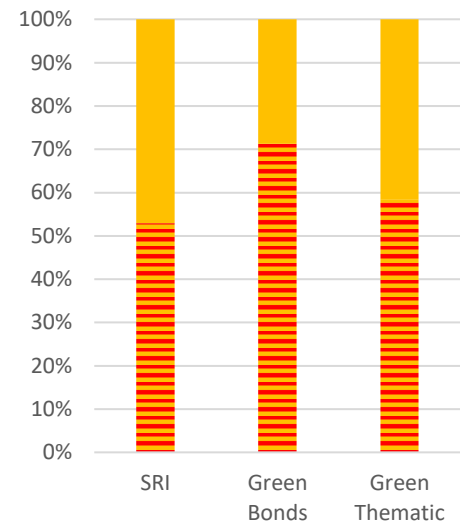
“Our fund aims to create a positive impact as well as a good financial result and is focused on building a sustainable future through investment in environmentally friendly companies”.

“Our Green Bond Fund is helping to achieve the energy transition. Imagine that investors have the means to play their part in this objective”.

“Investing in green bonds allows our clients to participate in financing the global energy transition”.

¹See Thomä, (J.), [Consumers reject the EU’s green bond framework for good reason](#), Responsible investor, 2019

Fig. 22: Frequency of unclear impact claims



Percentage of funds associated with unclear claims among all funds making impact claims

Source: 2Dii analysis 2019

“A profound problem with the green bond market is the lack of additionality. Where is the new green infrastructure and renewable kit that has been financed with green bonds? Both investors and policymakers need to be aware that the vast majority is repackaging and refinancing existing projects.” Steve Waygood, Chief Responsible Investment Officer, Aviva Investors, Quoted in [EY Green Bond: Power surge](#), 2016, p. 6

CLAIMS TOO BROAD TO BE SUBSTANTIATED

81% of the impact claims of our sample are too broad in light of the MDEC Compliance Criteria.

In such cases, the environmental claim is similar in kind to the "good for the environment" or "an ethically correct choice" claims especially targeted as examples of worse practices.

As stated before, the main issue with this kind of claim is that they are so broad in the benefit they refer to that no evidence could possibly support them on an objective basis.

On this topic, it is interesting to notice that most concepts used by professionals, such as "Green Bonds" or "Green funds" could be seen as actually misaligned with the MDEC criteria (which explicitly advise against the use of terms like "green" or "sustainable", as examples of too "general environmental benefit" claims – see p. 29).

Beyond this, our consumers' interpretation survey suggests that such claims are confusing for one third of the respondents, who interpret these broad terms as an impact claim (see p. 38 and seq.).

More surprisingly, we did not find in the hundreds of pages of "impact assessment" and discussion of the EU regulatory package on sustainable finance any discussion of this issue before the decision to directly integrate terms such as "Green Bonds" and "Sustainable Investments" was made (see p. 45).

Representative examples of claims

"We offer investors the opportunity to participate in the creation of a better world for future generations by offering financial products specially designed and managed for those who want to have a positive impact."

"Our fund aims to create a positive impact as well as a good financial result and is focused on building a sustainable future through investment in environmentally friendly companies."

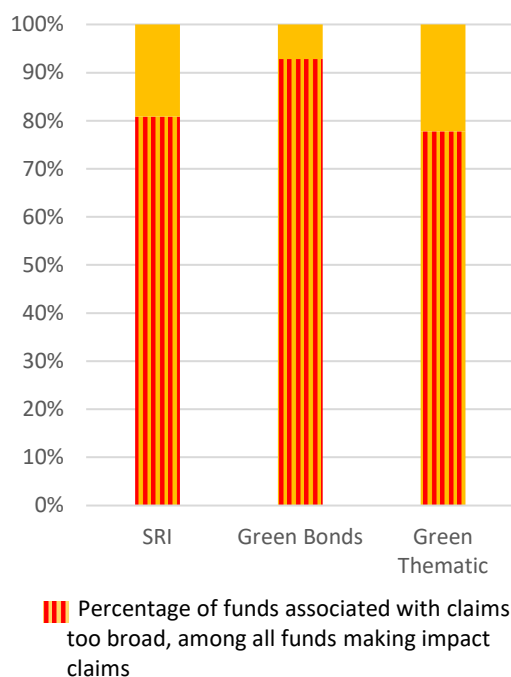
"Our fund enables our clients to engage in the fight against global warming and improve our living conditions".

"This fund is intended for those who are concerned about our future and the climate challenges facing the planet"

"By investing in our fund, you are making a positive contribution to the nature"

"With our fund, you invest in a better world, helping to tackle climate change".

Fig. 23: Frequency of too broad impact claims



Source: 2Dii analysis 2019

Consumers are confused

SURVEY METHODOLOGY

Panel. In Q3 2019, we surveyed 2,000 German retail investors and 2,000 French retail investors through an online questionnaire. Participants were at least 18 years old and were recruited from the base population of potential retail investors (every participant has 1,000 Euros in savings and/or a saving rate of at least 100 Euros per month. Those who have more savings than the benchmark 1,000 Euros can have a lower saving rate and in reverse, respondents with a saving rate of at least 100 Euros can have lower savings than the benchmark).

Methodology. Building on the examples discussed p. 35 to 37, we presented five claims to the people surveyed in order to assess their interpretation:

- A factual description of the fund, making no impact claim, but using vague terms such as “sustainable companies” – fig 27.
- A slightly ambiguous claim, where the impact statement related to investee companies can easily be confused with the impact of the investment strategy – fig 28.
- An ambiguous claim saying that *the fund is designed* to have a “measurable impact” when it actually refers to the investee companies – fig 29.
- A technically incorrect claim by a green bond fund, presenting “earmarked” projects as “financed” by the fund and assimilating the impact of the projects to the impact of the fund – fig 30;
- An incorrect impact claim, using the carbon footprint indicator to illustrate the magnitude of the alleged impact – fig 31.

The claims presented to the respondents were real extracts from actual marketing material. To keep them anonymous, they have been redrafted for the purpose of this study.

Testing the interpretation. For each description, we then asked them to associate the claim with a description of the product and its environmental benefits “Based on this description, which of the following sentences most accurately describe(s) your understanding of the environmental characteristics associated with this product?”.

The consumers were then presented three options:

Two of them presented a correct description of the investment strategy, but they differed on the description of the associated environmental benefits:

- One description was correct, explaining that there is no evidence of impact,
- The second was inaccurate, explaining that there is an impact.

The third option was a nonsensical description designed to test the general ability to understand of the claim.

Category	Description of the environmental benefits	Short label for respondents
Accurate description of the environmental benefits	(...) “There is no evidence that investing more in this fund will change the operations of the companies / will have an impact in the real economy”	“Right product identified”
Inaccurate description of environmental benefits	(...) “The more money invested in the fund, the more CO2 reduction activities are developed, the greater your environmental impact.”	“Confused”
Nonsensical description	(...) “The fund finances a program that purchases old cars to take them off the road “	“Nonsensical”

Fig. 24: Profile of the respondents

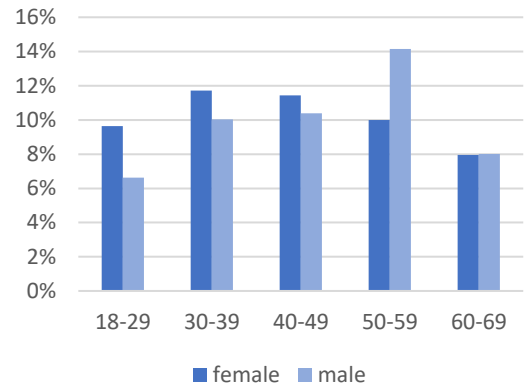


Fig. 25: Distribution of monthly income

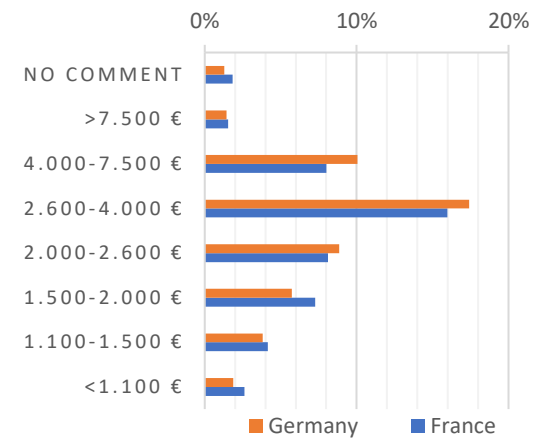
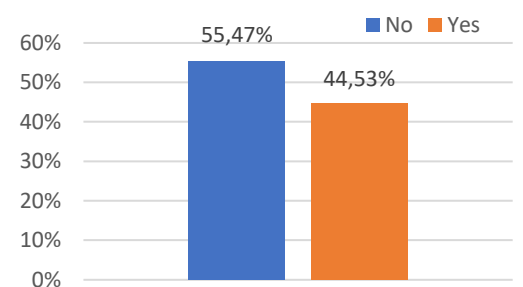


Fig. 26: Financial literacy: previous experience in investing in stocks and bonds



Understanding the role of awareness. In each country, the respondents were divided into two sub-groups:

- The first sub-group responded directly to these questions immediately after filling out their profile (age, income...) and then had to respond to questions about their environmental investment objectives and their related motivations.
- The second sub-group was questioned about their objectives and motivations prior to interpreting the claims. The purpose was to raise their awareness on the concepts, and notably the difference between the impact of an investment strategy and the impact of the investee companies.

Gauging the feeling. Finally the respondents confused by the claim (i.e. who picked the wrong description) were informed that they picked the wrong description and that *“it cannot be said that the more money invested in the fund, the more CO2 reduction activities are developed, the greater your environmental impact”*. They were then asked about their feeling regarding the description of the product:

“In the light of this explanation, how would you characterize the description of this product?”

- A) *The description of the product is misleading*
- B) *The environmental characteristics provided in both answers seem the same to me*
- C) *The description is clear, but I choose the wrong answer.”*

The complete list of questions and answers is presented in Annex 1.

MAIN RESULTS

The concept of “environmental impact” remains unclear to a large majority of respondents

The main finding of our survey is the extremely high level of confusion that exists in average consumers’ minds as to the concept of “environmental impact of a fund”. This is shown by several indicators:

- The high level of nonsensical answers selected for each claim (12 to 26%)
- The fact that, even when they are submitted a factual claim, which voluntarily avoids referring to any notion of impact (Fig. 27), the total percentage of respondents who are confused exceeds 30%.
- After respondents received an explanation and realized that they made an erroneous interpretation, between 45-50% of them (for each of the claims assessed) still thought that the environmental characteristics associated with impact and non-impact products were the same.

This level of misunderstanding clearly calls for being extra careful in the design of marketing claims – as opposed to the practices identified above.

It should be noted that, communication being a two-way street, our wording of the product descriptions suggested to consumers might also be blamed for the confusion measured, in addition to their poor discomfort with the terms and concepts. However, we provided simple definitions for each technical term (equity, bond, shareholder vote...).

Fig. 27: Interpretation of a factual claim (best-in-class equity fund)

“The ‘Sustainable equity fund’ concentrates on sustainable companies on global stock markets business based on their environmental practices”

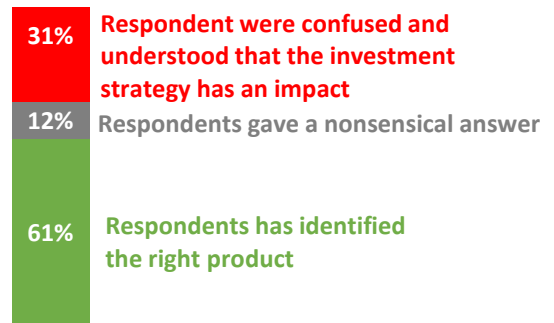


Fig. 28: Interpretation of an ambiguous claim (thematic green equity fund)

“The Fund invests in companies which help to realize the energy transition to a low carbon economy, having as such a positive impact on CO₂ emissions. Those who invest in the fund invest in companies that contribute to and profit from the transition”.

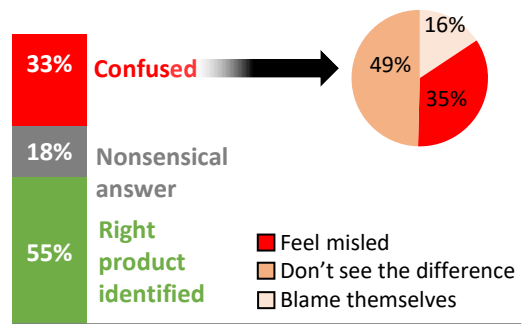
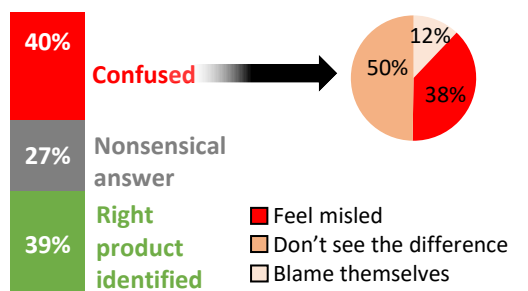


Fig. 29: Interpretation an ambiguous claim (thematic equity fund)

“The “Green Fund” helps to limit negative impacts of energy consumption and carbon emissions on the environment. Our investment strategies conception allows the fund to have a quantifiable impact on environmental issues”.



Incorrect impact claims confused a majority of respondents

All claims that we categorized as “Incorrect” based on our technical analysis (see p. 35) confused a majority of consumers.

An aggravating factor seems to be the presence of specific quantitative indicators (namely carbon footprint calculation) that is wrongly presented as a quantification of the impact generated by the fund (Fig 31): close to 70 % of the respondents understood the claim as ensuring that *“The more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact.”*

The concept of ‘earmarking’ for green bonds’ use-of-proceeds combined with the statement that the earmarked projects are ‘financed’ and the reference to quantification seems particularly confusing as well, with 55.2% of consumers understanding that *“The more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact.”*

Even though the two examples of ambiguous claims appear to be less confusing than the incorrect ones, they still are for 33% and 40% of respondents, and not understood at all by another significant number of participants who chose the nonsensical answer (18% and 26%).

Confused respondents’ feeling

When confused respondents are asked about how they would characterize the claim, a minority (12-15%) blame themselves for the misinterpretation, which reflects the average level of discomfort with the concepts and related insecurity.

Then, the answers are split between misunderstanding (*“The environmental characteristics provided in both answers seem the same to me”*) and the feeling of being misled (*“The description of the product is misleading”*) that ranges from 35% to 45%.

It is interesting to notice that, for a majority of consumers, the discomfort with the terms and concepts contributes to moderate the level of outrage when they feel misled. However, this outrage was very visible through the follow-up interviews and focus group we performed with the respondents. It is therefore not certain that this averaging effect will protect product manufacturers from controversies and litigation moving forward.

Fig. 30: Interpretation of an incorrect claim (green bond fund)

“The Green Bond fund allows you to finance the energy transition. You assess your actual impact via the tons of CO₂ avoided or reduced. The proceeds of the bonds are earmarked to finance specific environmental projects with a positive environmental impact”.

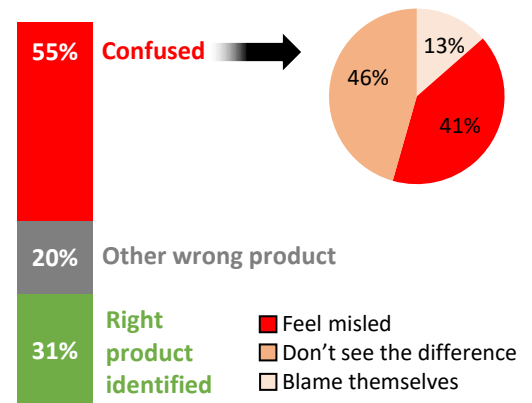
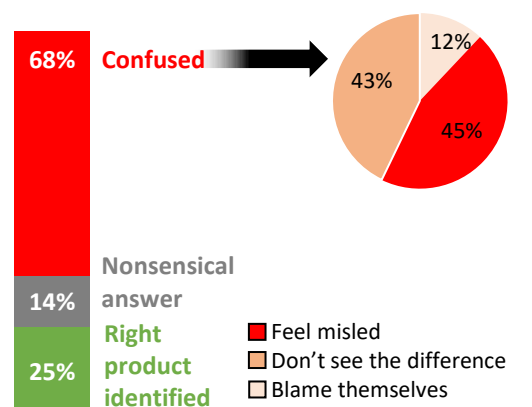


Fig. 31: Interpretation of an incorrect claim (thematic green equity fund)

“The Equity Fund” allows investors to have a real impact on climate change. The design of the fund aims at generating a real impact on the environment and create solutions for climate change: For example, a 5 million Euro investment in the fund, for one year would reduce polluting emissions by 4,200 tons of CO₂, which is equivalent to taking 1,900 cars off the road for a year. These figures are reported every year and audited.”



What are the legal risks ?

IN PRINCIPLE, LEGAL RISKS APPEAR TO BE SIGNIFICANT

The UCPD leaves it to the Member States to define in detail the procedures for its enforcement.

Generally speaking, the directive requires Member States to enable consumers to complain about possible unfair practices before judicial or administrative authorities, with the possibility of a first procedural step before a Self-regulated organization ([UCPD art. 11](#)), and to implement a system of “*effective, proportionate and dissuasive*” penalties to punish violations ([UCPD](#), art. 13).

The Directive also provides for a series of means aimed at strengthening the effectiveness of enforcement, such as injunctions to cease unfair practices or the publication of conviction decisions.

These standards form the basis of all national enforcement mechanisms, increasing significantly the consumers' ability to take legal action against practices they would deem unfair.

Given the growing interest of citizens in climate protection related actions (along with the development of environmental litigation)¹, there is no doubt that this kind of procedures could easily become a privileged way to develop environmental activism, with high reputational costs for the targeted industry players.

IN PRACTICE, RISKS MIGHT ACTUALLY BE LOW

Surprisingly enough, despite the wide public and institutional recognition that consumers are mostly skeptical about environmental claims, it appears that actions taken on the basis of the UCPD against misleading environmental claims are statistically few in number (see [EC's Consumer market study on environmental claims](#), 2014, p. 132 and s.).

Moreover, the case law on the issue is rather limited and mainly results from SROs' decisions, which do not generally have the power to impose 'hard' sanctions.

Several explanations are possible, including the lack of resources of supervision and prosecution authorities (see [EC's Consumer market study on environmental claims](#)) or certain procedural difficulties that consumers or the NGOs assisting them may still encounter (despite all the guarantees provided for in the UCPD), regarding for example *locus standi* recognition or the technical debate related to the evidence of the claims.

Last but not least, as discussed in conclusion (see p. 45), some recent developments of the EU regulatory package under the Action plan for sustainable finance have raised numerous questions and might act as a shield to protect 'greenwashers' against legal actions from consumers and competitors.

Therefore, at this stage, the main risks seem to relate primarily to reputation, but the rising political importance of climate issues in general, and sustainable finance in particular could quickly shift this dynamic, since all the legal pillars are already in place.



FRENCH LAW PROVIDES CONSUMERS WITH A FULL RANGE OF ENFORCEMENT OPTIONS

The French system is one of those with the largest number of enforcement mechanisms related to the provisions of the UCPD.

Consumers can, individually or through a consumer protection organization, bring an action before an administrative or judicial authority, with the aim to ask for a sanction, compensation for damages or a cease and desist order with penalties.

When they concern environmental claims, these actions may also be brought before the competent authorities by environmental associations.

In addition, it is worth to be noted that under French law, unfair commercial practices – and misleading claims among them – are criminally sanctioned and can result in a penalty of up to 300,000 euros and 2 years of imprisonment.

¹See for example [Solana, \(J.\), "Climate litigation in financial markets: a typology", *Transnational Environmental Law* \(2019\)](#); Huglo (C.), *Le contentieux climatique: une révolution judiciaire mondiale*, Bruylant (2018)

CHAPTER 4: NEXT STEPS

CONCLUSIONS AND RECOMMENDATIONS

KEY TAKE AWAYS

- There is a need to build evidence on the reality of ‘investor impact’ in light of different investment strategies and techniques
- No sector-specific regulatory guidance exist, and there is a need for a set of principles specifically adapted to the impact-related claims of the financial sector
- So far, the concept of ‘Investor impact’ is missing from the draft documents related to upcoming regulatory reforms, which risks being a missed opportunity for the achievement of the ambitious environmental policy objectives set out in the Paris Accord and the EU Sustainable Finance Action Plan

Building the evidence

This study highlights the need to build a framework for assessing evidence of ‘investor impact’.

Several approaches have been developed by impact investors, foundations, governments and development banks for assessing the impact of their philanthropic and development programs, and sometimes micro-lending and seed capital funding.

Besides, in the context of social sciences and economics, many measurement methodologies have been developed for assessing multi-factorial phenomenon. All these methods can be transferred to better estimate the effectiveness of various investment strategies and techniques designed to deliver impacts in the real economy.

“There are currently no universally agreed common, minimum standards and guiding principles for measuring the performance and impact of green finance products. Minimum standards can be helpful for enhancing investor confidence and trust and enabling markets to develop. For example, minimum standards may help ensure investors understand what they are buying and prevent misleading ‘green washing’ of financial products and services. Green washing is marketing that portrays an organisation’s products, activities or policies as producing positive environmental outcomes when this is not the case.”

[FCA’s Climate change and green finance discussion paper, p. 10, 2018](#)

CASE STUDY OF PGGM’S PORTFOLIO BY THE IMPACT MANAGEMENT PROJECT: A CALL FOR EVIDENCE BUILDING (See [Impact Management Project, The investor’s perspective: How an asset manager can map its portfolio by the effects it has on people and planet – and what we can learn from this, 2018](#)).

“PGGM’s intentions have evolved over time. It began by excluding investments that do harm, through negative screening or accounting for ‘ESG externalities’. Today, through its proprietary CO2 Index (based on Trucost emissions data), it also excludes from its portfolio persistent violators of the Global Compact Principles, as well as the least carbon-efficient companies. In addition, it tries to minimize negative impacts on people and planet through active ownership of its investments, engaging with its investees.

It also seeks to contribute to solutions for social and environmental challenges through its ‘Investments in Solutions’ programme”.

“PGGM learned a lot by mapping its portfolio. But it also recognised the current limitations of impact management if organisations do not share their goals and performance data across each of the five dimensions.

In order to categorise the impact goals of a business (or a portfolio of businesses) on the x-axis accurately, data should be collected on the actual impact performance of a business (or portfolio of businesses).

Basing categorisation on performance data, rather than just intentions or other labels, helps ensure investors and other stakeholders can hold that intermediary investor or business to account on progress towards its impact goals, and share in the learnings when these goals have to be flexed or changed.

In order to enable more accurate classification of products by their impact goals, PGGM calls on the investment industry to raise its expectations for what impact information is communicated at investment, encouraging businesses (or portfolios of businesses) to both transparently plot themselves on the matrix, and share the data they have used to make this assessment.

If this is encouraged universally, it would enable investors to:

- *more accurately match intentions of clients or their own products with investment opportunities (especially for those with passive strategies)*
- ***collect more, and better, information about impact, enabling us to learn more about which asset classes and strategies are most effective in delivering which type(s) of impact.***
- ***move more investment capital into the ‘Benefit people and planet’ category and then the ‘Contribute to solutions’ category over time – and thus fill gaps in the capital markets”***

Building a responsible marketing framework for the financial sector

RESPONSIBLE MARKETING PRINCIPLES

With the aim to foster legal certainty and the development of recognized best practices, the MDEC Compliance Criteria high-level principles could be usefully supplemented with a set of guidelines dedicated to the financial sector.

Building on the existing body of regulation, industry standards and the aforementioned definitions and concepts, 2DII proposes the following set of principles, as a new framework for financial organizations making impact-related claims.

REALITY-BASED

Financial institutions should ensure that all information reported and documented is built around fact-based assumptions in order to limit misleading communication. In particular, they should:

- Avoid ambiguous statements equating the deployment of a sustainable investment strategy (the means) with environmental impacts in the real economy (the ends).
- Refrain from equating an evolution of the boundaries of their asset portfolio (e.g. divestment from an entity owning a coal-fired power plant) with environmental impacts in the real economy (e.g. closure of a coal-fired power plant replaced by renewables) as a direct consequence of their actions.
- Refrain from equating an increase in their allocation to certain financial assets (e.g. increase in green bond exposure, or assets under management in green funds) with an increase of investments in the real economy (e.g. increase in capital expenditure in green projects) as a consequence of their actions.

EVIDENCE-BUILDING

Any institution that believes the deployment of an investment/lending approach (such as divestment from certain assets, the increase in allocation to other assets or the deployment of certain tools) will lead directly or indirectly to environmental impacts in the real economy should substantiate its claims by collecting evidence supporting the causal link between the financier's actions and the outcomes. For this purpose, the institution should:

- Lay out each assumption made for the specific cause and the evidence available (ex-ante) to support the investment thesis.
- Collect further evidence (ex-post) and report how it supports—or contradicts—its thesis; this evidence-based approach aims to avoid any ambiguity between assumptions (i.e. divestment from coal mining companies prevents new coal projects from being financed) and facts, and build evidence on an ongoing basis to continuously improve the investment thesis.

ADDITIONALITY

An institution should refrain from suggesting that the environmental impacts of its investees and borrowers can automatically be credited to its investment/lending strategy and from reporting these impacts as if the financial institution itself was delivering them. A financier cannot automatically take credit for the investee's climate impact (i.e. low level and/or reductions of GHG emissions in the real economy) if there is no evidence that the financier's climate action was a key driver for the GHG emissions change. This involves refraining from suggesting that:

- The provision of financing to green activities brings a critical contribution to their development, if these activities do not face difficulties accessing finance in the first place;
- Its refusal to finance brown activities prevents the institution's access to finance, if the evidence suggests that the effect is fully offset by other financial sector players;
- Its strategy triggered the environmentally friendly practices of investees/borrowers, if their decision were already made or have been primarily driven by other factors.

LEADERSHIP

The absence of scientific evidence on the effectiveness of various investment techniques in delivering real impact should not prevent leading financial institutions from implementing best practices and experimenting with new ones. Leading impact investors assess the effectiveness of their approach, acknowledge shortcomings, and learn from their mistakes to fine tune their investment thesis and approach.

Regulating carefully

THE EU'S ENVIRONMENTAL POLICY OBJECTIVES REQUIRE ANTI-GREENWASHING RULES

In the wake of Article 2.1.(c) of the Paris Agreement, the EC's Action Plan on financing sustainable growth principally aims at "reorienting capital flows towards a more sustainable economy" ([Action plan](#)), as well as calling for "[connecting] finance with needs of the real economy" in light of sustainability issues ([EC's Press release, March 7th 2019, Capital Markets Union: Commission welcomes agreement on sustainable investment disclosure rules](#)).

And as shown above, the appetite of retail investors for sustainability-related investments is one of the main avenues explored to achieve this considerable task.

In such context, it is no surprise that 'greenwashing' – known to undermine consumers' willingness to make environmental-related purchase decisions – is repeatedly cited as one of the main challenges that the implemented reforms are supposed to tackle.

However, this objective is not adequately captured by the Action Plan.

CONFUSION REGARDING THE CONCEPT OF 'INVESTMENT' IS JEOPARDIZING EU'S POLICY OBJECTIVES

The aim to "connect finance with needs of the real economy" or to reorient "capital flows towards a more sustainable economy" implies the movement of actual financial flows in the real economy towards impactful projects from an environmental perspective.

To be consistent with that policy objective, the concept of 'investment' used in implementation texts should be defined as an actual allocation of capital expenditure to that kind of projects or, at least, an action contributing to such an outcome.

Worryingly, as shown above, this is unlikely what reallocating stock and bond portfolios from brown to green or ESG securities allow.

As a result, it's critical to define this concept carefully. 2DII already raised concerns about this in a previous paper ([Impact-washing gets a free ride](#), 2019), finding that the criteria initially proposed by the EC to design the EU Ecolabel for financial products were potentially inconsistent with the applicable legal framework.



"Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" Paris Agreement, art. 2.1.(c)

Taxonomy "will be a first step towards tackling 'greenwashing' and will make it easier for investors to identify the criteria applied when classifying a financial product as 'green' or sustainable" [EC's Explanatory Memorandum to COM\(2018\)353 re: Taxonomy, p. 4.](#)

Disclosure regulation "is built around three main pillars: Elimination of greenwashing (unsubstantiated or misleading claims about sustainability characteristics and benefits of an investment product) and an increase of market awareness on sustainability matters (...)" [EC's Press release, March 7th 2019, Capital Markets Union: Commission welcomes agreement on sustainable investment disclosure rules.](#)

In addition, there is a real need to encourage research to build evidence on the ‘environmental impact’ of different investment strategies and techniques, understood as their ability to contribute to the reorientation of investments in the real economy from unsustainable to sustainable activities. Financial products should be analyzed based on the investment strategies’ effectiveness in delivering these outcomes in terms of the influence they have on decision-making in the real economy (which is a complex issue).

It also appears essential to clarify the compliance criteria applicable to financial products, by building a specific interpretative framework upon the existing principles.

These are the necessary bases to integrate impact measurement requirements in an adequate way in the EU legislation, a precondition to enable it to achieve the ambitious policy objectives set in the Action plan on sustainable finance.

“The EU Ecolabel for Financial Products will allow retail investors concerned with the environmental impact of their investment to rely on a trusted and credible (third party verified) label when investing in green financial products and avoid “greenwashing”

[EC’s JRC Preliminary Technical report re: EU Ecolabel criteria for financial products, p. 9.](#)

ANNEX 1

SURVEY QUESTIONNAIRES

Annex

Complete list of questions and answers presented in 2DII's 2019 retail investors survey:

Profile questions (for group A and group B as preamble)

Age, Gender, Savings, Revenue range

AWARENESS-RAISING QUESTIONS

(Asked first for group A only, asked after "Claims Interpretation" questions for Group B)

1. Do you want to invest in financial products that take into account environmental criteria?

- Only if it clearly contributes to increase the financial returns of the products
- Yes, I am potentially interested and want to know more about these products (Leads to Q2)
- I don't understand the question
- No, even if these products have better financial returns.

Q1.1: if "No" selected:

Why? [free text]

1. What would best describe your motivation for this type of products? (multiple choices possible)

- I want to have a positive environmental impact in the real economy by investing in the financial product: I want the investment strategy behind the financial product to be designed and managed in such a way that the more money invested the more positive environmental impacts are generated.
- I want to invest in companies that have positive environmental impacts (e.g. operators of windfarms) even if my investment does not change anything to their activity, because I believe these companies will have a better financial performance.
- I want to invest in companies that have positive environmental impacts (e.g. operators of windfarms) even if my investment does not change anything to their activity, because it is a way to show symbolically my support to the environmental cause.
- I want to avoid investing in any company that have a negative environmental impact, even if my choice does not change anything to their activity, because I believe these companies will have a bad financial performance in the future.
- I want to avoid investing in any company that have a negative environmental impact, even if my choice does not change anything to their activity, because it is a way to show my support to the environmental cause.

⇒ if multiple choices are selected to Q2.

2.1. Please rank these objectives' motivation: the most important first.

3.1. Assuming that it is recommended for reaching your financial objectives to invest a part of your savings in a real estate fund. All the following products are equal from a financial risk and returns perspective, only the environmental characteristics are different. Which product would you prefer in this list?

- Fund A:** Your money is invested in new energy-efficient office buildings put on the market by real estate developers. The fund manager can guarantee that your money is only invested in 'green' buildings. Since there is already a high demand for those buildings, nothing suggests that additional efficient buildings are built thanks to the activity of the fund, so the fund manager cannot promise that *your investment* will save energy and carbon emissions.
- Fund B:** Your money is invested in old residential buildings that are not energy-efficient and occupied by tenants. In each building, the fund manager implements a program to insulate every apartment (when tenants leave or are on vacation) and put solar panels on the roof. Then, once the building has been made energy efficient, it is sold so the fund can reinvest the money made in new buildings and start the same process again. This investment strategy helps to save energy and carbon emissions, and the fund manager will report how much each year. The figures are audited by the public environmental agency.
- Fund C:** Your money is invested in existing office buildings. Some of them are already energy-efficient, the others have already a renovation program in place to make them energy efficient. The fund manager can guarantee that your money is only invested in buildings that are or are becoming green. Since there is already a market trend to make office buildings more energy-efficient to meet the needs of the tenants, the fund manager cannot promise that your investment will accelerate construction or renovation programs nor save more energy and carbon emissions than what would happen without the fund.
- I don't understand the question or the choices.

3.1.bis: If your first choice was not available, which product would you choose?

- Fund A/B/C:
- Fund A/B/C:
- I would not choose any of those products

3.2. Assuming that it is recommended for reaching your financial objectives to invest a part of your savings in an equity fund. All the following products are equal from a financial risk and returns perspective, only the environmental characteristics are different. Which product would you prefer in this list?

- Fund A:** The fund manager uses its voting rights as shareholder to force the management of big industrial companies (e.g. power producers, car makers,) to green their investment plans (e.g. by producing more renewable energy and close coal-fired power plants, by producing more electric cars and less gas-guzzling vehicles). Since other fund managers team up with him/her, the approach works: every year, the fund reports how much energy and carbon emissions are saved thanks to the changes triggered by the votes. These figures are audited by the public environmental agency.
- Fund B:** the fund manager only invests in the shares of big industrial companies (e.g. power producers, car makers,) that have a greener activities than their competitors (e.g. they produce more renewable energy and less electricity from coal, they produce more electric cars and less gas-guzzling cars). Given that the fund B is a small player, and that these companies already attract many investors, the fund strategy does not change what these companies actually do. Therefore, the fund manager cannot promise that your investment will save energy and carbon emissions, but he/she can guaranty that you invest in companies greener than the average. The fund receives a label from the government that confirms this. .
- Fund C:** The fund manager only invests in the shares of companies that have environmentally friendly activities (only renewable power, only electric cars). Given that these companies already attract many investors, they do not face a shortage of capital to finance their growth, so the fund strategy does not change what these companies do. Therefore, the fund manager cannot promise that your investment will save energy and carbon emissions, but he/she can guaranty that you invest only invest in the greenest companies. The fund received a green label from the public environmental agency that confirms this.
- I don't understand all the descriptions, so I cannot make an informed choice.

3.2.bis: If your first choice was not available, which product would you choose?

- Fund A/B/C:
- Fund A/B/C:
- I would not choose any of those products

3.3. Assuming that it is recommended for reaching your financial objectives to invest a part of your savings in a bond fund. All the following products are equal from a financial risk and returns perspective, only the environmental characteristics are different. Which product would you prefer in this list?

- Fund A:** The fund manager invests in a special type of bonds. Some banks provide special loans to households in order to finance the isolation of their house and put solar panels on their roof. The banks transform these loans into bonds, that are made available to investors. This transformation enables the bank to free-up capital in order to give more of these loans. The fund receives a label from the government that guaranty that it is only invested in these “eco-efficiency” bonds. The interest rate served by the bonds being aligned on the market rate, if the fund does not invest in these bonds another investor will do. Therefore, the fund manager cannot promise that your investment will increase the number of eco-efficiency loans that will ultimately be provided.
- Fund B:** the fund manager invests in the bonds of companies that only run environmentally friendly activities (e.g. renewable power, electric car). The fund receives a label from the government that guaranty that it is only invested in environmentally friendly activities.
The interest rate served by the bonds being aligned on the market rate, if the fund does not invest in these bonds another investor will do. Therefore, the fund manager cannot promise that your investment will increase the financing of these companies or boost their environmentally friendly activities in any way.
- In Fund C,** the fund manager invests in the bonds of companies that run mostly polluting activities (e.g. coal-power plants, gas-guzzling cars), but also some environmentally friendly activities (e.g. renewable power, electric car). However, the fund only invests in the “green limited editions” of the bonds: these “limited editions” are normal bonds, financing all the activities of the companies. However, the amount issued under the “limited edition” by the company is caped to the total amount of money that has been invested (or that the company plans to invest in the near future) in environmentally friendly activities. A governmental label guaranties that the limit is respected and that the activities are indeed environmentally friendly. However, the fund manager cannot promise that your investment will boost the environmentally friendly activities of these companies in any way.
- I don’t understand all the descriptions, so I cannot make an informed choice.

3.3.bis: If your first choice was not available, which product would you choose?

- Fund A/B/C:
- Fund A/B/C:
- I would not choose any of those products

CLAIM INTERPRETATION QUESTIONS

(Asked first for group B, asked after “Awareness raising” questions for Group A)

Several financial products are presented to you. They are all equal from a financial risk and returns perspective, only the environmental characteristics are different. Please describe how you *understand* these environmental characteristics based on the description, irrespective of what you would prefer as a client.

1.1. Product 1: *“The Equity Fund” allows investors to have a real impact on climate change. The design of the fund aims at generating a real impact on the environment and create solutions for climate change: For example, a 5 million Euro investment in the fund, for one year would reduce polluting emissions by 4,200 tons of CO₂, which is equivalent to taking 1,900 cars off the road for a year. These figures are reported every year and audited.*

Based on this description, which of the following sentences most accurately describe(s) your understanding of the environmental characteristics associated with this product?

[Multiple choice]

- A.** This fund is invested in companies that pollute less than their competitors. The fund calculates the difference between the CO₂ emissions of these companies and the average of the market every year. There is no evidence that investing more in this fund will change the operations of these companies though.
- B.** This fund finances activities that reduce CO₂ emissions: the more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact. The CO₂ emissions reduced thanks to your investment are calculated every year by the fund.
- C.** The fund finances a program that purchases old cars to take them off the road. The fund calculates the CO₂ emissions avoided for each car retired.

If answer B is selected:

Keep displaying the [product 1 description] and add below:

Actually, this fund is invested in companies that pollute less than their competitors. The fund calculates the difference between the CO₂ emissions of these companies and the average of the market every year. There is no evidence that investing more in this fund will change the operations of these companies though. **So it cannot be said that** “the more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact”.

In the light of this explanation, how would you characterize the description of this product:

- The description of the product is misleading
- The environmental characteristics provided in both answers seem the same to me
- The description is clear, but I choose the wrong answer

1.2. Product 2: *“The “Green Fund” helps to limit negative impacts of energy consumption and carbon emissions on the environment. Our investment strategies conception allows the fund to have a quantifiable impact on environmental issues”.*

Based on this description, which of the following sentences most accurately describe(s) your understanding of the environmental characteristics associated with this product?

[Multiple choice]

A. This fund finances activities that reduce CO₂ emissions: the more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact. The CO₂ emissions reduced thanks to your investment are calculated every year by the fund.

B. This fund is only invested in green companies that do not pollute. The fund calculates the difference between the environmental impact of these companies and the average environmental impact of competitors every year. There is no evidence that investing in this fund will change the operations of these companies though.

C. This fund is invested in companies that produce measurement systems for energy consumption and greenhouse gas emissions. These measurement systems help manage environmental impacts.

If answer A is selected:

Keep displaying the [product 2 description] and add below:

Actually, this fund is invested in green companies that do not pollute. The fund calculates the difference between the environmental impact of these companies and the average environmental impact of competitors every year. There is no evidence that investing in this fund will change the operations of these companies though. **So it cannot be said that** “the more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact”.

In the light of this explanation, how would you characterize the description of this product:

- The description of the product is misleading
- The environmental characteristics provided in both answers seem the same to me
- The description is clear, but I choose the wrong answer

1.3. Product 3: *The “The ‘Sustainable equity fund’ concentrates on sustainable companies on global stock markets business based on their environmental practices”.*

Based on this description, which of the following sentences most accurately describe(s) your understanding of the environmental characteristics associated with this product?

- A. This fund finances activities that reduce pollution and environmental degradation: the more money invested in the fund, the more environmentally-friendly activities are developed, the greater your environmental impact.
- B. This fund is invested is invested in the stocks of companies that pollute less than their competitors. There is no evidence that investing more in this fund will change the operations of these companies though.
- C. This fund is invested in the oldest companies, those that survived different economic environments

If answer A is selected:

Keep displaying the [product 3 description] and add below:

Actually, *this fund is invested is invested in the stocks of companies that pollute less than their competitors. There is no evidence that investing more in this fund will change the operations of these companies though. **So it cannot be said that** “the more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact”.*

In the light of this explanation, how would you characterize the description of this product:

- The description of the product is misleading
- The environmental characteristics provided in both answers seem the same to me
- The description is clear, but I choose the wrong answer

1.4. Product 4: *“The Green Bond fund allows you to finance the energy transition. You assess your actual impact via the tons of CO₂ avoided or reduced. The proceeds of the bonds are earmarked to finance specific environmental projects with a positive environmental impact”*

Based on this description, which of the following sentences most accurately describe(s) your understanding of the environmental characteristics associated with this product?

- A:** the fund invests in a special type of bonds called “green bonds” that only finance environmentally-friendly projects (e.g. windfarms, installation of solar panel on homes, etc.). The more money invested in the fund, the more environmentally-friendly projects are developed, the greater your environmental impact. The CO₂ emissions reduced thanks to your investment are calculated every year by the fund and reported to you.
- B:** the fund invests in the bonds of companies that only run environmentally-friendly activities (e.g. renewable power, electric car). The interest rate served by the bonds being aligned on the market rate, if the fund does not invest in these bonds another investor will do. Therefore, the fund manager cannot promise that your investment will increase the financing of these companies or boost their environmentally-friendly activities in any way, but it calculates the emissions reduced by these existing environmentally-friendly activities.
- C.** The fund invests in the bonds of companies that run both polluting activities (e.g. coal-power plants, gas-guzzling cars) and environmentally-friendly activities (e.g. renewable power, electric car). The fund only invests in the “green” limited edition of these bonds, the amount available in this green limited edition is capped by the total amount of money that has been invested by the companies in environmentally-friendly projects. The fund calculate the amount of CO₂ emissions associated with those projects. There is no evidence that your will increase the number of environmentally-friendly projects though .

If answer B or C are selected:

Keep displaying the [product 4 description] and add below:

Actually, this fund is invested is in the bonds of companies that run both polluting activities (e.g. coal-power plants, gas-guzzling cars) and environmentally-friendly activities (e.g. renewable power, electric car). The fund only invests in the “green” limited edition of these bonds, and the amount available in this green limited edition is capped by the total amount of money that has been invested by the companies in environmentally-friendly projects. There is no evidence that your will increase the number of environmentally-friendly projects though **So it cannot be said that** *“the more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact”*.

In the light of this explanation, how would you characterize the description of this product:

- The description of the product is misleading
- The environmental characteristics provided in both answers seem the same to me
- The description is clear, but I choose the wrong answer

1.5. Product 5: *“The Fund invests in companies which help to realize the energy transition to a low carbon economy, having as such a positive impact on CO₂ emissions. Those who invest in the fund invest in companies that contribute to and profit from the transition”.*

Based on this description, which of the following sentences most accurately describe(s) your understanding of the environmental characteristics associated with this product?

- A. This fund is invested in companies operating cleaning services in the Energy Sector. They will therefore benefit financially from the growth of the Energy Sector.
- B. This fund is invested in the stocks of companies that reduce CO₂ emissions. There is no evidence that investing more in this fund will change the operations of these companies though.
- C. This fund finances activities that reduce CO₂ emissions : the more money invested in the fund, the more environmentally-friendly activities are developed, the greater your environmental impact.

If answer C is selected:

Keep displaying the [product 5 description] and add below:

Actually, this fund is invested in the stocks of companies that pollute less than their competitors. There is no evidence that investing more in this fund will change the operations of these companies though. So it cannot be said that “the more money invested in the fund, the more CO₂ reduction activities are developed, the greater your environmental impact”.

In the light of this explanation, how would you characterize the description of this product:

- The description of the product is misleading
- The environmental characteristics provided in both answers seem the same to me
- The description is clear, but I choose the wrong answer

Q2. You may have heard of green bonds already. Green bonds are marketed as a way to invest “green”. **In your opinion, what is the minimum criteria that a green bond need to meet in order for it to be allowed to call itself a “green bond”?**

- The company, government, or bank issuing the bond has to be 100% green in terms of the products and services that it sells Y/N
- The company, government, or bank issuing the bond does not have to be 100% green today, but needs to have an explicit target to become “100% green” Y/N
- The company, government, or bank issuing the bond does not have to be 100% green today, but needs to have an explicit target to become greener over time at a pace consistent with what is required to meet environmental goals (for example global climate goals of limiting global warming to well below 2°C) Y/N
- The company, government, or bank issuing the bond does not have to be 100% green today, but needs to have an explicit target to become greener over time. There should not be a specific requirement as to the pace of this transition Y/N
- The company, government, or bank issuing the bond does not have to be 100% green today, and does not need to have an explicit target to become greener over time. However, it should have the same amount of green investment or refinancing as the volume of the bond. Y/N
- I don’t think there should be an explicit requirement and companies should be able to decide for themselves, what are the requirements when they issue a green bond.

Q3 Assume that the requirement is the following: The company, government, or bank issuing the bond does not have to be 100% green today, and does not need to have an explicit target to become greener over time. However, it should have the same amount of green investment or refinancing as the volume of the bond. **Even if this is not your answer from the preceding question, would you still be satisfied that investing in these types of bonds satisfies your non-financial objectives?**

- a. Yes, I like the fact that the money that I receive in return comes from certified green activities, even if the company itself is not necessarily transitioning.
- b. No, because I have no assurance what the money I gave is being used for and I would not like it to be used to finance brown projects
- c. No, because I wish to make a positive impact with my money and I have no assurance that my money is used to finance more certified green projects

Q4: You are given the choice to invest in two funds. Which option would you prefer, assuming financial performance and all other relevant criteria for your investment is the same

- a. The fund has a carbon footprint of 100 tons today, but reduces that footprint by 7 tons every year
- b. The fund has a carbon footprint of 50 tons today, but reduces that footprint by 3.5 tons every year
- c. I don’t know.

ABOUT 2° INVESTING INITIATIVE

The 2° Investing Initiative is the leading global think tank on sustainable finance and the main beneficiary of European research funding on the topic. 2° Investing Initiative. The organization is non-for-profit and non commercial. It helps develop the regulatory frameworks, performance metrics, data and tools to support this evolution. 2° Investing Initiative has introduced the climate scenario analysis of investment and lending portfolios into regulatory frameworks (France, EU, California), investors and banks practices (for more than 900 users and €60Tn of assets) and supervisory practice (UK, EU, California, Japan).

2° Investing Initiative research on the suitability assessment test in Europe triggered, via the HLEG, the reform of MIFID and IDD introduced by the EC regulatory package on sustainable finance.

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