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**Public consultation on the review of the Belgian ESG (Towards Sustainability-TS) label**
**28 October 2020**

**FINAL** document (quotations allowed under source citation)
**Answers were provided by BELSIPA to selected questions only, as are quoted hereunder.**

**ANSWER SECTION**

**(Question 4) What would you prefer: a) a broader offer of sustainable financial products with basic requirements, b) a smaller offer of products with strict requirements or c) a combination of both types with transparency about the actual level of strictness?**

*For BELSIPA, option a) seems basically a starting point to incentivise the transition of the economy via financial products. With such transition progressing though, option c) ought to become the rule, at least insofar as the requirements for distinguishing sustainable products in terms of their "greenness/sustainability quality" are in line with the methodology applied in the relevant EU legal frameworks. (This relates, in particular, to the existing EU taxonomy regulation for environmental aspects, further taxonomy-related rulesets planned, on the European level for governance and social aspects of sustainability as well as other relevant regulatory requirements, such as the MIFID2 target market specifications for ESG products.)*

**(Question 23) How important is it to you to have a specific label for the Belgian market, when there also exist labels in other countries and in the future, there may be an EU label?**

*From BELSIPA's point of view, the existence of a national label is of a high importance for the distribution of ESG-qualified products in the Belgian market, at least up and until the moment when there is a European label with the same breadth of coverage which for the moment is a stand-alone feature of the Belgian label.*

*Compared to other national labels and the upcoming European ECOLABEL in its currently known details though, the Belgian TS label has the clear advantage of being applicable, from its scope and technical methodology, to all financial products commonly sold to retail and institutional investors. In terms of methodology of the TS label's application it is in this regard of a clear added value that the conditions foresee that for the label to be granted to products consisting of various components (such as structured products or funds of funds) it rigorously is required that all single components qualify for the label. The label thus bears a very strong notion on the certified ESG quality of a product and the seriousness of its evaluation both on a standalone basis but also when compared to other existing ESG labels.*

**(Question 34) Some types of products (e.g. structured products, savings accounts, branch 21 insurance products) are to a large degree exposed to the overall financing activities of a financial**

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

*BELSIPA fundamentally supports the introduction of eligibility criteria, including of such in a best-in-class format, for the evaluation of a financial institution's business set-up on its sustainability quality. In the area of structured products such set of criteria is in particular necessary to properly assess the ESG grade of the structured product's funding (fixed income) part, especially if the former is held on the general balance sheet of a financial institution and not invested in a green bond or a pool of segregated assets.*

*BELSIPA advocates however that such eligibility criteria are not introduced on a stand-alone basis but complement the mandatory disclosure on sustainability aspects of financial institutions, as applied today already.*

*BELSIPA also wishes to stress that, in the beginning the eligibility criteria should not be too narrow so to still incentivize financial institutions at a larger scale to seek to amend their business set-up, where needed, in order to fulfill the criteria. Future changes should only be made gradually.*

*In line with the guidance BELSIPA provides on this specific aspect to its members on the current practice, future eligibility criteria should embrace/relate to the following elements:*

- ***High-level initiatives** - compliance (level) of the issuing financial institution with high-level principles and guidelines for sustainable finance anchored in global/supranational framework agreements on the level of the United Nations and the OECD*
- ***Sectorial policies** – compliance (level) of the issuing financial institution with relevant sectorial policies whose consideration in the area of environmental policy should be, where possible, in line with the EU Taxonomy Regulation so to avoid the emergence of diverging ESG standards*
- ***ESG ratings** – consideration of globally recognized ESG ratings of financial institutions: to the extent their methodology captures the relevant aspects arising under the before high-level initiatives and sectorial policies in a transparent and balanced manner, the result of such ratings should be considered/made part of the eligibility criteria.*

**(Question 43) When a portfolio contains derivatives with the aim of generating performance, the Quality Standard requires that use of derivatives is not at odds with the ESG character of the product and that the indirect exposure generated by the derivative is compliant with the Quality Standard. (QS 1.1.3.1). Does the Quality Standard need to specify additional criteria, e.g. for specific types of derivatives (e.g. index futures, interest rate futures, credit derivatives, currency forwards)?**

*From the point of view of structured products manufacturers, whose products all embed a derivative, BELSIPA wishes to underline that it is generally important with regard to derivative types to understand that **in their mere technical functioning derivatives are strictly ESG-neutral**. Derivatives have been created in order to derive a performance from a primary (referenced) asset and express as such the <u>expectation of the referenced asset's future evolution</u>. This expectation however leads to an investment in (or: "use" of the derivative) only in conjunction with a **specific motive**. This motive is however not obvious and* *can be borne out of varying and even contradicting commercial reflections, totally independent of the derivative's technical functioning.*

*To illustrate, a call option on a coal transport company stock is be seen as expression of the expectation of a positive (upward) evolution of the company's share price. The investment (or: the use of the call option) might thus be driven by the motive that the company will continue making profits with classical coal transportation and thus continue operating in an ESG-unfriendly area. However, investors may also buy the option for the opposite motive, namely that the company successfully shifts their business into profitable offshore wind-farm operations or other ESG-friendly business fields, as many traditional companies from the energy sector have done.*

*The same ambiguity about the investment motive persists in the area of shorting strategies, expressed, for example by put options (short positions). Short positions in a specific company operating in an ESG-friendly environment, such as windfarm maintenance for example, are usually taken expecting a fall in stock prices. This expectation can be rooted in current poor management and financial results of a company. With the intention to cheaply acquire the stock at low prices before the stock moves up again, the derivative investor may have the further expectation that shareholders will do something against falling stock prices and successfully push for a change in management. The specific motives behind the investment are again unverifiable. It may be that the derivative investor/ wants, in the long-term, support and build influence in the ESG company as he intends to hold the stock acquired when exercising the put option. It may also be that the investor is just interested in using the momentum of low stock prices for profiting, in the short-term, from the share price volatility by selling the shares acquired through exercising the put option, immediately after the price recovery.*

*In both before examples, the derivative type (its functioning) does not allow for a judgement on the motive behind the investment (in the derivative). It is therefore impossible be ascribe an ESG quality to it.* ***BELSIPA would therefore argue not to include the derivative type into ESG judgements of financial products.***

*To avoid any misunderstanding, the* ***referenced asset of the derivative*** *should, of course, continue to be judged on its ESG quality as is a common practice in the ESG assessment of financial products, including under the Quality Standard, already.*

**(Question 44) Some portfolios use a long/short strategy in which the manager takes a short position on companies that fail the ESG selection criteria and that are considered unsustainable, expecting share prices to fall. Under which conditions could this strategy be in line with the principles of the Quality Standard?**

*BELSIPA makes reference to the answer provided to question 43. The type of a specific derivative type and/or "derivative" strategy, such as long/short strategies speculating on the share price evolution of a reference asset, do not allow for a distinction in terms of stronger or lesser ESG support/enhancement.*

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