Transparency and quality of sustainable investments – the FNG Label
FNG – Forum Nachhaltige Geldanlagen e.V.

• Industry association promoting sustainable investments in Germany, Austria, Switzerland and Liechtenstein.

• Founded in 2001; based in Berlin.

• More than 175 members, among them banks, asset managers, financial advisors, rating agencies, insurance companies, research institutions and NGOs.

• Member of Eurosif – the European umbrella organization for sustainable investment.
FNG's aims

1. To increase awareness of sustainable investment in the financial sector and amongst the general public.

2. To highlight the positive impact of sustainable investment on the direction of social and environmental change.

3. To encourage networking between the relevant player

4. To help shape the necessary political, legal and economic framework.

5. To take an active part in promoting the development, transparency and quality of sustainable financial products.
Transparency and quality standards

• European Transparency Code (since 2008)

• FNG Sustainability Profiles (since 2012)

• FNG Label in cooperation with the project partner and auditor Novethic (since 2015)
Why a label?

- Rapidly growing market (mostly double-digit growth rates) with an increasing number of sustainable financial products.

- Lack of transparency and a great degree of complexity. How to detect “black sheep”?

Furthermore:

- What actually defines a sustainable fund?
- Labels in other European countries helped to strengthen SRI processes and to establish quality standards in the market.
Labels did exist – but not for the German speaking market

75 Funds (focus on Austria)

29 Funds MICROFINANCE
11 Funds ENVIRONMENT
12 Funds ESG

(Plus a new Luxflag climate finance label)

Label for institutions, services and financial products

New state-owned labels in France

ISR – Label Investissement Socialement Responsable
EETC – Label Transition Énergétique et Écologique pour le Climat
The objectives of the label

1. Establishing a **standard for sustainable investment** that reflects what the majority in the four FNG countries defines as sustainability.

2. Preserve and support the **diversity** of the market as the investor preferences are divers too.

3. Work as an **incentive** for improving the quality of sustainable investment products.

4. Usage of, as far as possible, **already existing standards and norms**

5. **Reduce information costs** for (retail) investors.

Intense three-year stakeholder development process.
Structure of the FNG Label methodology

**Sustainable Impact SRI Product:** How does the SRI fund promote sustainable development? (Selection and dialogue strategies)

**Entry threshold:** Criteria of the UN Global Compact, weapons and nuclear power

**Basic requirements:** European Transparency Code and FNG Sustainability Profile

**SRI Product Standard:** How good are transparency standards? Quality of SRI Research?

**Institutional Credibility:** How good are the sustainability standards of the product provider?
Audit Partner and committee ensure the independence of the label awarding process.
One year FNG Label

1. 35 Funds have the Label 2016 (3 have 0 stars, 15 have 1 stars, 14 have 2 stars, 3 have 3 stars). -> quite challenging methodology

2. The current auditing process suggests that the methodology does work as an incentive to improve the sustainability of the fund.

3. Financial advisors who specialize in sustainability do use the label.

4. The FNG Label itself was rated by a consumer web portal as „very recommendable“

Much work left to do as we have around 400 funds marketed as sustainable in our countries and quite low share of sustainable investments compared to the whole market (e.g. 3% percent in Germany).
Contact

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Labels, certifications, guidelines etc. for financial products or services

**Investment consulting**
- ECOreporter Siegel Banken

**Export credits**
- OECD Recommendations (Common Approaches)

**Project funding (loans)**
- IFC Environmental Health and Safety Guidelines
- IFC Environmental and Social Performance Standards

**Private Equity**
- Energy and Ecology Transition for the Climate (EETC) Siegel

**Green/Social Bonds**
- Social Bond Principles

**Real Estate**
- BNV-Nachhaltigkeits-bewertung
- LEED - Zertifizierung
- BVI- Leitlinien nachhaltige Immobilien-Portfoliomanagement

**Impact Investment**
- IRIS - Social Return on Investment
- GIIRS - Ratings & Analytics for impact investing

**Microfinance**
- MICROFINANCE

**Forest**
- PEFC
- FSC
- Naturland Richtlinien zur Ökologischen Waldnutzung

**Financial products in general**
- Climate neutral investment (South Pole) + Climate Impact reduction + Climate transparent investment
- Luxflag Climate Finance

**Investment funds**
- Energy and Ecology Transition for the Climate (EETC) Siegel
- yourSRI Diamond Standard
- deforestationfreefunds.org
- Eurosif
- FNG Siegel
- FNG Sustainability Profile
Evaluation of the FNG-Siegel

„Very recommendable“
Definition of Sustainable Investment

**Definition:** Sustainable investments supplement the traditional criteria of profitability, liquidity and security with environmental, social and ethical evaluation criteria.

Sustainable investment is the umbrella term for sustainable, responsible, ethical, social and environmental investment and all other investment processes that take the influence of ESG (environmental, social and governance) criteria into account in their financial analyses. It also presupposes the existence of an explicit written investment policy on the use of ESG criteria.
Number of funds licensed for distribution in German speaking countries with ...

- Transparency Logo: 180
- FNG Sustainability Profile: 206
- FNG-Siegel: 35.
- Sum of funds marketed as sustainable and licensed for distribution in German speaking countries: 410 (according to www.sustainable-investment.org)
Minimum criteria – Exclusions

• Companies:
  • Producer of controversial weapons (0% of turnover admitted)
  • Producer of conventional weapons/armament (5%)
  • Operator of nuclear power plantsproducer of essential components power plants (5%)
  • Violation of the UN Global Compact Key principles (Human rights, Labour, Environment, Anti-Corruption)

• Countries:
  • Countries classified “not free” according to Freedom House
  • Non-ratification of the UN Convention on Biological Diversity
  • Bottom 40% in Corruption Perception index according to Transparency International
  • Non-signing of Nuclear Non-Proliferation Treaty
Grading Model

• **Institutional Credibility:** Focus on the sustainability activities on fund company level
  • **CSR activities:** sustainability committee, CSR policy and report, CSR improvement targets, climate change strategy
  • **SRI activities:** RI policy and report, exclusion policy regarding controversial weapons, (Increase in) percentage of SRI managed Assets under Management, membership in RI related initiatives

• **Product standards:** Focus on the ESG research process, its quality and reporting
  • **SRI research process:** internal and external research resources, advisory board
  • **Quality of ESG analysis:** structure of ESG analysis and update rhythm
  • **SRI reporting:** availability and scope, integration in financial reporting
Grading Model – Impact

- **Selection:** Focus on the quality and impact of the selection process
  - Additional exclusion criteria
  - Positive Criteria (e.g. best in class approach, thematic approach)

- **Dialogue:** Focus on the transparency, quality and impact of the dialogue processes
  - Voting: (policy, report, shareholder proposals, coverage; only applicable to equity funds)
  - Dialogue and formal engagement (e.g. scope and transparency, strategy, report, collaborative engagement, impact of engagement)

- **ESG Key performance indicators:** Focus on the transparency and ESG impact of the portfolio (e.g. for CO2 emissions)
Committee

Prof. Dr. Stefanie Auge-Dickhut
SIF – Swiss Institute for Financial Education at the Kalaidos Univ. of Applied Science

Mag.a Susanne Hasenhüttl
OeGUT – Austrian Society for Environment and Technology

Dr. Annabel Oelmann
Consumer Advice Centre Bremen

Dr. Christoph Weber-Berg
Reformed Church of Aargau
• Gesellschaft zur Qualitätssicherung Nachhaltiger Geldanlagen mbH (GNG)
• Is a wholly owned subsidiary of FNG e.V.
• GNG mbH promotes the label, coordinates the further development of the methodology and the marketing activities.
Labels, certifications, guidelines, standards etc. for financial institutions

Banks
- The Wolfsberg Group
- Fair Finance Guide International
- Global Alliance for Banking on Values
- The Global Alliance Scorecard
- Ecoreporter
- Nachhaltige Bank
- Soft Commodities Compact

Asset Managers
- BVI
  - BVI-Leitlinien zum verantwortlichen Investieren
  - BVI Wohlverhaltensregeln

Investors, Asset Managers etc.
- AMWG’s Freshfields Report 2005
- Fiduciary Resposnsibility 2009
- Fiduciary Duty in the 21st century 2015
- UNEP FI Guide to Banking and Sustainability
- UNEP Statement of Commitment by Financial Institutions (FI) on Sustainable Development

Sustainability Rating Agencies
- GISR Global Initiative for Sustainability Ratings

Pension funds
- Nachhaltigkeitszertifizierung der betrieblichen Vorsorgekassen & Pensionskassen

Insurance Companies
- ClimateWise
- PSI Principles for Sustainable Insurance
- GDV

Foundations
- Swiss Foundation Code 2015
- Stiftungsinfo Nr. 3 Nachhaltige Investieren

Churches
- EKD Evangelische Kirche in Deutschland
- Deutsche Bischofskonferenz
- Leitfaden für ethisch nachhaltige Geldanlage in der evangelischen Kirche
- Ethisch-nachhaltig investieren. Eine Orientierungshilfe für Finanzverantwortliche katholischer Einrichtungen in Deutschland
- VfU Kennzahlen
- VfU Biodiversitätsprinzipien

MAINSTREAMING CLIMATE ACTION WITHIN FINANCIAL INSTITUTIONS
- Five Voluntary Principles
- THE LONDON PRINCIPLES
  - The role of UK financial services in sustainable development

Natural Capital Declaration
- UNEP FINANCE INITIATIVE

Swiss Foundation Code 2015
- Compact BVI - Leitlinien zum verantwortlichen Investieren
- BVI Wohlverhaltensregeln

VfU
- Leitfaden für ethisch nachhaltige Geldanlage in der evangelischen Kirche
- Ethisch-nachhaltig investieren. Eine Orientierungshilfe für Finanzverantwortliche katholischer Einrichtungen in Deutschland
Sustainability: Reporting, Indicators and Principles

**Environment**
- Sustainability Balanced Scorecard
- Ceres: Mobilizing Business Leadership for a Sustainable World
- DGNB
- GREENHOUSE GAS PROTOCOL
- LEED - Zertifizierung
- ISO 14001 (Umweltmanagement)
- ISO 19011 (Auditierung von Umwelt-Managementsystem)
- ISO 14064
- EMAS: European Community Environmental Management System
- Carbon Pricing
- Business Leadership Criteria on Carbon Pricing
- OKOBIANZ: DIN Norm 33926
- Natural Capital Declaration

**Social**
- Ruggie Guidelines
- ISO 26000 (Social responsibility)
- UN Guiding Principles Reporting Framework + Database
- UNGP Reporting Framework + Database
- AA1000SES Stakeholder Engagement Standard
- AA1000AS: Assurance Standard
- Human Rights Principles for Companies
- Amnesty International
- OECD Guidelines for Multinational Enterprises
- OECD/G20-Grundsätze der Corporate Governance
- ISO 26000 (Social responsibility)
- Social Sustainability Management System
- IQNet SR 10
- Social Sustainability Reports
- SRS
- Kernarbeitsnormen
- Social Accountability 8000
- Social Accountability International
- SAI
- GIIRS
- Ratings & Analytics
- UN Guiding Principles

**Governance**
- Corporate Governance King Code
- AA1000SES Stakeholder Engagement Standard
- AA1000AS: Assurance Standard
- Business Leadership Criteria on Carbon Pricing
- Sustainability Balanced Scorecard
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**Labels, certifications, guidelines, standards etc. for companies**