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The UKSIF logo consists of the letters 'UKSIF' in a bold, white, sans-serif font, centered within a solid grey rectangular background.

Dear Heather

## **Consultation on proposed update to Defra's "Green Claims Guidance"**

Thank you for the opportunity to respond to this consultation.

This response addresses the application of Defra's proposed green claims guidance to green and ethical investment products and services and other green financial services. Many UKSIF members have long experience of marketing these products and services.

UKSIF members also own and invest in companies in a wide range of industry sectors on behalf of clients and beneficiaries. Defra's green claims guidance is relevant to many of the companies in which they invest. UKSIF welcomes Defra's provision of guidance to these companies but this response does not seek to make specific comment on the application of the guidance to them.

UKSIF is grateful to the Defra Sustainable Products and Consumers team for its helpful and constructive participation in an UKSIF teleconference at which we explored many of the issues highlighted below.

### **Q1: Helpfulness of the Proposed Guidance**

**UKSIF welcomes Defra's proposal to enhance its green claims guidance.** We agree that such guidance is valuable to support sustainable consumption by enabling and encouraging consumers to use credible green claims as a driver for purchasing decisions.

We welcome the focus of the guidance on the **content, presentation and substantiation** of green claims. We also welcome the focus on **an appropriate use of images** as well as of text.

Like Defra, we believe that green claims guidance should support and encourage product and service providers to **differentiate their offerings using credible green claims**. Consumer demand for green products is an important driver of change towards a more sustainable society. Guidance must encourage providers to support this demand through positive and credible marketing. It must give them confidence to "compete on green" rather than discouraging them by suggesting insurmountable reputational or regulatory risk.

We believe that it is particularly **important to encourage financial services companies to highlight aspirations** - when these are firmly embedded in policies and processes - **as well as measurable outcomes. This is particularly important for those investment products and services where the core service is to make good judgements about the future.** Consumers and NGOs need to be able both to reward leadership and hold companies to account for the success or otherwise of these judgements.

UKSIF has supported and used government guidance on green claims for many years. For example, we ran our first member seminar on marketing green and ethical investments some ten years ago. This used a past version of the government's green claims guidance to highlight good practice to financial services marketing professionals. We believe that enhanced cross-sectoral guidance on green claims will help us in continuing to provide this support to the financial services industry. Guidance will be particularly valuable if it highlights that **sectors such as financial services should interpret recommendations made in the**

light of both additional regulatory requirements on the sector and the nature of the sector's products and services.

The consultation documents<sup>1</sup>, including Annex 1 on legislative requirements, will provide useful educational material while the government considers the consultation responses. We hope that they will remain available on Defra's web site during this process.

## **Q2: Additional Guidance for Providers of Investment Products/Services and other Financial Services**

**Green claims guidance for financial services offers particular challenges.** A positive and mature response to these from both the financial services sector and civil society is needed to ensure the best outcomes for consumers, society and the environment.

Marketing of investment products and services and other financial services is a specialist field. As well as consumer law, **additional requirements are laid down by the financial services regulator, the Financial Services Authority (FSA).** These constrain claims about outcomes.

Investment managers add value by investing on weak signals and predicting the future more accurately than their competitors rather than using only backward looking metrics. As a result, marketing claims are rightly focused more strongly on aspirations than in other fields.

If guidance was produced for financial services in the future, **it is essential that the sector's regulator, the Financial Services Authority, should play a leading role in its development.** We believe that the process would be best led by a specialist industry body such as UKSIF with the involvement of the FSA, the Financial Reporting Council, industry trade bodies, consumer organisations and relevant government departments.

As **green investment and financial services have attracted few consumer complaints to date**, we believe that guidance for other sectors should be given greater priority initially. We hope that any future guidance specific to financial services would benefit from this.

## **Q5: Wider Considerations**

The government itself should, of course, be an exemplar in positive and constructive use of green claims.

The coalition's programme for government states "As part of the creation of a green investment bank, we will create **green financial products to provide individuals with opportunities to invest in the infrastructure needed to support the new green economy.**"<sup>2</sup>

In opposition, the Conservative Party proposed the introduction of **Green ISAs** to incentivise investment in environmentally responsible companies and initiatives. We hope that the coalition government will take this proposal forward.

It will be **important to consider the constructive use of green claims guidance as part of the development process** for both initiatives. UKSIF is keen to offer its knowledge and experience of green investment to support such consideration.

## **Q15 & Q16: Assurance of Accuracy / Claims about Future Performance**

Today, consumers want **green and ethical investments that have a positive impact on the world.** Many have moved beyond seeking only a clean conscience by not profiting from activities incompatible with their ethics. This positive impact may be achieved by investment techniques such as:

- Thematic investment using social, environmental and governance (ESG) themes
- "Best in class" investment that seeks to select the most responsible company in an industry sector
- Engagement and voting to encourage and improve responsible company behavior

These positive techniques may inherently involve judgements or influence using incomplete data or soft knowledge. An inappropriate level of focus on more measurable inputs and outcomes may reduce quality by encouraging "box ticking" rather than more nuanced approaches.

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<sup>1</sup><http://www.defra.gov.uk/corporate/consult/green-claims/index.htm>

<sup>2</sup><http://programmeforgovernment.hmg.gov.uk/energy-and-climate-change/>

For example:

- Engagement with a company using private meetings may result in greater change than a public vote – but a voting record is easier to measure
- One company may have a stronger management commitment to its low carbon strategy than a competitor but today its carbon emissions or their rate of change may lag behind; it may be a sounder financial and environmental decision to invest in the first company rather than the second – but measures of emissions may encourage the opposite result

It is important that **guidance should not encourage green investment products to be based disproportionately on claims that are easy to verify, such as exclusion criteria or voting records, at the expense of forward-looking judgement.** This would not be in the interests of sustainable consumers or a more sustainable economy.

Of course, there are specific investment asset classes, such as forestry or clean technology venture capital, or additional financial services, such as deposits lent only to green projects, where measurement of green outcomes is easier to achieve. However, good practice in financial advice would generally recommend that these form part of a diversified strategy that includes other investments.

### **Q17: Third Party Labelling**

We would like to highlight that the European SRI Transparency Code is the primary initiative addressing green claims for UK retail investment products. It is managed by the European Sustainable Investment Forum (Eurosif; [www.eurosif.org](http://www.eurosif.org)).

In addition, we are aware that BSI has expressed past interest in developing standards for this field.

### **UKSIF – the Sustainable Investment and Finance Association**

UKSIF, the sustainable investment and finance association, promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. We also seek to ensure that individual and institutional investors can reflect their values in their investments. We aim to support the UK finance sector to be the world leader in advancing sustainable development through financial services.

Our recent activities include:

- National Ethical Investment Week ([www.neiw.org](http://www.neiw.org)), which seeks to ensure that all consumers are aware that they have green and ethical options for their investments
- Support for the UK Stewardship Code, which encourages responsible ownership by institutional investors acting on behalf of pension funds, retail consumers and other shareholders
- Assistance in developing Conservative Party proposals for Green ISAs prior to the latest general election

UKSIF was created in 1991 to bring together the different strands of sustainable and responsible finance nationally and to act as a focus and a voice for the industry. UKSIF's 200+ members and affiliates include institutional and retail fund managers, investment banks, financial advisers, pension funds, research providers, consultants, trade unions, banks, building societies and non-governmental organisations. For more information about UKSIF, please visit [www.uksif.org](http://www.uksif.org).

UKSIF supports long-term responsible investment and ownership. It focuses its corporate governance support on the interface between governance on the one hand and social, environmental and ethical issues on the other.

With best wishes



**Penny Shepherd MBE**

Chief Executive

UKSIF – the sustainable investment and finance association