

THE MESSAGE



SECOND THOUGHTS

Art. 9 funds at risk?

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With Next Generation EU, Repower EU and the Green Deal, the EU aims at becoming the first continent with net zero emissions by 2050. To reach the objective, Ursula Von der Leyen knows that Member States' contributions are not enough: private investments are also necessary. To incentivise the latter, on one hand they have created the Taxonomy which defines the green business activities, and on the other hand they have introduced the SFDR, to categorise (article 6, 8, 9) the investment funds based on the level of "green" of their holdings. Two powerful instruments, when used together: companies have to align more and more to the European Taxonomy,

Sustainable finance
according to

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and funds have to become greener and greener, going from art. 6 to art. 8, and from art. 8 to art. 9, to follow on the EU's target.

In fact from 2019 to 2022 the sustainable funds (mainly art. 8 and to a lesser extent art. 9, that initially were simply called ESG) have grown exponentially and have now overcome the traditional ones (art. 6). The proliferation of art. 8 funds, a result of the limited restrictions to the investment universe compared to a traditional fund (the STOXX 600 ESG has 585 constituents, as opposed to 600 for the main index) has been accelerated by cosmetic adjustments to the existing art. 6 funds. This has negatively impacted the perception of investors, who have started to claim that many of such funds were simply "greenwashing". Hence the need for a deeper distinction between art. 8 and art. 9 funds, ie between those who apply some ESG principles and those who do not demonstrably quantify the sustainability of their own investments.

The regulation of art. 9 funds is however complicated, the rules have many gaps and they are subject to multiple interpretations, bringing up absurd consequences: some funds have to say that they have sustainable investments *not* taxonomy-aligned only because of lack of appropriate data, and a long/short fund cannot short non-sustainable companies because the investment universe must comprise only "sustainable" assets.

In addition the EU is tightening even more the rules for art. 9 funds to avoid them being associated to the "greenwashing" rage. Rather than clarifying the rules, the European Commission has increased the uncertainty surrounding them, pushing many investment houses to demote spontaneously their own art. 9 funds to art. 8 before January 2023, when the investment composition disclosures came into force. According to the Financial Times, in the last quarter of 2022 BNP Paribas, Blackrock, Amundi and Pictet have done so for about 175€ bn, shrinking the art. 9 funds assets by 40%.

The complexity of the regulation is so appalling, even at government level, that according to an end-of-March article of the Financial Times the European Commission is thinking about scrapping art. 9 altogether, citing sources close to the issue.

When you're about to make a revolution, you go into uncharted territory: there are many obstacles and you can make many mistakes. But if the idea is good (who would argue that a greener world is not a good idea?), you have to persevere. Scrapping art. 9 funds would remove the main tool at the EU disposal to bring investors on board the energy transformation process. The investments in non-sustainable assets could last for a long time, the 2050 target would become utopic and Europe would lose credibility going back to have, as in the past decades, only a subordinate role at global level.

