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|  | EUROPEAN COMMISSION  DIRECTORATE-GENERAL  JOINT RESEARCH CENTRE  Directorate B – Growth and Innovation  **Circular Economy and Industrial Leadership** |

Sevilla, 11th November 2020

**EU Ecolabel for Retail Financial Products**

**Criterion 1 portfolio ‘greenness’ calculation: supporting information and clarifications**

Following some initial feedback from stakeholders, this note provides clarification on how the formula for calculating the portfolio contribution of equity holdings works. A correction is also made to the definition of how ‘green capex’ shall be calculated. The note is supported by an excel which illustrates how the portfolio contribution is calculated for two hypothetical portfolios.

*Calculation rules for equity portfolio contributions under sub-criterion 1.1.A/B/D*

For companies investing in transition or investing in green growth the definition of GCi (Green Capex) and Green Revenue Growth (GRGi) are clarified as follows, replacing the reference in each case to cumulative percentages for GCi or GRGi:

*GCi   =  Average green Capex %  during a 5 year period [2 years back and 3 years forward looking period]*

*GRGi = Sum of the percentage green revenue growth each year over a 5 year forward looking period*

*GRi    =  Green revenue %*

For companies investing in transition or investing in green growth the calculation rules applying to GCi (Green Capex) and Green Revenue Growth (GRGi) For and the Portfolio Contribution (PCi) to Greenness (G) are as follows:

    GCi>=GRGi &  GCi=<GRi       then    G = PCi x GRi   
  
    GCi>=GRGi &  GCi>GRi        then   G = PCi (0.6 GRi + 0.4 GCi)  
  
    GCi<GRGi &  GRGi>GRi     then   G =  PCi (0.6 GRi + 0.4 GRGi)  
  
    GCi<GRGi &  GRGi=<GRi     then   G =  PCi x GRi  
   
   *GRGi is capped at 100%*

Companies neither investing transition nor in Green growth

     G = PCi x GRi

*Bonds greenness*

The calculation rules for the portfolio contribution of green bonds and general purpose bonds are as follows:

For corporate bonds (green or general purpose) to make a portfolio contribution to greenness the issuer must first have GRi>50% or be a company investing in transition.  The contribution can then be calculated as follows:

* Value of the ‘Use of proceeds’ green bonds (sovereign or corporate):  G = PCi %
* General purpose bonds (corporate): G = PCi x GRi (issuer),
* General purpose bonds (Sovereign or corporate): G = 0

Where:

PCi = contribution of each asset i (bonds or equity) to the whole portfolio (other assets and cash included).

*Other assets*

Companies with <5% GRi do not contribute to the overall portfolio greenness. Other assets such as derivatives shall be calculated as part of the total portfolio but may not contribute to portfolio greenness.

Real estate and infrastructure may contribute to the overall portfolio greenness, which shall be calculated on an asset by asset basis i.e. according to the value of the holdings in each building or project that complies with the criteria of the EU Taxonomy.

*Portfolio Greenness for investment funds*

The contribution of each asset (bonds or equity) is calculated in relation to the whole portfolio.

The sum of these contributions should reach:

70% for retail AIFs (1.1.A)

40% for UCITS equity funds  (1.1.B)

50% for UCITS bond funds (1.1.C)

50% for UCITS mixed funds  (1.1.D)