

## ANNEX

### **EU Ecolabel criteria for awarding the EU Ecolabel to retail financial products**

#### **FRAMEWORK**

The EU Ecolabel criteria target the best retail financial products on the market, in terms of environmental performance. The criteria focus on the main environmental aspects associated with retail financial products and they contribute to reorienting financial flows to achieve a low carbon, green and circular economy.

In particular, the criteria aim to promote products that finance, through purchasing of shares, bonds and/or loans, activities that have limited impacts in terms of climate change mitigation and adaptation, and that are not environmentally and socially harmful.

Moreover, EU Ecolabel financial products incentivise changes at corporate level to improve the alignment of activities with the environmental objectives of Regulation (EU) 2020/852<sup>(1)</sup> and/or grow shareholder value. The criteria also support transparency for the retail investors by ensuring the investors are provided with adequate information regarding the financial product.

To this end, the criteria:

-set requirements for the financial product to invest in environmentally sustainable economic activities according to the EU Taxonomy.

-set requirements to avoid investments in environmentally and socially harmful economic activities

-provide the framework for the fund manager to engage with companies to enhance their alignment with the EU Taxonomy environmental objectives

-provide the framework to enhance investor impact by focusing on specific actions with respect to capital allocation, identification of opportunities and monitoring of change.

-require to inform consumers on the main characteristics of the retail financial product

The criteria for awarding the EU Ecolabel to 'retail financial products' are as follows:

1. Investment in environmentally sustainable economic activities
2. Exclusions based on environmental aspects
3. Exclusions based on social and governance aspects
4. Engagement
5. Measures taken to enhance investor impact

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<sup>1</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

6. Retail investor information

7. Information appearing on the EU Ecolabel

**Assessment and verification requirements:**

*The specific assessment and verification requirements are indicated within each criterion.*

*Where the applicant is required to provide declarations, documentation, analyses, or other evidence to show compliance with the criteria, these may come from the applicant and/or other responsible actors throughout the value chain. As a prerequisite, the 'retail financial product' shall meet all legal requirements related to the place of product manufacture, registration and authorisation.*

*Competent bodies shall preferentially recognise attestations and verifications that are issued by bodies accredited in accordance to the relevant harmonised standard for bodies certifying products, processes and services.*

*After being awarded the EU Ecolabel licence, the applicant is required to provide updated information on their licensed product(s) every twelve months.*

*The competent body retains the right to make random checks on compliance.*

For the purposes of this Decision, the following definitions shall apply:

- 1) 'applicant' means the fund manager, the deposit manager or the insurance undertaking applying for the EU Ecolabel, as applicable
- 2) 'assets under management' means the economic value of the underlyings included within the financial product
- 3) 'CapEx' means capital expenditure (investment) made along the life cycle of a project and assigned to the year when it is incurred. Included are investments in assets used for production, transformation and distribution; as well as for refurbishment, upgrades, new construction and the replacements of capital assets. Also included are investments made in Research & Development that are directed towards the development of new assets or production technologies;
- 4) 'environmentally sustainable economic activity' means an economic activity that complies with the relevant criteria set out in Delegated Regulation (EU) xxxx/xxx supplementing Article 3 of Regulation (EU) 2020/852, hereafter the 'EU' Taxonomy, including transitional activities as defined in Article 10(2) and enabling activities as defined in Article 16 of Regulation (EU) 2020/852;
- 5) 'green CapEx' means capital expenditure made in environmentally sustainable economic activities;
- 6) 'green turnover' means turnover derived from the 'environmentally sustainable economic activities' of a company;
- 7) 'greenness of the issuer' means the ratio which is made up by considering the sum of green turnover and green capex of the company divided by total turnover of the company
- 8) 'portfolio' means a grouping of financial assets;
- 9) 'portfolio contribution' means the proportion of the underlying assets by which the portfolio is made of;
- 10) 'sovereign bond' means a debt security issued by a national government;
- 11) 'sub-sovereign bond' means a debt security issued by a regional, city or local government entity, as well as government agencies;
- 12) 'turnover' means this is the amount of money that is brought into a company by its business activities;
- 13) 'verification' means a procedure to certify that a product complies with specified EU Ecolabel criteria.

## EU ECOLABEL CRITERIA FOR RETAIL FINANCIAL PRODUCTS

### Criterion 1- Investment in environmentally sustainable economic activities

Each financial product shall comply with the threshold indicated below, defined considering the proportion of the underlying investments (securities or loans) invested in environmentally sustainable economic activities (hereafter ‘portfolio greenness’). The portfolio greenness is calculated as the weighted average of the greenness of each investment, with weights corresponding to the share of the portfolio value relating to that investment.

#### 1.1 Investment funds

##### A. UCITS equity funds

At least 50% of the total portfolio value of the assets under management (AuM) shall be invested in environmentally sustainable economic activities, through purchasing shares of companies undertaking such activities, according to the formula below.

$$G = \sum_{n=i}^0 PCi * \frac{GTi+GCi}{Ti}$$

Where:

G = % of total portfolio value invested in environmentally sustainable economic activity (or ‘portfolio greenness’)

i = an individual company in which portfolio equities are held

n = total number of companies in the portfolio

PCi = % Portfolio contribution of company i

GTi = Green Turnover (EUR) of company i of the last year prior the application

GCi = the highest annual Green Capex (EUR) of company i over the past 3 years prior the application

Ti = Turnover (EUR) of company i of the last year prior the application

Other assets or cash can also be included in the portfolio, subject to their compliance with criteria 2 and 3.

Investments in derivatives shall meet the requirements of sub-criterion 1.1.H.

##### B. UCITS bond funds

At least 70% of the total portfolio value of the assets under management (AuM) shall be invested in environmentally sustainable economic activities, through purchasing bonds that finance such activities, in accordance with the requirements below.

1. **Use-of-proceeds** corporate and sovereign bonds contribute towards portfolio greenness in proportion of the share of the portfolio contribution of the bond if they meet the following requirements:
  - The green projects to be financed using the bond’s proceeds shall be identified and shall be verified as environmentally sustainable economic activities.
  - The allocation of finance to the green projects or portfolios of projects shall be separated, tracked and reported on a 12 monthly basis following issuance.
  - For use-of-proceeds corporate bonds, the value of refinanced projects within a green bond issue may only contribute to portfolio greenness if the issuer can demonstrate that the refinancing supports the creation of asset-backed securities or the recycling of funds for lending to new green projects.
2. General purpose corporate bonds (i.e. that are not use-of-proceeds bonds) contribute to the portfolio greenness in proportion to the share of the greenness of the issuer, provided that the company shows positive green capex (last financial year)

Other assets or cash can also be included in the portfolio, subject to their compliance with criteria 2 and 3.

Investments in derivatives shall meet the requirements of sub-criterion 1.1.H.

### **C. UCITS mixed funds**

At least 50% of the total portfolio value of the assets under management (AuM) comprising bonds and equities shall be invested in environmentally sustainable economic activities. The equity component shall be calculated according to the requirements of criterion 1.1.A and for the bonds to contribute they shall meet the requirements of criterion 1.1.B.

Other assets or cash can also be included in the portfolio, subject to their compliance with criteria 2 and 3.

Investments in derivatives shall meet the requirements of sub-criterion 1.1.H.

### **D. Retail alternative investment funds (AIFs)**

At least 70% of the total portfolio value in terms of assets under management (AuM) shall be invested in environmentally sustainable economic activities. The equity component shall be calculated according to the requirements of criterion 1.1.A. The bond component shall be calculated according to the requirements of criterion 1.1.B.

Investments in derivative shall meet the requirements of sub-criterion 1.1.H.

### **E. Fund of funds (FoFs)**

At least 90% of the total portfolio value in terms of assets under management (AuM) of the FoF shall be invested in funds that have been awarded the EU Ecolabel.

Other assets or cash can also be included in the portfolio, subject to their compliance with criteria 2 and 3.

Investments in derivatives shall meet the requirements of sub-criterion 1.1.H.

### **F. Unit-linked insurance products**

All the underlying unit funds in which shares are held shall comply with the requirements under Criterion 1, as relevant to the type of fund and its composition. Alternatively, all underlying unit funds shall hold the EU Ecolabel.

### **G. Multi option insurance product**

All the underlying options shall only include unit-linked insurance funds which comply with the requirements under sub-criterion 1.1.F. Alternatively, all the underlying unit-linked funds shall hold the EU Ecolabel

### **H. Derivatives if included in sections A to G**

A fund may invest in derivatives according to its investment objectives. The use of derivatives shall be in line with the funds environmental investment policy. The use of derivatives shall be restricted to the following situations:

- *Hedging:* Derivatives may be used for hedging purposes with regard to currency risk, duration risk, market risk or/and sensitivity to changes in interest rate structures.
- *Exposure:* The use of derivatives to increase exposure to the underlying assets shall be temporary and respond to significant subscriptions. The management company shall explain in the fund's periodical reports how it proceeds and, in particular, to illustrate the temporary nature of the use of derivatives for exposure purposes.

Derivatives shall not be used for the short selling of securities.

### **Assessment and verification**

### **A. UCITS equity funds**

The applicant shall provide the following:

- i. For new funds: Evidence that the fund complies with the greenness threshold at the time of application based on the prospectus
- ii. For existing funds, annually and once a 12-months database for the fund is available: the prospectus, the annual report, the complete listing of the portfolio assets and the contribution of individual assets to portfolio greenness. *[a spreadsheet will be included in the User Manual]* If data proxies are used, the methodology for deriving such proxies and the link with the EU Taxonomy must be provided to the Competent Body.

### **B. UCITS bond funds**

The applicant shall provide the following:

- i. For new funds: Evidence that the fund complies with the greenness threshold at the time of application based on the prospectus
- ii. For existing funds each year and starting once a 12-months database is available for the fund, the prospectus, the annual report, the complete listing of the portfolio assets and the contribution of individual assets to portfolio greenness. *[a spreadsheet will be included in the User Manual]* If data proxies are used, the methodology for deriving such proxies and the link with the EU Taxonomy must be provided to the Competent Body.
- iii. For use of proceeds bonds, the external verification according to international assurance standards, as proof of the financing to environmentally sustainable economic activities.
- iv. For general purpose corporate bonds, documentation that verifies the issuer complies with the requirements stated in point 2.

### **C. UCITS mixed funds**

The applicant shall provide documentation as specified in points A and B of this section.

### **D. Retail AIFs**

The applicant shall provide the following:

- i. For new funds: Evidence that the fund complies with the greenness threshold at the time of application based on the rules or instruments of incorporation or, where applicable, the prospectus,

- ii. *For existing funds, each year and starting once a 12-months database is available for the fund, the document defined under i) and, the annual report, the complete listing of the portfolio assets and the contribution of individual assets to portfolio greenness. [a spreadsheet will be included in the User Manual] If data proxies are used, the methodology for deriving such proxies and the link with the EU Taxonomy must be provided to the Competent Body.*

#### **E. Fund of funds (FoFs)**

*The applicant shall provide licence number of the EU Ecolabel licences held by each of the underlying funds*

#### **F. Unit-linked insurance products**

*The applicant shall provide documentation as specified in the assessment and verification for 1.1.A, B, C and D, as applicable.*

*Where an underlying fund has the EU Ecolabel, the license number shall be provided. The prospectus and information about the management service provided to retail investors shall demonstrate the pre-selection of EU Ecolabel unit funds.*

#### **G. Multi option insurance products**

*The applicant shall provide documentation as specified in the assessment and verification for 1.1.A, B, C and D, as applicable.*

*Where an underlying unit-linked fund has the EU Ecolabel, the license number shall be provided. The prospectus and information about the management service provided to retail investors shall demonstrate the pre-selection of EU Ecolabel unit-linked funds.*

#### **H. Derivatives if included in sections A to G**

*The applicant shall provide the following documentation on the derivatives included in the funds:*

- the investment or management policy governing the use of derivatives and outlining clearly how the derivatives are to be applied including information about the counterparty*
- A statement on the strategy applied addressing how the use of derivatives is in line with the fund environmental policy.*
- A listing of the types of derivatives and other assets used during the last 12 months preceding the application for the EU Ecolabel [where applicable], including their nature, average total amount invested (in proportion of the portfolio) and their average duration/frequency of use shall be demonstrated.*
- For over-the-counter derivatives, consumer information on all the counterparties used over the last 12 months preceding the application for the EU Ecolabel [where applicable].*



## **1.2. Fixed term and savings deposit accounts**

Deposits loaned or invested shall only be used to make and/or to invest in:

- loans granted to finance environmentally sustainable economic activities. These loans may be made by partner credit institutions, provided there is traceability back to the deposited funds;
- Use-of-proceeds bonds meeting the requirements of 1.1.B

The value of both the assets (limited, for the purpose of criterion 1.2, to loans and bonds) and the deposits shall be calculated based on the annual (financial year) average for the time that the product has been on the market.

The money held in deposit and then granted as loans and/or used to buy bonds shall be separated within the accounts of the Credit Institution, or otherwise tracked, in such a way as to (i) restrict transferability and to (ii) ensure that the funds loaned are traceable to the money deposited by the customers.

The structural solution and/or internal accounting procedures used shall allow for the traceability of each of the retail customers' deposited money and their contribution to the total value of the loans granted.

In the case tracking is used instead of separation, a specific report shall be submitted to the Competent Body addressing the traceability of loans granted to finance environmentally sustainable economic activities and use-of-proceeds bonds meeting the requirements of 1.1.B.

### ***Assessment and verification***

*The applicant shall provide a set of declarations and supporting information to verify the compliance with the criteria and to ensure that it is traceable and transparent.*

*The information related to loans shall comprise, on an annual basis:*

- i. a declaration that the loans approved finance environmentally sustainable economic activities. If data proxies are used, the methodology for deriving such proxies and the link with the EU Taxonomy must be provided to the Competent Body.*
- ii. the total value of the deposits derived from individual values marked and entered into the Single Customer View (SCV) for the specific product;*
- iii. the value of each loan issued by type of projects and economic activities. This shall be recorded and declared together with the total value of the loans.*

*The information related to use-of-proceeds bonds shall comprise, on an annual basis:*

- i. *the external verification according to international assurance standards, as proof of the financing to environmentally sustainable economic activities.*
- ii. *The internal accounting procedures and/or structures used to separate the funds, limit transferability and how they allow for the traceability of the deposited money shall be described. This could be supported by an auditors' qualification of the effectiveness of the procedure that may be included in the annual report of the credit institution.*

*For new products, evidence shall be provided that the deposit manager has in place a framework to compile a deposit account meeting the requirements in 1.3*

## **Criterion 2 - Exclusions based on environmental aspects**

### **2.1 Exclusions relating to economic activities**

Financial products shall not contain equities, bonds **nor loans** issued/loaned by/to companies that derive more than 5% of their **turnover** from the excluded activities listed below.

#### *3.1.1 List of excluded activities*

##### **A. Agriculture**

- A.1** Use of pesticides, including plant protection products, identified in the Rotterdam Convention Prior Informed Consent (PIC) procedure or in classes Ia or Ib in the World Health Organization Recommended Classification by Hazard.
- A.2** Production, distribution and use of agricultural products and livestock on land obtained as a result of conversion, fragmentation or unsustainable intensification of high-nature-value land, wetlands, peatland, forests, or other areas of high-biodiversity value or high-carbon stock in or after 2008, where high-biodiversity value and high-carbon stock land is defined according to Directive 2018/2001<sup>(2)</sup>.
- A.3** Cultivation of crops that does not minimise the use of pesticides **and fertilisers** and does not favour alternative approaches or techniques, according to Directive 2009/128/EC<sup>(3)</sup>, **Directive 91/676/EEC<sup>(4)</sup>** or the UN FAO International Code of Conduct on the Distribution and Use of Pesticides.
- A.4** **Livestock production that does not apply emission mitigation or reduction techniques for feeding and housing of livestock and for manure storage and processing, according**

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2 Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources

3 Directive 2009/128/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for Community action to achieve the sustainable use of pesticides

4 Council Directive 91/676/EEC of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources

to the UNECE Framework Code for Good Agricultural Practice for Reducing Ammonia.

## **B. Forestry**

**B.1** Forestry management for production of timber as well as the production of timber-derived products, where the economic operator cannot demonstrate the following:

- That the timber is covered by valid FLEGT or CITES licences and/or is controlled by a due diligence system which provides the information set out in Regulation (EU) 995/2010<sup>(5)</sup>; and
- That the forests are not located on land obtained from the conversion, fragmentation or unsustainable intensification of high-nature-value land, wetlands, peatlands, forests, or other areas of high-biodiversity value and/or high-carbon stock in or after 2008.

## **C. Energy sector**

**C.1** Solid, liquid and gaseous fossil fuel exploration, extraction, refining and production of derivative products. This includes unconventional sources such as hydraulic fracking, arctic drilling, oil sands and shale deposits.

**C.2** The supply and use of solid, liquid and gaseous fossil fuels for fuel, energy generation in the form of electricity and/or heat, heating and cooling using these fuels, unless:

- The company turnover from these excluded activities is below 30%, and;
- The company has published a strategic plan to reduce their GHG emissions to a 1,5 C Paris Agreement aligned level and to achieve net zero carbon emissions by 2050. The plan shall include the phase-out, closure or fuel-switching of the activities described under C.2 on a ten-year timeframe. In the case the plan includes fuel-switching to biomass, the biomass activity shall be EU Taxonomy-aligned, and;
- The company has zero CapEx on the expansion of activities described under C.2, and zero OpEx in maintenance costs that either increase the lifetime or the value of the assets used in those activities during the last financial year, and;
- The GHG emissions (as a minimum scope 1 emissions) of the company decrease annually by at least 7%.

**C.3** Transportation, distribution and storage of fossil fuels.

**C.4** All activities relating to the nuclear fuel cycle, including power generation.

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<sup>5</sup> Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market

## *D. Waste Management*

**D.1** Waste management facilities and services without any form of material segregation of non-hazardous waste, including waste handling, landfill and incineration, unless:

- The company has published a strategic plan that aims to increase the level of material segregation from non-hazardous waste, and;
- The company **turnover** from these excluded activities is below 30%.

## *E. Manufacturing*

**E.1** Production, trade, distribution and use of chemicals and mixtures of chemicals that are listed or identified in the following:

- Regulation (EU) 2019/1021<sup>(6)</sup> on persistent organic pollutants (for companies domiciled in the EU) or the Stockholm Convention (for companies domiciled outside the EU),
- Regulation (EU) 649/2012<sup>(7)</sup> concerning the export and import of hazardous chemicals (for companies domiciled in the EU) or the Rotterdam Convention Prior Informed Consent (PIC) procedure (for companies domiciled outside the EU),
- Class Ia or Ib in the World Health Organization Recommended Classification by Hazard (for all companies),
- The candidate list of Substances of very high concern (SVHC) and Annex XVII under the Regulation (EC) 1907/2006<sup>(8)</sup> on the Registration, Evaluation, Authorisation and Restriction of Chemicals (for all companies),
- Regulation 1005/2009<sup>(9)</sup> on substances that deplete the ozone layer (for companies domiciled in the EU) or the Montreal Protocol on Substances that Deplete the Ozone layer (for companies domiciled outside the EU),
- Regulation (EU) 2017/852<sup>(10)</sup> on mercury (for companies domiciled in the EU) or the Minamata Convention (for companies domiciled outside the EU),

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6 Regulation (EU) 2019/1021 of the European Parliament and of the Council of 20 June 2019 on persistent organic pollutants

7 Regulation (EU) No 649/2012 of the European Parliament and of the Council of 4 July 2012 concerning the export and import of hazardous chemicals

8 Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), establishing a European Chemicals Agency, amending Directive 1999/45/EC and repealing Council Regulation (EEC) No 793/93 and Commission Regulation (EC) No 1488/94 as well as Council Directive 76/769/EEC and Commission Directives 91/155/EEC, 93/67/EEC, 93/105/EC and 2000/21/EC

9 Regulation (EC) No 1005/2009 of the European Parliament and of the Council of 16 September 2009 on substances that deplete the ozone layer

10 Regulation (EU) 2017/852 of the European Parliament and of the Council of 17 May 2017 on mercury, and repealing Regulation (EC) No 1102/2008

- Fluorinated greenhouse gases that are listed in Regulation (EU) 517/2014<sup>(11)</sup> and with a Global Warming Potential (GWP) according to the thresholds by product group listed in Annex III (for all companies).

**E.2** The mining, processing, production, trade and use of asbestos and asbestos-based products.

## ***F. Transportation***

**F.1** Production, distribution and sale of new passenger cars and light commercial vehicles with engine technology based on combustion of fossil fuels, unless:

- The company turnover from these excluded activities is below 30%, and;
- The company has published a strategic plan that aims at phasing out the production of new passenger cars and light commercial vehicles with engine technology based on combustion of fossil fuels by 2030.
- The company has zero CapEx on the expansion of activities described under F.1

## **2.2 Exclusions relating to financing institutions**

Financial products shall not contain:

- bonds nor loans issued by financial institutions that finance the expansion of coal activities; nor
- bonds nor loans issued by financial institutions that have not publicly committed to stop financing coal energy activities and the expansion of oil and gas activities by 2025.

### ***Assessment and verification***

*The applicant shall provide evidence that the fund complies with the environmental exclusions at the time of application.*

*Supporting evidence shall be submitted in one of the forms below:*

- *Company screening using proxies (e.g. controversy indicators);*
- *Business involvement indicators;*
- *Company environmental reports;*
- *Company compliance reports;*

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11 Regulation (EU) No 517/2014 of the European Parliament and of the Council of 16 April 2014 on fluorinated greenhouse gases and repealing Regulation (EC) No 842/2006

- *Financial institution reports;*
- *Financial institution official communications.*

*If data are provided by third party data providers, the methodology for obtaining these data and the used proxies, if any, shall be documented.*

*To demonstrate compliance with criterion C.2, the following shall also be provided:*

- *A strategic plan. The plan shall include the actions to achieve a 1,5 C scenario goals of the Paris Agreement and the actions to achieve net zero carbon emissions by 2050. The plan shall also include a time plan of the phasing-out, closure or fuel-switching of the activities described under C.2, important intermediate milestones, expected capital expenditure to achieve the objectives of the plan, and expected increase in renewable energy capacity. An official communication of the plan shall moreover be made available on the company's website.*
- *A proof of the company's zero capex on the expansion of activities described under C.2 and of the company's zero opex in maintenance costs as described under C.2.*
- *Evidence of the annual reduction of the company's GHG emissions as expressed in C.2.*

*To demonstrate compliance with criterion D.1, the following shall also be provided:*

- *A strategic plan. The plan shall include the actions to achieve an increased material segregation. The plan shall also identify the materials that will be targeted for further segregation, and the technology which is expected to use; the plan shall moreover include a time plan, important intermediate milestones, and expected capital expenditure to achieve the objectives of the plan.*

*To demonstrate compliance with criterion F.1, the following shall also be provided:*

- *A strategic plan. The plan shall include the actions to achieve the phase out of the production of new passenger cars and light commercial vehicles with engine technology based on combustion of fossil fuels by 2030. The plan shall also identify the materials that will be targeted for further segregation, and the technology which is expected to use; the plan shall moreover include a time plan, important intermediate milestones, and expected capital expenditure to achieve the objectives of the plan.*
- *A proof of the company's zero capex on the expansion of activities described under F.1*

*Further to the initial verification by the Competent Body, the applicant shall monitor or assess compliance with environmental exclusions for existing or new investments.*

*The applicant shall provide evidence on the methodology to identify and evaluate allegations in terms of conformity with environmental exclusions (including the case of deviations from the strategic plans mentioned in points C2, D1 and F1) and take appropriate actions,*

*including communication with the company to develop within three months a plan to resolve the issue and, if relevant, to divest. In addition, the applicant should inform the Competent Body.*

## **2.3 Exclusions relating to sovereign and sub-sovereign bonds**

The following exclusions apply to sovereign and sub-sovereign bonds and their issuers.

### *2.3.1 Ratification of the Paris Agreement on Climate Change*

Sovereign bonds shall be excluded from being held by the portfolio if:

- the issuer or the supranational organisation to which it belongs is not party to the Paris Agreement on climate change, and
- the issuer has not published a CO<sub>2</sub> reduction trajectory *to reach the objective of the 1,5<sup>0</sup> degrees scenario of the Paris Agreement.*

An exemption shall be made for sub-sovereigns in the case that they can demonstrate a formally adopted political commitment to meet *the objectives of the 1,5<sup>0</sup> degrees scenario of the Paris Agreement.*

### *2.3.2 Ratification of other international environmental agreements*

Sovereign bonds shall be excluded from being held by the portfolio if the issuer or the supranational organisation to which it belongs are not party to the following international agreements:

- the UN Convention for Biological Diversity;
- the Convention on International Trade of Endangered Species of Wild Fauna and Flora (CITES);
- the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification (where applicable);
- the Ramsar Convention on the conservation and wise use of wetlands of international importance and their resources;
- the Cartagena Protocol on Biosafety to the Convention on Biological Diversity;
- the Basel Convention (transboundary movements of hazardous wastes and their disposal);
- the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade;
- the Stockholm Convention on Persistent Organic Pollutants;

- The Montreal Protocol on Substances that Deplete the Ozone layer;
- The Minamata Convention.

### ***Assessment and verification***

*The issuers of the supranational, sovereign and sub-sovereign bonds that are held shall be identified. The applicant shall then provide a declaration of compliance for the **financial product**. For sovereign carbon reduction trajectories relevant information and data contained within a sovereign climate risk rating shall be accepted as a form of verification. For sub-sovereign bonds, additional information on the political commitments **to meet the same targets and requirements the objectives of the 1,5<sup>0</sup> degrees scenario of the Paris Agreement shall be provided.***

*Further to the initial verification by the applicant and the Competent Body, the applicant shall monitor or assess compliance in its existing investments or new investments.*

## **Criterion 3. Exclusions based on social and governance aspects**

### **3.1 Exclusions applying to companies**

Financial products shall not contain equities or bonds issued by

- companies that do not comply with the conditions listed below on social aspects
- companies that derive their revenue from the listed activities as described below; nor
- companies that do not comply with the requirements on governance aspects described below.

At a company level, social exclusions apply to all enterprises, regardless of their size, sector, location, ownership and structure.

A company is excluded on the basis of **social aspects** if, throughout its business activities, it does not comply with the following conditions:

- Respect<sup>12</sup> the protection of internationally proclaimed human rights and relevant domestic laws and regulations of the country in which it operates **any activity of its supply chain, including the sourcing of** raw materials. [UN Global Compact, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, International Humanitarian Law]

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<sup>12</sup> Respect in this context means: Companies should avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur. It also means that companies should seek to prevent or mitigate adverse human rights impacts directly linked to their operations, products or services by their business relations, even if they have not contributed to those impacts.



- Ensures it is not complicit in human rights abuses. [UN Global Compact]
- Upholds the freedom of association and the effective recognition of the right to collective bargaining. [ILO Convention, UN Global Compact]. Only in reference to that [this requirement](#), if the excluded company is part of a holding that [also](#) operates elsewhere, the other activities of the holding are not excluded subject of their compliance.
- Ensures the elimination of all forms of forced and compulsory labour. [ILO Convention, UN Global Compact]
- Upholds the effective abolition of child labour. [ILO Convention, UN Global Compact]
- Ensures the elimination of discrimination in respect of employment and occupation. [ILO Convention, UN Global Compact]
- Abides by local legislation that addresses corruption, bribery and extortion, and works against corruption in all its forms, including extortion and bribery by formulating and operationalising adequate business policies. [UN Global Compact, UN Convention against Corruption]

A company is also excluded if it derives:

- [Turnover from](#) tobacco production or any tobacco-related activity from raw materials to production
- [Turnover from](#) the production or trade of controversial weapons that are covered by the following international treaties:
  - o Chemical Weapons Convention,
  - o Biological Weapons Convention,
  - o Ottawa Convention (Ban on Anti-Personnel Mines),
  - o Oslo Convention (Ban on Cluster Munition)
  - o and the Treaty on the Non-Proliferation of Nuclear Weapons.
- [Turnover from](#) activities which violate minorities' and indigenous communities' rights with reference to the World Bank's Social Safeguard Policies.
- [More than 5% turnover from retail trade of tobacco products, provided it is not a holding company](#)
- [More than 5% turnover from the production or trade of conventional weapons and/or military products used for combat.](#)

A company is excluded on the basis of **governance aspects** if, throughout its business activities, it does not have in place:

- corporate policies on social aspects and operational procedures necessary to embed them throughout the business activities;
- an up-to-date management system covering all business activities with the capability to identify, evaluate, prevent, mitigate and remediate adverse social impacts.

### 3.2 Exclusions relating to sovereign and sub-sovereign bonds

Sovereign and sub-sovereign bonds are excluded if their issuers:

- Have not ratified the following international conventions on labour rights and corruption:
  - the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work;
  - ILO Declaration on Social Justice for a Fair Globalization;
- Have ratified less than 12 Core International Human Rights Treaties<sup>13</sup>.
- Are subject to EU or UN restricted measures (including sanctions);
- Achieve a score worse than 40, when evaluated according to the Corruption Perception Index;
- Apply the death penalty. An exemption shall be made for sub-sovereigns that do not apply the death penalty following the local regulations which in this case prevail the national law.
- Produce, trade or possess controversial weapons that are subject to EU or international restrictions, including non-ratification of:
  - Chemical Weapons Convention,
  - Biological Weapons Convention,
  - Ottawa Convention (Ban on Anti-Personnel Mines),
  - Oslo Convention (ban of cluster munition) and
  - Treaty on the Non-Proliferation of Nuclear Weapons.

#### *Assessment and verification*

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<sup>13</sup> United Nations. *The Core International Human Rights Treaties and their monitoring bodies*. Oct 2019, <https://www.ohchr.org/EN/ProfessionalInterest/Pages/CoreInstruments.aspx>. Compliance can be checked using the United Nations Human Rights interactive dashboard, available at: <https://indicators.ohchr.org/>

*The applicant shall demonstrate to the Competent Body that followings have been assessed, with respect to companies in which investments are held and/or the issuers of sovereign debt that is held:*

- *Excluded activities: The status of each company shall be checked against the exclusions list.*
- *Compliance of corporate policies on social matters with social exclusions.*
- *Compliance of risk identification, evaluation, prevention, mitigation and remediation targets, as included in the management system, with corporate policies on social matters.*
- *For sovereign, compliance of each country shall be checked against the exclusions list.*

*All companies shall disclose information about their social responsibility, human and labour rights and their anti-corruption policies, approved at the most senior management level. If data are provided by third party data providers, the methodology for obtaining these data and the used proxies, if any, shall be documented.*

*For companies, reporting under the Non-financial Reporting Directive (2014/95/EU<sup>14</sup>) shall be accepted as basis for verification if it is sufficient to prove compliance with the social exclusions criterion.*

*Further to the initial verification by the applicant and the Competent Body, the applicant shall monitor or assess the compliance with social exclusions for its existing investments or new investments.*

*The fund or deposit manager shall provide evidence on the methodology to identify and evaluate allegations in terms of conformity with social exclusions and take appropriate actions including communication with the company to develop within three months a plan to resolve the issue and, if relevant, to divest. In addition, the fund or deposit manager should inform the Competent Body*

#### **Criterion 4. Engagement**

This criterion applies to UCITS funds and retail AIFs.

##### **4.1 Engagement policy**

The fund manager shall have a documented engagement policy describing at least:

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<sup>14</sup> Directive 2014/95/EU of the European Parliament and of the Council. Available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN>

- Objective: How the environmental objectives of [Regulation \(EU\) 2020/852](#) will be used as the basis on which to engage with companies including, as a minimum, contributions to one of the six [environmental](#) objectives of [Regulation \(EU\) 2020/852](#)
- Strategy: How they plan to target and engage with companies to grow their [green turnover](#), [to grow](#) their market share for environmentally sustainable economic activities in order to contribute to the medium to long-term performance of their assets, [to decrease the share of their activities that do not meet the Do Not Significant Harm criteria under the EU Taxonomy and, where relevant, to reduce/phase out the share of activities listed under criterion 2.1.C.2, 2.1.D.1 and 2.1.F.1.](#)
- Methods: How they seek to use their influence, including by exercising their voting rights, increasing their influence by working with other shareholders, using differing intensities and frequencies of dialogue with investee companies and using other means, such as campaigns, to achieve their objective(s).
- Monitoring: The means of regular monitoring and reporting on the outcomes of their engagement with companies.

## 4.2 Exercising voting rights

The fund manager shall exercise their voting rights and other rights attached to shares in order to fulfil the objectives of their engagement policy. They shall use these rights [in the first place](#) to try to orientate those companies in the portfolio with [green turnover < 10% and no green capex](#), and then of those companies with [green turnover < 30% of turnover derived from activities with the NACE codes covered by the EU Taxonomy](#) to:

- Achieve alignment of company strategies with the environmental objectives of [Regulation \(EU\) 2020/852](#),
- Achieve alignment of investment strategies with the need to grow [green turnover](#) and market share for environmentally sustainable economic activities, [and upgrading or phasing out activities not yet complying with the EU Taxonomy technical screening or Do No Significant Harm criteria](#),
- [Reduce or close down activities described under criterion 2.1.C.2, D.1 and F.1.](#)

They shall provide the following information to show how their rights have been used in relation to resolutions addressing these two areas:

- The numbers of resolutions raised, either singularly or in co-operation with other shareholders.
- How they have cast votes in the general meetings of companies in which they hold shares.
- Those cases where proposals were carried.

### **4.3 Dialogue with investee companies**

#### *4.3.1 Requirements for UCITS funds and retail AIFs*

The fund manager shall actively regularly engage at management level with at least 10% of companies in the portfolio. The fund manager shall engage in the first place with companies specified under criterion 2.C.2, 2.D.1 or 2.F.1, or companies in the portfolio with green turnover < 10% and no green capex, and then with companies with green turnover < 30% of turnover derived from activities with the NACE codes covered by the EU Taxonomy.

#### *4.3.2 The engagement process used to achieve outcomes*

Once engagement with a company has been initiated the process followed and the progress achieved shall be monitored and reported on. The following information shall be provided to Competent Bodies for each company:

- The specific topics raised via engagement with each company in planning strategic activities and investments within a specific period of time,
- The goals and targets discussed and raised with each company to achieve environmental objectives, which should be based on:
  - upgrading their existing activities that are not EU Taxonomy-aligned (to bring them up to the Technical Screening Criteria under the EU Taxonomy or to meet the Do-No-Significant-Harm criteria under the EU Taxonomy that they are not yet meeting)
  - expanding their existing activities that are EU Taxonomy-aligned
  - starting new activities that are EU Taxonomy-aligned
  - closing existing activities that are not EU Taxonomy-aligned
- The intermediate steps or milestones to achieving these goals and targets, including the development of plans and investment strategies,
- The frequency and means of ongoing communication and dialogue with the company, such as board meetings, analyst conferences, meetings with business field managers, or controlling tools.

In addition, the measures that will be taken by the fund or asset manager shall be reported in the case that a company deviates from or does not meet the proposed goals and targets.

#### ***Assessment and verification***

*The fund manager shall provide the verifier with the following information:*

1. *The fund or asset managers engagement policy structured to clearly address the points in section 4.1*
2. *Documentation of how their voting rights have been used, including the tracking of resolutions raised and proposals made by the fund manager or product provider, as well as their voting record on proposals and resolutions of relevance to the engagement policy.*
3. *Documentation of which companies have been engaged with, as well as the information as specified for each point in section 4.3.2,*

*Ongoing reporting of progress against the goals and targets established with each company engaged shall be provided on a 12 month basis to the Competent Body and also made available in the public domain. Any regulatory restrictions on engagement activities in specific EU or international jurisdictions will be taken into account in the assessment and verification.*

*For new products, this requirement does not apply. The reporting as outlined above starts after the first year of existence of the product.*

#### **Criterion 5. Measures taken to enhance investor impact**

This criterion applies to UCITS funds, AIFs, and bonds held by the deposit accounts.

Fund or deposit managers shall make available a report on the investor impact of the product and take at least one of the measures described in Table 1 to enhance investor impact. The report shall provide information on the measures described in Table 1 that have been taken. Supporting information shall be provided to describe how each measure has been implemented and a rationale for those measures that was not possible to implement to enhance the investor impact. A summary of the report shall be provided as information to prospective retail investors.

*Table 1. Measures that can be taken to enhance the investor impact of the product*

<b>EU Ecolabel criterion</b>	<b>Investor impact enhancement measures</b>	
1. Investment in environmentally sustainable economic activities	1.1 Capital allocation to equities	1.1.1 Investments are made in new start-ups and/or unlisted companies.
		1.1.2 Investments are made in new listings – Initial Public Offerings (IPOs) that are undersubscribed.
		1.1.3 Activities or market segments in need of more capital are actively identified and invested in.
	1.2 Capital allocation	1.2.1 Activities or market segments in need

	to bonds	of more capital are actively identified and invested in through the direct subscription of bonds
	1.3 Identifying opportunities and monitoring change	1.3.1 Opportunities are actively identified to invest in companies that seek to increase their green turnover. 1.3.2 Frequent reporting is provided on the green capex and the change in % green turnover of companies in which equities are held or which have issued the bonds held. 1.3.3 Opportunities are actively identified to purchase sustainability-linked bonds
	1.4 Taking a long-term outlook	1.4.1 Evidence can be provided that a long position has been taken on the specific shareholdings of companies with green turnover < 10% and no green capex, and then with companies with green turnover < 30% of turnover derived from activities with NACE codes covered by the EU Taxonomy.
2. Environmental exclusions	2.1 Committing to transition	2.1.1 Evidence can be provided that they have required phase out strategies with milestones for activities under 2.1.C.2, D.1, or F.1.
		2.1.2 Evidence can be provided that they have linked requirements for the phase out of excluded activities (as defined under 2.1.C.2, D.1, or F.1) to active engagement activities.
3. Engagement	3.1 Engaging to increase shareholder value	3.1.1 Evidence can be provided in relation to the bilateral or collective engagement of shareholders with the management of companies to shift their investment strategies, complemented by a threat of divestment, action at shareholder level or public campaigns.
4. Measures taken to enhance investor impact	4.2 Tracking of enhancement measures	4.2.1 Investigation of impact through the adopted measures, for example by collaborating with researchers, or by surveying corporate managers.

### ***Assessment and verification***

*The applicant shall provide at the time of application an impact report detailing the measures taken to enhance the investor impact of the product and its associated investment strategy. The report shall include material that is presented in an accessible form for retail investors. For each measure, the type and portfolio value of the holdings addressed shall be detailed*

*and information on the specific economic activities related to the holdings shall be provided. This information can be provided within the impact report.*

*For new products, this requirement is not applicable. Impact reporting starts after the first year of existence of the products and needs to comply with the requirements outlined above.*

### **Criterion 6: Retail investor information**

As a minimum the following information shall be made **annually** available by the fund or deposit manager or insurance undertakings to the retail investors, where applicable:

- Information about **the assets included in the retail financial product and their percentage to** the total portfolio value in terms of assets under management (AuM)
- The share of AuM **invested in equities of** companies with >50% green turnover
- The share of **AuM in companies indicating** green Capex
- The details of the projects to which loans have been granted and their implementation status;
- The share of AuM going to environmentally sustainable activities **through investment in other funds.**
- Information on how the fund manager engages with companies on sustainability issues. The information provided shall comply with the requirements laid down in criterion 4.
- Information on the measures that have been taken to enhance the impact of the financial product **in accordance with criterion 5**
- **Information on how the fund or deposit manager or insurance undertaking monitors compliance of the financial product with the EU Ecolabel criteria**
- An electronic link to the **product's website providing a full annual report, which describes at least the information above.**

The information shall be accompanied by the following disclaimer: *“The EU Ecolabel is the official European Union label for environmental excellence aiming to capture the best products available on the Community market in terms of environmental performance. It is awarded to financial products that invest to a certain degree in environmentally sustainable economic activities as defined under the EU Taxonomy. However, the currently available methodologies and evidence do not allow to evaluate the environmental and social impacts of a particular fund.”*



Where the financial product is required to publish a prospectus, this prospectus shall contain information, **which is more detailed than** that contained in the key investor information document (KIID), or key information document (KID), in accordance with European or national laws. According to art. 8(3c)(ii) of the Regulation (EU) No 1286/2014 the KID includes information on specific environmental or social objectives targeted by the PRIIPs product. Neither the PRIIPs Level 1 nor the PRIIPs RTS prohibit manufacturers of PRIIPs products to add a sign suggesting the product's adherence to an environmental quality label. In this context reference to EU Ecolabel could be made in the "What is this product?" section of the KID.

**In the event of any observed allegations for violating compliance with the exclusions, the fund or deposit manager or insurance undertaking shall communicate it by publishing in the annual report and on the fund's website the undertaken actions to address the issues and the outcomes (when available).**

### ***Assessment and verification***

*By submitting the application, the applicant shall hand over to the Competent body a sample of the information to be provided to the retail investors. The information can be added on a prospectus along with the respective KID or KIID or be provided as a separate information brochure.*

*For new products, the applicant should submit a formal commitment of compliance with this criterion no later than one year from the start of the fund.*

### **Criterion 7: Information appearing on the EU Ecolabel**

The applicant shall follow the instructions on how to properly use the EU Ecolabel logo provided in the EU Ecolabel Logo Guidelines available at:

<https://ec.europa.eu/environment/ecolabel/documents.html>

If the optional label with text box is used, it shall contain the following statements:

- Investing in activities that contribute to a green and low carbon economy
- Avoiding investments in environmentally and socially harmful activities
- **Enhancing investor impact**

The following additional statement may be used for investment funds and insurance products **(replacing one of the statements above)**:

- Engaging with companies to become **more environmentally sustainable**

### ***Assessment and verification***

*The applicant shall provide a signed declaration of compliance along with a sample of the product label or product documentation where the EU Ecolabel is placed that clearly shows the label, the registration/licence number and, where relevant, the statements that are displayed together with the label.*

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