French comments on the development of the EU Ecolabel criteria for Financial Products

Following the 2nd AHWG meeting of March 25th and 26th, 2020

The below comments consolidate contributions by France's ADEME, AMF, and both the Economy and Finance Ministry as well as the Ecological and Solidary Transition Ministry. Discussions with private stakeholders were considered as well.

General comments

- French authorities would like hereby to reaffirm their support to the EC's political agenda and scientific endeavour in the fight against climate change. As transitioning towards a greener and fairer sustainable economy through adequate reorientation of capital becomes more crucial than ever, the EU has endowed itself with an ambitious and avant-garde roadmap for the future with the Green Deal. In addition, an effective implementation of the EC's Action Plan for Financing Sustainable Growth will equip national economies with the right tools to demonstrate resilience and stability in facing with the upcoming challenges of our century. French authorities would also like to praise the consultative approach of the EC, which gives a wide range of stakeholders the chance to participate in this joint endeavour.

- As EC initiatives are concomitant and motivated by a strong and more than welcome political will, French authorities would like hereby to express a couple of remarks as part of the ongoing development of the EU Ecolabel for Financial Products:
  - The EU Ecolabel for Financial Products' minimum requirements shall be as far as possible aligned with the future EU Taxonomy's technical criteria and Minimum Social Safeguards, the upcoming Disclosure Regulation's "adverse impact" indicators[1], as well as the future EU Green Bond Standards. As the number of European legislative acts greatly surge, consistency is a critical point to ensure a clear and consistent understanding from all stakeholder, which is of primary importance for achieving the EU sustainable finance strategy goals. French authorities fear that unprincipled actors could take advantage of potential inconsistencies between European legislative acts to perform greenwashing. To this end, we would favour the following provisions:
    - A consistency analysis between the proposal for the development of the EU Ecolabel criteria for Financial Products and other sustainable finance legislative initiatives (mainly UCITS, AIFMD and MIF revisions and Disclosure Regulation[2])

[1] Article 16c of Taxonomy regulation's political agreement gives the ESAs a mandate for defining presentation and content of information provided by market participant and relating to compliance with "Do Not Significantly Harm" criteria, as mentioned in article 2(17) of the Disclosure Regulation. The terms of reference also state that this information shall be consistent with "adverse impact" indicators, which will be defined by ESAs as well. The assessment of DNSH criteria will then be strongly related to the upcoming adverse impact indicators.

[2] As the consultation on level 2 regulations has been launched, they could be included in the analysis.

provided in the final report would be very useful. This would not only be useful for ensuring consistency between initiatives, but also help stakeholder clearly understand how the EU Ecolabel for Financial products interacts with the latter.

        - As the abovementioned regulatory acts may not be published when the Commission's decision is made, we also suggest that the review clause shall provide for a specific consistency review between Ecolabel criteria and other European provisions addressing related field and indicators (including AIFM, OPCVM and MiFID reviews, Taxonomy, Disclosure, Benchmark and EU GBS regulations)

    - Discussions around striking the right level of ambition for the EU Ecolabel for Financial Products must be substantiated by the results of live portfolio tests whose methodologies refer to the latest version of the EU Taxonomy and include the least methodological biases as possible. French authorities observe that the upcoming DG FISMA tests on about one hundred green or sustainable equity UCITS funds will cover green thresholds only, but not exclusions on environmental and social aspects. We also question the extent to which the results of the DG FISMA tests will address the data availability/reliability issue. French authorities believe that subsequent work and updates could be further needed through a review clause.
    - Based on French authorities' understanding of the timeline of the project, the EU Ecolabel for Financial Products is expected to be finalized by Spring 2021. In the meantime, delegated acts for the EU Taxonomy are expected to be adopted by end of 2021 (covering two of the six environmental objectives, i.e. climate mitigation and climate adaptation) and end of 2022 (covering all the environmental objectives). That is, the finalized EU Ecolabel for Financial Products may be put "on hold" during a transition period whose length remains unclear to us. Depending on the quality of corporate disclosures as of end of 2021 (Green revenues, green CAPEX/OPEX, as stated in the Taxonomy regulation, and perhaps new Taxonomy-specific requirements in the proposal for a revision of the Non-Financial Reporting Directive), but also the impacts associated with the addition of the four missing environmental objectives of the Taxonomy, the transition period may last longer than simply from Spring 2021 to end of 2021. Considering these upcoming structuring publications for the EU Ecolabel, we believe that a review of the criteria should be conducted in 2022 to ensure consistency between the criteria and the new legislative provisions. This revision could also capitalize on the market experience for refining green thresholds.
    - Considering the shortcomings mentioned above, the EU Ecolabel for Financial Products could face difficulties in targeting the 10% to 20% best financial products available on the market. We hence believe this targeted share of financial product should not be considered as an absolute objective for this very first version of the Ecolabel and could be targeted by the review of the criteria.

- Overall, French authorities positively welcome changes made to the draft criteria of the EU Ecolabel for Financial Products in the second technical report.
    - In our opinion, the initial set of criteria failed to properly consider those issuers that are actively contributing to the transition towards a more sustainable and green economy. While this loophole is now addressed, in line with the EU Taxonomy's distinction between low-carbon, transition and enabling activities, there may be interesting avenues to go further and incorporate more forward-looking and dynamic features to

the EU Ecolabel for Financial Products. Our below comments propose to explore the inclusion of the green CAPEX metric.

  - The second version of the criteria framework considers mechanisms identified in existing scientific literature through which investors may transform the economy. French authorities therefore welcome the inclusion of a specific criterion on engagement activities.

- As part of the French stakeholder consultation process (mirror groups), 2 Degrees Investing Initiative raised concerns over the legal adequacy of financial services with the Ecolabel regulation and the lack of scientific evidence (cf. their bespoke paper). Their message has worried some financial institutions regarding the use of the EU Ecolabel and we invite the JRC to provide complementary elements in their 3rd technical report.
- To our best understanding, a 3rd technical report will be published by the JRC by next autumn. Owing to the current COVID-19 context, the 2nd AHWG webinar meeting did not allow members of the JRC and selected participants to interact with each other in a proper way. That is, French authorities would encourage the JRC to organize a 3rd AHWG meeting before the drafting the final technical report.
- To our knowledge, the JRC is considering a review of the criteria in the short-term. Considering the European Commission's time constraints and the need to engage further work in a second phase, we encourage the JRC to provide a review clause to update the approved criteria by end of 2022.

Product scope and definitions

- Having consulted a wide range of stakeholders at France level, we strongly recommend the JRC to deem financial products / funds with less than 12 months of track record eligible as well. Be it for the French Label ISR and Label Greenfin, funds have indeed been designed and launched with the ultimate purpose of being awarded the label. We therefore suggest the following verification process for both recent and existing financial products / funds:
  - Compliance with the EU Ecolabel for Financial Products criteria for all types of funds shall be assessed based on legal documentation of the funds. That is, funds must state in the funds' strategy section of its prospectus that it will comply with the EU Ecolabel criteria. All the relevant criteria (e.g. equity thresholds for equity funds, exclusions, engagement, etc.) must be written down in the prospectus. **Such a provision would greatly enhance consumer protection** as funds would be legally required to comply with EU Ecolabel criteria and as it would allow supervision by national financial supervisory authorities. Periodic controls and labelling renewal could be performed based on the 12 months track record as currently provided.
  - In line with our previous recommendations, we believe that control mechanisms shall be implemented to ensure that there is no misuse of and full compliance with the EU Ecolabel for Financial Products. The Competent Bodies shall ensure that both permanent (level 1) and periodic (level 2) controls are performed by risk management and internal control teams. Rules implemented pre-trade and post-trade to identify and escalate passive and active breaches shall be aligned with the criteria of the EU Ecolabel for Financial Products. The Competent Bodies shall then verify that such controls are formalized in written, for instance in bespoke annual internal control reports. This

requirement would be particularly relevant for recent funds, but would also apply to existing funds.

- For traceability and transparency purposes, a directory of ecolabelled products could be accessible on the Ecolabel's, ESMA's or other deemed relevant websites, including key information such as, where applicable, the name of the service provider, ISIN codes, KIIDs, prospectus, asset class focus, assets under management and product category classification. On this topic, Belgian Toward sustainability label user's friendly website could be used as a model[3]. Labelling fees may anticipate costs associated with the monitoring of the directory and initiatives to promote the EU Ecolabel for Financial Products (appendix III of the Ecolabel Regulation can be amended in line with Art.15). Note that this approach is the one followed by the French Label ISR, which has a promotion body that has been active since inception, on social medias and physical communication platforms.
- Capitalizing on the French SRI label experience, the success of a sustainable finance label depends on its appropriation by financial advisers, who have the ultimate responsibility to distribute the associated products to savers. This requires both communication campaigns tailored to each target and training effort for financial advisers. In France, communication campaigns have been made possible through an original financing model based on the fees, while training efforts are required from investment firms as a distinct criterion. We suggest the JRC to also adapt labelling fees, considering the above, in line with Art.15 of the EU Ecolabel Regulation.
- French authorities would like the JRC to provide further describe the verification process and responsibilities of Competent Bodies, e.g. on-site or remote audits, frequency of such audits, incompatibility of labelling services with the provision of consulting services, accreditation process for the implementation by Competent Bodies of a quality management system, adapted fees, etc.
- We fully support the currently proposed "pass or fail" approach of the EU Ecolabel for Financial Products, which, we believe, will provide guarantees in terms of legibility for investors, and consistency for competent bodies during the verification process. We therefore oppose a point or scale-based system.

- We support the current proposed perimeter of financial products, i.e. investment portfolios (UCITS and retail Alternative Investment Funds), life-insurance products with an investment component, as well as deposit and savings accounts. However, as many questions were raised by market participants, we believe there is room for clarifying the proposal.
  - As PRIIPs Regulation is designed to cover retail product, it is a sound basis for considering whether the service is provided to retail investors. We suggest that the product group shall comprise the following products, that are provided as a service to retail investors:
    - The service of managing a UCITS funds, AIF funds and Insurance-based products with an investment component that are made available (PRIIPs wording) to retail investors in accordance with the requirements laid down in Regulation (EU) No 1286/2014 on packaged retail and insurance-based investment products (PRIIPs).
    - Covered funds may invest in securities that are not covered by the EU Ecolabel thresholds on green investment portfolio if exclusions are met and as the

[3] https://www.towardssustainability.be/en/Investment-Product

aggregated portfolio AuM complies with the thresholds. The rationale behind this proposal is to widen the scope of covered funds without giving up on the environmental ambition of the EU Ecolabel for Financial Products, while also increasing the eligible investment universe. French authorities point out here that, according to the 2nd technical report, the diversification pocket for equity funds may include "other assets", i.e. illiquid asset classes.

- To our best understanding, retail PRIIPs associated with illiquid asset classes such as private equity, real estate and infrastructure, do not fall within the current proposed perimeter.
    - We understand the JRC's willingness to protect retail investors from risks associated with investments in illiquid assets. However, risk levels may vary substantially from one illiquid asset class to another and shall not be treated on an equal footing (e.g. office buildings, residential properties, infrastructure, private equity). French authorities therefore recommend the JRC to give priority to illiquid assets for which information are easier to collect (e.g. real estate and infrastructure).
    - While we understand inherent complexities related to the assessment of illiquid assets' compliance with the EU Ecolabel for Financial Products criteria, we believe it would send a strong message to market participants if a revision clause was to provide for illiquid assets inclusion (e.g. by end of 2022). We believe that the associated retail financial products shall be deemed eligible, considering their need to access financing, and their higher likelihood to deliver measurable positive impacts on society.
    - The real estate industry is of utmost interest in the transition towards a more sustainable and greener economy. According to the JRC's second technical report, more than 20% of real estate investments are held by retail investors, which, in our opinion, is a significant enough share to include real estate funds within the perimeter of the EU Ecolabel for Financial Products. In France, SCPI and OPCI funds are particularly attractive to retail investors and may even be hosted within life insurance contracts (with an investment component).
    - Infrastructure investors favor long-termism and were among the earliest and most proactive market players to pave the way to sustainable financing. As a matter of fact, about half of the funds having received the stringent French Greenfin label account for infrastructure funds. French authorities therefore find it unfortunate that they are excluded from the perimeter of the EU Ecolabel for Financial Products, and would like to ask the JRC to reconsider its stand. Having consulted infrastructure investors (e.g. Meridiam), French authorities believe that data availability would not be a major hurdle for the inclusion of infrastructure funds, and are willing to provide support to the JRC.
    - We would like to ask the JRC to reconsider the legal basis that would justify the exclusion of FIAs that are indirectly distributed to retail investors. French authorities recommend a counter-assessment from the legal department of the European Commission.
    - While we fully support the democratization of green finance within the EU, by primarily targeting financial products which are typically distributed to retail investors, we would be in favour of incorporating AIFs designed for professional

and institutional investors within the scope of the EU Ecolabel for Financial Products.

- Financial sectors practitioners have confirmed that such a label would also be of value for professional investors as part of their investment decision-making process.
- The EU Ecolabel does not seem to cover individual consumers only. Using the JRC's example, we observe that the EU Ecolabel for clothing and textile products has been awarded to both B2B and B2C market players. FULGAR Spa and Camira Ltd, for instance, mainly (albeit exclusively) sell ecolabelled fabrics to other businesses (clothing brands, hospitals, hotels, trains, among many others). As final individual consumers can purchase fabrics through an intermediated product / service, French authorities recommend a counter-assessment from the legal department of the European Commission to explore the possibility to include professional and institutional investors within the eligible perimeter.

Thresholds on green investment portfolio

- On equity
  - French authorities welcome the inclusion of a transition pocket, aligning with the spirit of the EU Taxonomy, the imperative need to encourage companies in the fight against climate chance, and the current market availability of eligible stocks.
  - French authorities welcome the conduct of tests on about 100 UCITS equity portfolio on the proposed threshold. We are hopeful that DG FISMA will require from the selected external consultants and academics the performance of sensitivity tests, which may corroborate our abovementioned proposals.
  - French authorities, along with other consulted stakeholders, are enthusiastic about the inclusion of green CAPEX (to be disclosed by companies, according to the EU Taxonomy Regulation) as a forward-looking metric. This would be in line with the need to find EUR 180 billion per year of sustainable investments, as estimated by the European Commission.
    - We encourage the JRC to consider the inclusion of companies within the transition pocket, for instance if their X-year average green CAPEX to total CAPEX ratios exceed X% (NB: The JRC could carry out further research to determine the right period and the level to achieve). This metric could either act as an additional requirement (allowing to reduce requirement on revenues), or as an alternative one to further widen the scope of eligible stocks, increase product diversification, and consider transitioning companies.
    - The provision of a review clause to update the criteria by end of 2022, should the inclusion of the green CAPEX metric require more time after the final adoption and vote of the EU Ecolabel for Financial Products.
  - According to proprietary tests performed by consulted asset managers, the share of companies falling within the green pocket, i.e. deriving more than 50% of their revenues from Taxonomy-compliant activities, turns out to be greater than the number of companies falling within the transition pocket, i.e. deriving between 20% and 49% of

their revenues from Taxonomy-compliant activities. As such, French authorities suggest adopting the following thresholds for equity:

  - At least 70% of total portfolio value in terms of assets under management (AuM) shall be invested in companies whose economic activities comply with the following threshold:
    - i. At least 30% of AuM shall be invested in companies deriving at least 50% of their revenue from green economic activities
    - ii. The remaining proportion of AuM (0-40%) shall be invested in companies deriving between 20% and 49% of their revenue from green economic activities, or in companies whose 3-year average green CAPEX to total CAPEX ratio exceed X%[4] (NB: The JRC could carry out further research to determine the right level to achieve).
    - The remaining proportion of the total portfolio shall consist of companies deriving less than 20% of their revenue from green economic activities and not excluded, or other assets or cash.

- On corporate, sovereign and sub-sovereign bonds
  - To harmonize national and European standards, and considering the EU Ecolabel for Financial Products' best-in-class approach, French authorities recommend the JRC to increase bond funds' green threshold from 70% to 75% (aligned with the French Greenfin label).
  - As market acceptance for the EU GBS is still unknown (we expect a limited market size at the time of their inception, and perhaps a slow ramp up), and considering the anticipated certification costs associated with the EU GBS, we would like the JRC to include general-purpose corporate bonds issued by companies generating more than 50% of their revenues from Taxonomy-compliant activities. This approach would better align expectations for equities and bonds, while allowing small yet green listed companies (with less financial and human resources) to access debt financing without having to issue EU GBS-certified green bonds. We believe it would also provide an overall incentive for companies to further green out their business models without deteriorating the appeal of the EU GBS. The latter would remain an attractive investment vehicle for companies generating less than 50% of their revenues from Taxonomy-compliant to finance specific projects.
  - Concerning the GBP standard, although we believe that the level of this standard is too low to integrate the ecolabel, we want to draw the JRC's attention on the fact that actual green bonds funds would not be eligible to the EU Ecolabel at the beginning, as they are invested in GBP bonds. Furthermore, as all international green bonds are denominated in GBP, the investment universe will be significantly reduced and confined to the European Market.

[4] Depending on whether the CAPEX is used as an additional threshold, the requirement could be: "the remaining portion of AuM (0%-40%) shall be invested in companies deriving between 20% and 49% of their revenue from green economic activities, or in companies deriving at least 10% of their revenue from green economic activities and whose 3-year average green capex ratio exceeds X%".

  - From our understanding, exclusions do not apply to corporate EU GBS-compliant green bonds. However, French authorities would see merits in requiring from excluded issuers the implementation of a carbon neutrality target by 2050. This is in line with the objective of the EU Green Deal, and what is more an additional safeguard to one of the main drawbacks of green bonds, that is, the financing of the issuer's balance sheet rather than that of the project's.

- On deposit and savings accounts
  - On the same basis as general-purpose corporate bonds, we recommend the JRC to include, for eligible loans, all debts incurred by companies deriving more than 50% of their revenues from Taxonomy-compliant activities.

- On life insurance products with an investment component
  - French authorities advocate for a similar approach to funds of funds for life insurance products. 100% of unit-linked funds shall comply with the criteria of the EU Ecolabel for Financial Products as no liquidity buffer is needed in this case (compared to funds of funds).
  - We would like to draw the JRC's attention on the case of multi-support life insurance policies, which include euro funds alongside with unit-linked funds. We question whether euro funds can, in practice, comply with the criteria of the EU Ecolabel for Financial Products. Our partners have pointed out that, insofar as a euro fund is mainly composed of bonds (80% on average, of which 60% in sovereigns) and shares (20% on average), it could theoretically meet the requirements of the EU Ecolabel for Financial Products as a mixed fund.

- On funds of funds
  - Building upon their experience, French authorities would like to draw the JRC's attention on the fact that asset managers may use the 10% share of the funds of funds portfolios as a "garbage pocket". As such, we would recommend including an explicit rule within the criteria so that it can be used only for liquidity management purposes.
  - We also draw the JRC's attention on the "dilution risk" associated with Fund of Funds structures, which is addressed in article 55(2) of UCITS directive and article 16(1) of MMF Regulation. We therefore propose to limit, for targeted funds, the possibility of investing in other funds. An anti-dilution provision should also be considered for feeder funds. The following wording, aligned with MMF provisions and deemed conservative enough, is suggested:
    - "No more than 10 % of the assets of the targeted fund are able, according to its fund rules or instruments of incorporation, to be invested in aggregate in units or shares of other funds."
  - In general, UCITS can invest in shares of other UCITS or funds (article 55 of UCITS Directive, up to 30% of the AuM). To limit dilution risk in this case, there are different ways to considered targeted funds: (i) targeted funds that are awarded with the EU ecolabel can be included in the green share of the portfolio (if no more than 10% of their AuM is able to be invested in units or shares of other funds) and non-labelled targeted funds are assessed on a look-through basis. (ii) all targeted funds are assessed on a look-through basis.

- On index funds (including Exchange-Traded Funds)
    - French authorities recommend the JRC to address the specific case of index funds, and require compliance assessment against the criteria of the EU Ecolabel for Financial Products to be performed at portfolio level vs. at the replicated index level. While indices complying with the EU Ecolabel for Financial Products do not exist yet, passive management does not prevent fund managers from not tracking the replicated index.

- On derivative instruments
    - French authorities support most of the proposed limitations on the use of derivative instruments and warmly welcome their inclusion. However:
        - Although they tend to achieve the very same goal, provision regarding hedging in the current draft criteria and ESMA guidelines[5] are not fully aligned. For the sake of consistency, we propose to adjust the criteria with the following wording:
            - Derivatives may be used for hedging purposes as defined in the "CESR's guidelines on Risk measurement and the calculation of Global Exposure and Counterparty Risk for UCITS" (CESR/10-788). That is, hedging arrangements are defined as combinations of trades on financial derivative instruments and/or security positions which do not necessarily refer to the same underlying asset and where the trades on financial derivative instruments and/or security positions are concluded with the sole aim of offsetting risks linked to positions taken through the other financial derivative instruments and/or security positions.
            - To this end, hedging arrangements must comply with all the criteria below:
                - investment strategies that aim to generate a return should not be considered as hedging arrangements;
                - there should be a verifiable reduction of risk at the UCITS level.
                - the risks linked to financial derivative instruments, i.e., general and specific if any, should be offset;
                - they should relate to the same asset class; and
                - they should be efficient in stressed market conditions.
            - To avoid any doubt, no market neutral or long/short investment strategies will comply with all the criteria laid down above.
            - Points 32 to 34 of the abovementioned guidelines provide illustrative situations.
        - We draw JRC attention on the fact that CESR's guidelines allow for short positions for duration hedging. We would hence suggest modifying the provision regarding short selling of securities for the following: "Derivatives used to gain exposure to the downwards of securities or indexes shall be used only for hedging purposes".
        - Compliance with the criteria of the EU Ecolabel for Financial Products at underlying level shall not be made mandatory for index derivatives used for

[5] CESR's guidelines on Risk measurement and the calculation of Global Exposure and Counterparty Risk for UCITS (CESR/10-788): https://www.esma.europa.eu/sites/default/files/library/2015/11/10_108.pdf

hedging purpose. Such instruments shall be considered as neutral, as they are typically used to manage both duration and credit risks. And the index nature of underlying will make compliance with EU ecolabel criteria too complicated. EU ecolabel criteria should apply for underlying of other derivatives.
    - Alternatively, single-name derivatives, including credit default swaps shall comply with the criteria of the EU Ecolabel for Financial Products at underlying level, as they may denature investment objectives.
  - As part of our comments on the technical report, through BATIS, French authorities invite the JRC to consider the rewriting of the criteria on the use of derivative instruments. We suggest the following wording: "The underlying assets shall comply with EU Ecolabel criteria, including on environmental and social exclusions as well as consumer information. This provision does not apply to index derivatives used for hedging purposes".

Exclusions based on environmental, social and governance aspects

- French authorities commend the existence of exclusions within the proposed criteria framework of the EU Ecolabel for Financial Products. We support the ambition to go further than the EU Taxonomy's minimum social safeguards by imposing compliance with international treaties to business activities.
  - We however recommend of the JRC to be more precise on the exclusion of activities related to the sale and production of weapons, for instance, by focusing on the most controversial ones (e.g. landmines, cluster munitions, cluster bombs, nuclear weapons, biochemical weapons). The JRC could also refer to existing exclusion lists that are often used as benchmark by investors, such as that of the Norwegian Pension Fund. This approach was adopted by the Belgian Towards Sustainability label, and would allow investors to reach consensus on excluded companies.
  - While French authorities acknowledge the significance of investing in companies with "good corporate governance practices", we believe the JRC shall bear in mind that the current wording leads to substantial interpretation risks. As there is inherent subjectivity and national discrepancies when it comes to assess corporate governance practices, we encourage the JRC to elaborate more on its expectations (e.g. board gender diversity, board independence rate and independence criteria for directors, mandatory split between the chair and CEO roles, independent chairman, etc.). Should such expectations be difficult to set, French authorities would rather remove the corporate governance exclusion criterion.
  - French authorities would like the currently proposed exclusion of fossil fuels to cover transportation and storage.

Engagement

- French authorities are supportive of the JRC's decision to include engagement-related criteria within the proposed criteria framework of the EU Ecolabel for Financial Products. This strengthens the stand taken by the JRC between the drafting of the first and second technical reports to support companies transforming their business models and contributing to the energy and ecological transition. What is more, existing scientific literature cited by the JRC suggest that engagement is the most relevant levier for investors to generate a direct impact on companies' operations and strategies. However, we see here major drawbacks with respect to engagement, and that can be alleviated:

  - Both engagement and voting policies are generally defined at asset management firm level. As a result, any criterion imposed upon ecolabelled funds would also apply to non-ecolabelled funds, unless bespoke and distinct policies are enforced. With respect to proxy voting, we reckon that strong convictions mean that there should be no legitimate reason for an asset manager to vote differently to similar resolutions depending on whether it participates to the social life of ecolabelled or non-ecolabelled funds.
  - Engagement activities are both resource and time-consuming, thereby putting small or intermediary-size asset management firms in a situation whereby the requirement to engage with at least 50% of portfolio companies deriving less than 50% of taxonomy-compliant revenues may be difficult to meet. French authorities would opt for a focus on quality over quantity ("tick the box" approach).

- Based on the above, French authorities recommend the JRC to explore the following:
  - Solutions that would foster collective engagement activities and ease the setting-up of investor coalitions, either by implementing a bespoke platform for ecolabelled funds, or if too costly, by requiring active membership to existing industry initiatives;
  - Requirements for investment managers to engage with the five most emissive issuers in the portfolio and provide the Competent Body with the content and results of the discussions. Where corporate access proves impossible, investment managers shall provide evidence of failed attempt to engage with the issuer.
  - Further disclosure requirements for ecolabelled funds, through justifications in the public space of opposition votes to environmental/climate-related resolutions, whether external or not;
  - Requirements for asset management firms to endow ecolabelled funds with a bespoke engagement policy, indicating their main SDG-aligned environmental engagement themes, the measurable goal associated and how they intend to achieve it. Ex-ante contingency measures in case of failure should be provided[6];
  - Requirements for asset management firms to amend their voting policy, indicating their environmental/climate-related objectives;
  - Implementation of a maximum rotation rate requirement to ensure that engagement activities are carried out in the long run (similar approach to that of the Greenfin label). The rotation rate would be calculated as half of the sum of capital purchases and sales over the last 12 months from which we subtract the sum of redemptions and

[6] For contingency measures, it should be not considered sufficient if the engagement policy states « company may be disinvested in case of failure". If a disinvestment is considered, it should be a requirement (i.e. "company will be disinvested in case of failure")

subscriptions, divided by the average of net assets over the period. A rotation rate above 2 must be justified by objective and quantified market conditions (e.g. modification of the fund's investment strategy, substantial market volatility, etc.).

Consumer information

- We fully agree with the JRC on the importance of comprehensive and transparent communication to individual investors and savers, as a way for them to make informed investment decisions. However, the financial community has brought to our attention that the length of KIIDs is limited by regulation and may not be an appropriate format to include all relevant consumer information. French authorities suggest that KIIDs could only include a description of the general investment policy (mechanisms used, exclusions, taxonomy, etc.), as well as a reference (URL link) to the funds' prospectus. The latter would include all relevant information available to investors on the fund's compliance with the EU Ecolabel for Financial Products criteria.
- French authorities deem essential the inclusion of portfolio-level climate-related indicators for both informational and performance monitoring purposes.
    - In a first phase, French authorities recommend the JRC to make the disclosure of portfolio carbon footprint indicators mandatory. Given differences and biases in existing carbon footprinting, the JRC could set disclosure and minimum methodological rules with the aim to improve and gain consistency overtime:
        - The reported carbon footprints would have to include explanations as per the methodology used, its biases (e.g. use of estimates) and shortcomings (e.g. static and not forward-looking), data sources, data coverage rates, definitions, etc.
        - The chosen methodology should cover Scope 3 Greenhouse Gases Emissions, as Scope 1 and Scope 2 greenhouse gases emissions only provide a partial picture of a given portfolio's carbon footprint. Should it be impossible to cover Scope 3 Greenhouse Gases Emissions, explanations would be required.
        - To further allow comparability of carbon footprints from one ecolabelled fund to another, the JRC could require all actors to disclose using the same units.
        - Avoided emissions (also known as Scope 4) should not be subtracted from other emissions and be disclosed as a separate indicator. As we experienced this situation, we recommend JRC to specify this provision.
        - Either way, when designing provisions on carbon footprint indicators, the JRC should consider the ones set out in the Benchmarks, Taxonomy and Disclosure Regulations.
    - French authorities recommend the JRC to take advantage of the inclusion of the review clause to make 2°C alignment analyses mandatory in a second phase. We believe that indicators such as "portfolio temperature" are easier to interpret for retail investors

and inform on the strategic orientation of the portfolio in a dynamic and forward-looking way. At this stage, the setting of minimum methodological rules (e.g. acceptable scenarios, time horizons) would require more time and further work.

Information appearing on the EU Ecolabel for Financial Products

- We welcome changes made to the information to appear on the logo, which clearly mention important aspects of the EU Ecolabel for Financial Products (e.g. green investments, exclusions and engagement / encouragement). Given the ambitious definition and framework of the EU Ecolabel for Financial Products to achieve an environmental impact through investment decisions, and current challenges to demonstrate it in the case of public securities, communication guidelines shall be limited to describing the main characteristics of the financial product.
- The notion of encouragement perfectly matches our aspirations to support and accompany businesses in transition. Beyond a simple reminder of the engagement criterion, it may find even stronger echo with the integration of the green CAPEX to total CAPEX ratio for companies in transition.