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

Following the publication of the 3rd Technical Report

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

Summary of comments on the TR 3

French authorities hereby would like to reaffirm their support to the European Commission's overall initiative to deploy an Ecolabel for Retail Financial Products in the short-term, as a key tool to make the financial system more sustainable and contribute to reduce the environmental impacts of production and consumption of financial products.

The Ecolabel is an integral part of the Green Deal and the forthcoming renewed strategy of the European Commission, in that it should constitute an ambitious benchmark for thematic labels in the European Union and help to harmonize thematic investment practices. This is a major issue in terms of the credibility of the strategies put in place in favor of the mobilization of savings to serve the transition.

From a general standpoint, we believe that it is **necessary to hold a third ad hoc working group, to discuss the numerous evolutions that were proposed** in the most recent Technical report (TR 3) by the JRC, so that 1/ they can be discussed transparently with all stakeholders, and 2 / a clearer and more solid consensus can be more easily reached before the final vote. While we think the framework is very promising, clarifications and adjustments are still necessary to avoid any interpretation bias.

Below are our comments on the RT 3 and the further evolutions that we suggest.

Evolutions from TR2 which we welcome

- the inclusion of Multi-Option Insurance products, and more especially that of euro funds
- the permitted contribution of real estate and infrastructure assets to portfolios' greenness
- the overall approach focusing on the proportion of AuM invested or loaned to environmentally sustainable economic activities or players with a credible plan for the transitioning of their activities

- the alignment of exclusion criteria between equities and bonds and the inclusion of general purpose corporate bonds

Key problematic to address

Key problematic	**Propositions**	**Products concerned**
Failing to strike the right balance between ambition and sufficient market uptake could lead to the failure of the Ecolabel to support change in the practices of financial institutions	Creating a gradually-increasing threshold and committing to a three-year timeframe for the next rounds of criteria revisions	All products, with a focus on AIFs and UCITS Equity funds
	Aligning of the minimum threshold for portfolio greenness applicable to loans with the applicable to bonds	Deposits and savings account
Including activities not defined in the EU Taxonomy (« neutral activities ») into portfolios would translate into a malus, with the potential to limit sectoral diversification of funds	Adding a 20% diversification pocket to include companies active in « neutral » activities (and including cash)	UCITS Equity funds
The lack of a shared framework and experience with regards to the establishment, validation, implementation and monitoring of credible transition plans creates a reputational risk for the Ecolabel	Implementing a cap on the share of companies investing in transition at 50% of the total assets under management (AuM), revised based on initial feedback and experience	AIFs, UCITS Equity and mixed funds
	Specifying the course of action to be followed in case of (repeated) breach(es) to the strategic investment plan, for asset managers and competent bodies in charge of awarding the label	
In order to lead to impact in the real economy, strategic investment plans need to be monitored closely	Adding a minimum threshold on the share of companies investing in the transition that are targeted by engagement efforts (at 50% of the AuM invested in such companies)	AIFs, UCITS Equity and mixed funds
Supporting retail investors confidence in the EU Ecolabel for Retail Financial Products requires clear, credible information on the underlying investments of the financial products and the justification of such investments	Focusing on companies investing in the transition instead of companies investing in green growth and removing the GrGi from the G formula	AIFs, UCITS Equity and mixed funds
	For the computing of the greenness derived from AuM invested in companies investing in the transition, the weight of the CAPEX factor should be increased at 50%	

	Products invested in companies investing in the transition should clearly state that fact to clients	
	Providing more detailed, exhaustive information on investors' impact mechanisms to retail investors (guide, internet link)	
AIFs have similar needs in terms of diversification, and similar constraints with respect to the EU Taxonomy	Aligning the eligibility threshold for AIFs with that of Mixed funds at 50%	AIFs

- **Key points to be revised in 2023**
    - Inclusion of pensions funds, infrastructure and real estate funds to the scope of the label;
    - Adapt the criteria considering the development of the taxonomy and the state of the eligible universe at this time.
    - Adjustment of the diversification pocket size to the extension of the Taxonomy sectoral coverage

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General comments

The French authorities hereby would like to reaffirm their support to the European Commission's overall political agenda and scientific effort to combat climate change.

The Ecolabel of financial products is an integral part of the Green Deal and the forthcoming renewed strategy of the European Commission, in that it should constitute an ambitious benchmark for thematic labels in the European Union and help to harmonize thematic investment practices. This is a major issue in terms of the credibility of the strategies put in place in favor of the mobilization of savings to serve the transition.

We appreciate the work that has been carried out by the European Commission's Joint Research Center (JRC) since the publication of the Second Technical Report, as evidenced by the important revisions that have been made to the draft criteria of the future EU Ecolabel for Retail Financial Products. We believe that **the EU Ecolabel for Retail Financial Products is strengthened**, through **the inclusion of a transition approach, in line with the overall spirit of the EU Taxonomy**, **a rigorous and scientific vision of investors' impact**, as well as **greater consistency between the proposed criteria** of the future EU Ecolabel for Retail Financial Products. **French authorities support such structuring and innovative changes**, which appear to reflect **a genuine willingness to go beyond the current standards and remits of thematic funds**. We believe that the momentum is positive - in view of the strong ties between the EU Ecolabel for Retail Financial Products and the EU Taxonomy Regulation – to put forward **a cutting-edge approach towards thematic funds, in line with the ambitions and objectives of the European Commission's Sustainable Finance Action Plan** (including the EU Taxonomy, Disclosure and Benchmark Regulations). As emphasised at the previous Ad-Hoc Working Group, it is of paramount importance to build a **game-changing** EU Ecolabel for Retail Financial Products that is ambitious and pragmatic, allowing for the evolution of thematic investment practices. Although further adjustments seem to be necessary in our opinion, the third Technical Report has put the overall project **on a right track**.

The European Commission's initiatives being concomitant and motivated by a strong political will, French authorities would like to express some preliminary remarks:

- We question whether the proposed the thresholds and level of ambition - especially in the case of UCITS equity funds - will give sufficient impetus to the future EU Ecolabel for Retail Financial Products, being considered that:
    - **The EU Taxonomy, which plays a pivotal role in the definition of the criteria, will only cover a limited number of industries and activities in its early stage, before being supplemented over the upcoming years.** We therefore deem most advisable, considering the agenda, to start from a level of ambition which better reflects both current and existing best standards, before providing complementary reinforcements as part of the forthcoming revisions of the criteria. Hence, **French authorities support the JRC's proposal to revise the criteria of the EU Ecolabel for Retail Financial Products every three years, to adapt to market evolutions and take into account prospective additions made to the EU Taxonomy. This approach would impart a progressive, sustained and long-term momentum to the EU Ecolabel for Retail Financial Products, through frequent revisions of the criteria.** French authorities believe that this would not **put a threat on the inception, but instead avoid a false start**, as there are sources of uncertainty about data availability, the size of the addressable investment universe or the forthcoming regulatory changes (EU Taxonomy, EU Green Bonds Standard, mainly).
    - Above all, at the time when stronger emphasis is being put by the JRC on investors' impact, French authorities would like to remind that, since capital allocation is the

main mechanism of the EU Ecolabel for Retail Financial Products to generate impact, the impact potential (essentially macroeconomic) would therefore mostly depend on 1/ the ability of the market to offer ecolabelled financial products, and 2/ the growth in the amount of assets managed by those products, as demonstrated by a recent study[1]. **Maximizing the impact of the EU Ecolabel for Retail Financial Product therefore means maximizing the latter's chance of success in terms of assets under management**. To that end, and in line with our previous comments, the French authorities would like to strongly encourage the JRC to anticipate and provide the means to promote, in an efficient way, the future EU Ecolabel for Retail Financial Products to European savers.

The French authorities would like to stress on the fact that **we are supportive of the addition of complexity, yet only if this provides, in return, a higher level of ambition and increased flexibility for the asset manager**, without undermining the integrity of the EU Ecolabel for Retail Financial Products. We believe that there is a need to **simplify certain criteria to facilitate the daily management of the funds, their appropriation by market players, as well by their understanding by investors**. As such, we propose for each of the criteria, where possible and relevant, a series of adjustments to reduce this complexity while maintaining an exemplary level of requirements.

Products scope of the Ecolabel

French authorities positively welcome the inclusion of Multi-Option Insurance products, and more especially that of euro funds, which are very popular investment vehicles among French retail investors looking for low-risk investment solutions for their savings. More generally, **we are favorable to the inclusion of any investment vehicle within the scope of the EU Ecolabel for Retail Financial Products that would best fit most risk-averse investor profiles** - such as current and saving accounts – and address a large number of savers.

French authorities deem promising the permitted **contribution of real estate and infrastructure assets to portfolios' greenness**. We would strongly welcome the *per se* inclusion of real estate and infrastructure funds within the scope of the EU Ecolabel for Retail Financial Products, as part of the next revision of the criteria. In the case of France, it is of utmost importance that the EU Ecolabel for Retail Financial Products becomes, in time, a credible substitute to existing labels, of which some already covers real estate and infrastructure funds. That would reduce the risk of market distortion and would make the labelling landscape more readable for retail investors.

French authorities also welcome the JRC's ambition to give a second look to the case of pension funds (FCPE), as part of the next revision of the criteria.

Reco#1: We recommend the **inclusion of pension, real estate and infrastructure funds within the scope of the EU Ecolabel for Retail Financial Products, as part of the next revision of the criteria.**

[1] De Angelis, Tiziano and Tankov, Peter and Zerbib, Olivier David, Environmental Impact Investing (July 14, 2020). Available at SSRN: https://ssrn.com/abstract=3562534 or http://dx.doi.org/10.2139/ssrn.3562534

Criterion 1- Investment in environmentally sustainable economic activities

Comments related to all products categories

Concerning the level of ambition and thresholds.

French authorities reckon that calibrating the correct level of ambition for each of the eligible financial products, must account for 1/ the need to set thresholds that are above market practices, in line with the EU Ecolabel "best products available" approach[2], 2/ the need to ensure sufficient market uptake from the outset of the EU Ecolabel for Financial Products. As specified in several of our comments, **a sufficient market uptake** is also key to ensure a material impact of the policy instrument in the real economy.

As market practices and the regulatory framework will be evolving rapidly in the coming years, thresholds should be revised on a regular basis, ideally on a three-year frequency, with a first revision to take place in 2023. This frequent adjustment of criteria to the context **will allow ambition to rise over time in line with market conditions, while maintaining sufficient credibility in the eyes of retail investors.**

Reco#2: we recommend thresholds to be revised on a regular basis, ideally on a three-year frequency, with a first revision to take place in 2023

Concerning the overall approach and the « G formula ».

French authorities are supportive of the JRC's proposal for an overall approach to eligibility focusing on the proportion of assets under management invested or loaned to environmentally sustainable economic activities or to players with a credible plan for the transitioning of their activities towards environmentally sustainable performances.

For the sake of simplicity and readability, French authorities suggest approaching transition companies **through the lense their strategic investment plans, with a particular reliance on CAPEX.** The reliance on projected green revenue growth adds a level of complexity that risks making the EU Ecolabel for Retail Financial Products more confusing to retail investors. At the same time the materialization of the projected green revenue growth depend on a number of factors outside of the company's control which could result in the discrepancy between efforts and achievements. CAPEX on the other hand is a direct result of companies' decisions. However, the achievement of a 20% objective of green revenues would remain a requirement under the strategic investment plans.

In our opinion, however, we still lack perspective on the tools needed to establish, validate and monitor the implementation of credible transition plans. There is a risk for potential companies to deliver on their transition plans to undermine the credibility of the EU Ecolabel for Retail Financial Products as a whole. Therefore, it is of the utmost importance to limit the overall portfolio contribution of companies investing in the transition, so as to avoid ending up with funds which would be composed of such companies only, with very low initial level of taxonomy-compliant green revenues. **We therefore encourage the JRC, to this end, to cap transition companies' contribution to portfolio greenness at 50% of the AuM.** This maximum contribution may be revised upward during the next revision based on the initial feedback and experience regarding the inclusion of companies investing in transition, the monitoring over time of their achievements. Ultimately, the JRC may decide to allow financial products only invested in companies in transition to be ecolabelled.

[2] REGULATION (EC) No 66/2010 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 25 November 2009, on the EU Ecolabel. Art. 2, Annex I

In any case, retail investors **should be clearly informed about the presence of companies investing in transition within the products they invest in**. In the event of a suppression of any cap on the contribution of transition companies to portfolio greenness, the JRC could consider distinguishing between two different types of ecolabelled funds, i.e. “sustainability-oriented” and “transition-oriented” funds.

Finally, French authorities suggest to better articulate requirements in terms of engagement to the share of companies investing in transition in the funds’ portfolio (see “Criterion 5” section below).

As far as the weightings are concerned, we encourage the JRC to reinforce the importance of CAPEX in the calculation formula. Considering the stringency of the strategic investment plan, a 50/50 weighting would be more appropriate to valorize transition companies. The importance of CAPEX in the long run is indeed at least equal to that of taxonomy-compliant green revenues.

Reco#3: we recommend to give up on the “projected green revenue growth” indicator and to instead **rely on strategic investment plans and taxonomy-compliant CAPEX for the sake of qualifying whether a company investing in the transition** should be accounted for

Reco#4: we recommend **to cap transition companies’ contribution to portfolio greenness at 50% of total assets under management**, before reconsidering this cap at the next revision

Reco#5: We recommend that **retail investors be systematically informed about the presence of companies investing in transition within the products they invest in**

Reco#6: we recommend **raising the weight given to CAPEX in the portfolio greenness formula** up to a coefficient of 0.5

Comments by product category

Retail Alternative Investment Funds

French authorities positively welcome the clarifications provided by the JRC with respect to retail AIFs, whose inclusion will be determined, to our best understanding, in a discretionary way at national level. **We deem crucial to address the development of this product category for individual investors[3], and believe this is an important step to provide access to less liquid assets (infrastructures, SMEs financing more directly the real economy), with a more significant impact potential, under the conditions that the individual investor accepts to bear higher risks compared with a UCITS fund**.

To our best knowledge and understanding, AIFs will be able to address to a broader and more investment universe with respect to taxonomy-compliant activities[4], as compared to that of large / mid-caps, due to a higher proportion of “pure players” among SMEs and small caps. However, like any other fund category, AIFs for retail investors will also have similar needs in terms of diversification, and similar constraints with respect to the EU Taxonomy. Furthermore, the inclusion of companies falling under the “green growth” category – which has been purposely established for AIFs to foster the development of pure players – will not significantly increase such funds’ greenness (cf. our comments on Criteria 2). In our opinion, achieving such a level may be too stringent. We strongly recommend the JRC to explore the possibility of setting a threshold that would be conducive to further develop AIFs (e.g. 50% instead of 70%) and adjust it at the occasion of the next revision of the criteria. By then, we should be able to obtain a better vision, and a finalized Taxonomy covering all important swathes of the economy.

[3] In continuation with the diversification efforts done via Loi PACTE, the offering of AIFs is expanding in France. Cf. BPIFRANCE Entreprise 1 funds : https://www.economie.gouv.fr/lancement-fonds-bpifrance-entreprises-1

[4] Conclusions of the MSCI study reviewed by the JRC

Reco#7: we recommend **aligning the retail AIF eligibility threshold with that of Mixed funds at 50%**

UCITS Equity funds

While French authorities are supportive of an ambitious and innovative framework, with thresholds rivalling with the best current market standards, we are concerned, that the current level of ambition could hamper the EU Ecolabel to reach retail investors.

The EU Taxonomy has not yet been finalized, and as a result, a number of companies will not be able to fully qualify their activities in the first years following the inception of the EU Ecolabel for Retail Financial Products. Under the current proposed approach, the neutral status of such activities (not defined) will translate into a malus, i.e. a 0% contribution, which would be difficult to compensate at portfolio level and lead to a diversification issue. Under such conditions, the coupling between a stringent threshold (far above all existing and comparable labels) and an under-development EU Taxonomy, is not conducive to a proper appropriation by asset managers of the EU Ecolabel for Retail Financial Products, and to the development of an ecolabelled UCITS equity fund offering. As a result, this could lead to ecolabelled products being more risky, deterring retail investors from investing in them. Recognizing that the extension of the EU Taxonomy to all economic activities will take several years, the French authorities recommend the JRC to take note of this agenda-related issue.

As an alternative, for diversification purposes, we suggest (cf. “UCITS Equity funds” section) the inclusion of a “neutral investment pocket” (including cash and companies generating less than 5% of revenues from taxonomy-compliant activities), which would not be considered in the overall calculation of portfolio greenness.

We hereby would like to highlight that:

- The contribution of companies financing the transition remains unknown.
- The proposed thresholds are much higher than that of other existing and comparable labels. In our experience, and for the sake of providing concrete examples, only 7 UCITS equity funds (out of about 50) have received the French Greenfin label, whose minimum green share threshold is 15.5%.

Reco#8: in the case of UCITS equity funds only, we recommend the JRC to **add a diversification pocket for “neutral” companies, which could be capped, for instance, at 20% of portfolio total assets under management** (including cash and companies generating less than 5% of taxonomy-compliant revenues, and/or activities that have not been assessed yet within the EU taxonomy), yet not incorporated within the calculation of the G formula. We suggest that the JRC consider the possibility of a minimum share of “neutral” revenue for a company to be taken in to account for that pocket. Furthermore, we would be in favor of an evolutive and adaptative approach, to adjust this cap overtime, as part of the next revision period of the criteria of the EU Ecolabel for Retail Financial Products.

UCITS bond funds

We take notice of the fact that the UCITS bond funds threshold has been lowered compared to the previous proposal (from 70% to 50%). We understand the need to ensure significant market uptake, but also recommend that, despite the proposed restrictions and constraints for bond securities, **the JRC to reconsider the previous threshold at 70% during its next revision round.**

French authorities see merits in allowing the incorporation of use-of-proceeds bonds (e.g. green bond principle bonds) meeting the fundamental principles of the EU Green Bonds Standards (GBS) for a transitionary period, pending the adoption of the latter.

Regarding the addition of requirements going **beyond the EU GBS we would be in favor of giving up on the additional refinancing criterion**. We tend to think that this greatly complexifies an already stringent set of criteria and appears inconsistent with the anticipated certification process of the EU GBS. We however understand that the rational behind this requirement is to enhance the investor's impact. Indeed, we consider that the emission of green bonds for refinancing purposes should be allowed to account for the greenness of the portfolio as long as the asset management strategy is clearly indicated in its "enhanced impact report" (Criteria 6).

Requirements at the issuer's level are more than welcome to protect investors from a *de facto* exposure to an issuer's balance sheet, especially if it would not be compliant with the criteria applicable to equity. We positively **welcome the inclusion of general purpose corporate bonds** and believe that this approach provides an equal treatment of both equity and debt financing for a given and very same issuer. Ultimately, this approach should increase the addressable investment universe, without hurting the credibility of the entire Ecolabel framework.

Reco#9: we recommend **to maintain the requirement for EU GBS to abide by exclusions** specified in criteria 3 and 4, while **giving up on the requirement to exclude EU GBS used for refinancing** purposes

Deposit and savings accounts

For the sake of consistency, we recommend the JRC to clarify that restrictions applicable to corporate bonds should be applicable to the loan portion as well. Furthermore, **we would suggest that the JRC align the greenness share of portfolio threshold applicable to loans with that applicable to bonds.**

On the same basis as general-purpose corporate bonds, we recommend the JRC to include, as eligible loans, all debts incurred by companies deriving more than 50% of their revenues from taxonomy-compliant activities. Considering than loans are not always flagged to a project and the difficulties to extract the taxonomic part on them, we suggest that the entire loan should be accounted for in the computing of the G score of the financial product.

We also support the TR3's evolutions aiming at giving more flexibility to the banks' management of loan traceability. We suggest to go further and to withdraw the terms "limit transferability", subject to interpretation, and to focus on the question of traceability.

From our discussions with the banking industry, the peculiarities of the lending business and the important differences between a granted loan (the agreement / the commitment) and a realized loan (actual transfer of the cash) indicate that further clarifications are needed for the calculation of the loan-to-deposit ratio, and more particularly for the numerator. We encourage the JRC to clarify that these are loans that are granted to match with the transfer of cash or the actual realization of the loan.

In addition, **the time lag** between the loan agreement / commitment and the loan's realization should be considered in fund compliance. It seems important to us, under these conditions, to **allow the banker to explain a temporary breach in relation to this time lag** - by providing evidence that the loan is granted, while its realization is still pending.

We would also stress the importance of broadening the investment universe so as **not to concentrate the supply of loans only on actors with the capacity to report** their taxonomic activities, but also on households, local governments and SMEs. To that end, proxies should be developed, either at European or national levels, to easily identify whether the activities and/or investments of these stakeholders are taxonomy-compliant or not (for instance: the Cit'ergie label could be used to qualify loans to local governments ; the AB label could be used for qualifying loans to farmers). Such proxies should be developed in the context of the EU Taxonomy regulation, with the involvement Member States. Such proxies could then be integrated by the JRC into the EU Ecolabel for Retail Financial Products criteria, allowing the channeling of savings towards smaller loans for green projects.

Reco#10: we recommend **to align the greenness of deposit and saving account thresholds with mixed and bonds funds at 50%**

Reco#11: we recommend **to consider the entire loan/ bonds made to companies deriving more than 50% of their revenue from tanomy-compliant activities as a green loan/ bonds**

Criterion 2: Companies investing in the transition and in green growth

As mentioned in our previous comments, French authorities positively welcome the inclusion of companies investing in the transition, and the proposed associated rules which go in line with the overall spirit of the EU Taxonomy, i.e. a strategic investment plan to increase taxonomy-compliant activities over time. It is crucial, in our opinion, not to only consider companies with already significant shares of their business activities and revenues associated with taxonomy-compliant activities, but also those engaged in the financing of a low-carbon transition. This particularly holds true for the most carbon- and capital-intensive industries, for whom investment efforts will most likely have to be significant. **Such inclusion should however not lead to a lock-in situation of these activities, hence dealing with the transition in the label should be clearly framed so as to avoid such caveat**. It is therefore common sense to encourage such investments, without which a transition towards a lower-carbon economy would be compromised.

Requiring from companies investing in the transition to provide a medium / long-term strategic investment plan to ensure that CapEx investments are 1/ approached with a sufficiently long-term horizon, and 2/ actually contribute to the overall objective of increasing taxonomy-compliant activities, is ambitious, innovative and key. Inclusion in investment portfolios of such companies (I.e. with a strong strategic investment plan) will also provide more solid grounds for financial advisor to explain their integration in an Ecolabelled portfolio to retail investors / savers, unlike in the case of a unique, single and raw investment criterion. Otherwise said, we see more comfort to explain to individual investors / savers that investing in the transition does not question the integrity of the EU Ecolabel for Retail Financial Products. A strategic investment plan with measurable short- and mid-term objectives that are explicit and can be monitored should strengthen the overall ambition of the EU Ecolabel for Retail Financial Products.

The French authorities would like to point out that the definition of such a strategic investment plan does not currently exist in the regulation, as the EU Taxonomy is not yet finalized. Inasmuch as the EU Ecolabel for Financial Products is targeted at financial services, companies will have no direct incentive to implement such a strategic investment plan. As the latter plays **a pivotal role** as part of Criteria 2 (but more generally speaking as part of the EU Ecolabel for Financial Products, being assumed that the proposed thresholds and diversification objectives could be met mainly through companies investing in the transition), **we invite the JRC and the European Commission to find convincing incentives for**

companies to genuinely embrace it. While we welcome the clear relationship between this criterion and that of engagement, which is geared towards the EU Taxonomy and the development of taxonomy-compliant activities, we may end up falling short of the mark if companies do not implement such strategic investment plans.

The French authorities would also like the JRC to add clarifications as per 1/ actions to be taken if the strategic investment plans do not come to fruition, 2/ the potential consequences in terms of portfolio construction. **In the case whereby the CapEx ratio (20% per year) is not met, the JRC could anticipate mandatory and timed actions to be taken by the asset manager** (e.g. engagement activities with the relevant issuers, divestment). This would provide competent bodies with guidance, when finding a breach.

Although we understand the interest in terms of investor impact to consider companies investing in green growth, we suggest, in order to simplify the referential, to focus on companies investing in transition and the monitoring of their strategic plan. We therefore recommend to remove the approach of companies investing in green growth but keeping their mention in the engagement criterion and the report on the measures taken to increase its potential investor's impact.

While we validate the proposed formula for companies investing in the transition and the supplementary strategic plan, we encourage the JRC to simplify it by removing GrGi, which is difficult to monitor and more subject to breaches that could result from drivers outside of the company's control (slower-than-expected market uptake in particular).

To avoid any room for interpretation left to the competent bodies and asset managers, the French authorities are asking the JRC to clarify, in the case of companies investing in the transition, what is meant by the **« commitment to close down »**, i.e. by when and whether it is mandatory. This seems different from the requirement for transportation companies to *phase-out*.

Based on the JRC's simulation spreadsheet, and to our understanding, CapEx will be assessed on the grounds of a 6-year period (2 years on a backward-looking basis, 3 years on a forward-looking basis, and the current year). We encourage the JRC to only consider here the 3 years post-trade and the 2 years pre-trade. The current year of the trade (of the greenness assessment too) should be one of two past years, to consider CAPEX over a strict 5-year timeframe.

Last but not least, developing and monitoring a strategic plan will necessitate adequate tools and methodologies to 1/ assess a company's transition, 2/ anticipate and set, with more precision, the targets before committing to them.

- Jointly developed by the ADEME and CDP, **the ACT tool** brings forward a methodology to 1/ assess corporate strategies based on sector-specific decarbonization targets, 2/ identify improvement areas which, in turn, can be capitalized on as part of engagement activities. Links with the EU Taxonomy criteria are currently under investigation;
- We are convinced that taxonomic data should emerge soon thanks the constant innovation on this topic, thereby allowing asset managers to better assess transition plans and initiate constructive dialogue with issuers to oversee their implementation.

We encourage the JRC to **define actions to be taken when a company investing in the transition fails at implementing its strategic investment plan**. In case of deviation from the said plan (e.g. if annual CAPEX target or taxonomy-compliant revenue milestones are not met), we suggest that the asset manager should **immediately engage with the company** (if it not already being engaged) and **propose remediation actions and readjustments with the management.** In case of repeated deviation and failure to implement remediation actions, **a predefined course of action should be laid out by the JRC for asset managers and label certificators**.

In addition, and in order to avoid any carbon-intensive (and, more broadly, any environmentally harmful) lock-in effects, we would recommend that, especially for companies considered as "in transition", such companies are excluded from the category "in transition", should they invest in new projects related to activities excluded under criterion 3.

Reco#12: we recommend **specifying the course of action to be followed in case of (repeated) breach(es) to the strategic investment plan,** for asset managers and competent bodies in charge of awarding the label

Reco#13: we recommend **removing the "companies investing in green growth" approach**

Reco#14: we recommend "investing in transition" categories **should exclude companies that invest in new projects** in activities excluded under Criterion 3

Criterion 3: Exclusions on environmental aspects

The French authorities positively welcome the JRC's efforts to 1/ consider and anticipate potential issues relating to data availability and quality, as well as 2/strengthen the link between the proposed environmental exclusions and the EU Taxonomy's DNSH criterion.

The French authorities wish to emphasize the intrinsic link between the EU Taxonomy - currently under development - and the ongoing Ecolabel work (including its exclusion-related criteria). As recalled by recital n°11 of EU Regulation 2020-852, the absence of uniform labelling criteria would increase costs and significantly disincentivise economic operators from accessing cross-border capital markets for the purposes of sustainable investment. This is why it seems **essential to us, for the sake of coherence between the Taxonomy and environmentally sustainable financial products, that the JRC duly takes into account the ongoing works that are being and will be undertaken regarding the EU taxonomy to fuel its thinking regarding current and future ecolabel works and decisions**. This time frame factor strikes us as fundamental in order to ensure the credibility of the future Ecolabel. It is also essential in order not to weaken the coherence of the development of sustainability factors in the European financial system.

Accordingly, the French authorities take note of the changes related to criterion 3 (environmental exclusions) about transportation, distribution and storage of fossil fuels. However, the French authorities consider it necessary **to exclude fossil solid fuels**, and in particular coal activity - **throughout its value chain** - from the flexibility offered by the compliance to sub-criterion C2 relating to the energy sector under criterion 3.

Besides, concerning transportation, French authorities hold their comments waiting for precisions on few points, especially on the "commitment to close down", as mentioned in our previous comments on criterion 2.

The combustion of coal being the main source of greenhouse gases and responsible for one-third of the total increase in average annual temperature, it seems essential to halt the increase of the coal industry, that should not be supported by the Ecolabel. The IPCC, in its successive reports, but also the International Energy Agency, have indeed urged to make the end of financing one of the obligations to be met in order to limit global warming to below 2°C. This reality requires us to be as ambitious as possible. It is also in line with Article 19.3 of EU Regulation EU/2020/852 that excludes solid fossil fuels for electricity production from the Taxonomy. It is therefore crucial in our view in order to ensure the credibility of the Ecolabel.

As abovementioned, French authorities positively welcome the **alignment of exclusion criteria between equities and bonds**. We believe this has brought a necessary consistency with equity and debt financing.

We hereby confirm that we wish to maintain the 5% exclusion threshold.

We positively welcome the addition of the transportation, distribution and storage of fossil energies, as this was one of the requests, we submitted during the previous consultation period. In addition, and in order to be consistent with the “commitment to close down” referred to in criterion 2.1, we believe that companies “in transition” related to criterion 3.C.2 should be compelled to set closure plan and not a selling plan. Fuel-switching plan should be allowed only for switching to renewable sources of energy or when it does not create a lock-in effect inconsistent with our long-term energy-climate goals.

Reco#15: we recommend **to exclude companies with more then 5% of their turnover coming from activities related to fossil solid fuels from the possibility to be a company investing in transition**

Criterion 4: Exclusions on social and governance aspects

French authorities positively welcome the JRC’s clarifications relating to the exclusion of the distribution and trade of conventional and controversial weapons, as well that of any military offensive weapons.

French authorities are highly supportive of the proposed social exclusions. Yet, we continue to question the relevance of the proposed exclusion criteria on governance aspects, which still gives much room for interpretation. We therefore encourage the JRC to list a series of governance-related criteria (e.g. board diversity, separation between the Chair and CEO roles, board independence, etc.…), instead of just focusing on the means / on the *up-to-date management system*, which, would also need some clarifications.

Criterion 5: Engagement

The JRC’s efforts to strengthen the link between engagement on taxonomy-related activities and other criteria, especially criteria 2.1 and 2.2, brings consistency to the entire proposed framework. However, we would like to suggest some improvements to 1/ highlight the importance of the engagement criterion and 2/ find synergies with the monitoring of strategic investment plans in the case of companies investing in the transition:

While putting the **emphasis on quality, rather than on quantity appears relevant**, we suggest that requiring only one instance of dialogue at management level would not suffice. We encourage the JRC to set a reasonable requirement to initiate **dialogue at management level with at least 10% of portfolio companies**, **with a priority given (as proposed by the JRC) to those financing the transition or deriving less than 20% of green taxonomy-compliant revenues.** In order to better articulate this criterion with criterion 2, we also suggest that **engagement efforts should cover at least 50% of companies investing in the transition included in the portfolio.** The engagement policy will have to include a focus on the development of taxonomy-related activities, how they are reported, and how the strategic plans are implemented.

The French authorities positively welcome the requirement to establish a robust engagement policy, as well as the JRC’s clarifications on votes and dialogue with portfolio issuers. It shall be reminded here that **engagement policies are defined at asset management firm level.** As such, we believe there are no legitimate reasons for an asset management firm to cast different votes for the very same resolutions, whether the fund is ecolabelled or not.

Finally, we positively welcome the distinction on engagement between UCITS funds and AIFs, which provides consistency with the impact objectives set out in Criteria 6 and their respective investment universes.

Reco#16: we recommend for the JRC to link this criterion to criterion 2, by asking that **at least 50% of companies investing in the transition to be engaged**, in terms of AuM

Criterion 6: Measures taken to enhance investor impact

The EU Ecolabel for Financial Products should **promote a precise and scientifically-backed (based on the most recent academic developments) vision of investors' impact**, using the framework developed since the second technical report and building on new evidence and research as they will become available.

We encourage the pursuit of a two-fold objective for this key criterion:

- Provide academic research with new insights and data, which is still at an embryonic stage on the matter; and
- Contribute to the financial literacy and/or education of retail investors, financial advisors, and to a lesser extent, asset managers, especially on such an important topic as the impact of our investments.

Considering how complex the notion of investors' impact is, but also how poorly understood it may be by some financial actors, we find it necessary to approach this criterion with an awareness and financial literacy / education angle and perspective. This would avoid adding further complexity to a widely misunderstood topic. French authorities therefore advocate for the **development of a guidebook – in the form of an online tool accessible through a link within the disclaimer on impact**, explaining why there is a disclaimer and providing more detailed explanation of the overall concept of investors' impact. It could include explanations about 1/ the existing mechanisms to maximize investors' impact; and 2/ the current methodological challenges and shortcomings (lack of empirical evidence) to measure investors' impact. The Finance ClimAct project has already initiated work on this subject matter[5], and could collaborate on the development of the guidebook. Furthermore, a data centralization effort could be entrusted to an independent scientific committee or observatory, so as to 1/ greatly enhance the dissemination and diffusion of the conclusions of its work, and 2/ feed into future ex post impact assessments of the EU Ecolabel for Financial Products by the European Commission.

French authorities support the JRC's initiative to require a bespoke reporting of measures taken by asset management firms to maximize investors' impact. We also recommend the European Commission to envision assessing the impact of the EU Ecolabel for Retail Financial Products from a macroeconomic point of view (how the ecolabelling policy as applied to financial products may reduce the environmental impacts of production and consumption in the EU) after the first years of operations. This impact mechanism could be explained in the abovementioned guidebook.

Reco#17: we recommend the **development of a guidebook – in the form of an online tool accessible through a link within the disclaimer on impact**

[5] Cf. French authorities' answer of June 2020 to the EUEB's question on impact

Reco#18: we recommend **conducting an ex post impact study of the EU Ecolabel for Retail Financial** Products, in terms of overall contribution to the reduction of the environmental impacts of production and consumption in the EU

On complexity

For the sake of **reducing the complexity of the already stringent and ambitious criteria** of the EU Ecolabel for Retail Financial Products, and while we **promote a precise and scientifically-backed vision of investors' impact**, we believe that the associated report to be established by the asset manager could be simplified by:

- Making it more reader-friendly - We recommend the JRC to provide a list of measures to be reported, and **make the reporting exercise mandatory, under each impact mechanism, for 2 measures at the asset manager's choice.** For instance, two measures related to capital allocation, two related to engagement and two related to exclusions. Each measure would be accompanied with a description of the expected outcomes and could be **explained in the line-by-line description of portfolio assets** (cf. our comments on Criterion 7).
- A description of each measure to be reported would have to be provided in the **guidebook, aimed at explaining to individual investors the rationale behind criteria 6**.

Criterion 7: Retail investor information

French authorities consider that transparency is key in the framework of the EU Ecolabel for Retail Financial Products. **We believe it is crucial for individual investors to 1/ get a big picture of their investment, 2/ understand their asset managers' investment decisions.** However, we believe that the requirements set out in this report could be lightened for the sake of simplicity and to increase reader-friendliness. In addition the articulation between the annual report and the enhanced investor impact report should be clarified.

In the same vein as the enhanced investor impact report, we deem necessary to give the asset managers enough leeway to explain their investment decisions through comprehensive narratives on an asset-by-asset and line-by-line basis, specifying among other things:

- The asset class (Equity, Corporate bond, Sovereign bond, Real Estate, Infrastructure…)
- The asset quality (transitioning or not, score contribution) and monitoring procedure - whether the issuer is financing the transition, its contribution to greenness, its objectives and actions (strategic investment plan) in the case of a company financing the transition, as well as the asset managers' action (impact, votes, dialogue).

All the documents related to engagement and each portfolio asset's compliance will have to be validated by the competent bodies but will not have to be automatically reported. This will provide asset management firms with flexibility, while ensuring that all compliance-related criteria are met.

For deposit account, considering the wide variety of projects financed through lending activity, we encourage the JRC to simplify the reporting and aggregate the information by sector of activity and not project by project, in particular for small-scale loans to households, SMEs.

Finally, French authorities positively welcome the proposed **disclaimer on impact measurement**, which is consistent with the definition supported by the Ecolabel and the current and aforementioned methodological hurdles. **However, explanations of the reasons why impact cannot be measured should aim at improving the overall financial literacy of retail investors who are interested in contributing to a**

more sustainable financial system. That is why in addition to a disclaimer, we suggest that as additional knowledge is developed on this topic of impact, retail investors be provided with a proposed guidebook going into further details into the underlying mechanisms of impact at various scales and for various categories of financial products.

Reco#19: we recommend to adapt the reporting framework to the categories of assets and counterparties.

Reco#20: we recommend to clarify the content expected in annual reporting and enhanced investor's impact report.