



Qualitätssicherungsgesellschaft
Nachhaltiger Geldanlagen mbH



FIRST

*Finance Impact Research
Sustainability Transparency*



FNG-Label

for Sustainable Investment Funds and similar products



Rules of Procedure 2023

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Amendments and special notes

Preliminary commentary on EU regulatory and national SRI efforts:

Due to the fact that the regulatory strands are still only progressing in some areas, the still partially missing concretisations on the part of the regulator, a presumably additional regulatory strand ([ESMA consultation on the naming of sustainable funds](#)) and the different (unofficial) practices of national supervisory authorities, the FNG-Label this year again only integrates to a limited extent the often still diffuse, but above all inter-regulatory non-harmonised requirements of EU legislation on sustainable investments. This continues to apply in particular with regard to the content of the term "sustainable investment" if used - as it is possible in Article 2 (17) of the Sustainable Finance Disclosure Regulation - outside the area of the EU Taxonomy with its six environmental objectives, whereby there, too, only the two climate objectives are defined with technical regulatory standards and the remaining four environmentally sustainable economic activities ("Taxo 4") - originally announced for 2022 - are only to become more concrete in the course of 2023. The fact that even the responsible EU Finance Commissioner Mairead McGuinness, in a [parliamentary hearing](#), no longer rules out the redesign of the Sustainable Finance Disclosure Regulation at Level I, we feel encouraged in this, for the time being, limited approach.

So far, EU regulation has only been taken up where it is legally binding for the design of sustainable financial products and where content-oriented criteria are a useful addition. For instance, where the Sustainable Finance Disclosure Regulation makes clear provisions, where the Taxonomy is used as a reference for defining environmental themes or where the Benchmark Regulation serves to define targets or KPIs. For example, the SFDR expands the general scope of reporting, which in turn affects the assessment grid in the category "product standards" in the FNG-Label's grading model. In this respect, considerations of national supervisory authorities do not play a binding role as long as there is no legal obligation. This is because the FNG-Label is an SRI quality standard of the German-speaking markets, namely Austria, Liechtenstein, Switzerland, and Germany, and is committed to the integration of the overarching harmonisation of sustainable investments desired by the EU. However, aware of the importance of other national efforts, the FNG-Label has, for example, already made the tobacco exclusion mandatory due to the German "Verbändekonzept", so that products with the FNG-Label are of course compatible with these requirements relevant to sales in the German market. Also, the methodology of the FNG-Label has already been harmonised in many parts with the so-called AMF-Doctrine (French Financial Market Authority on 'Informations à fournir par les placements collectifs intégrant des approches extra-financières') in the past. This applied and still applies to the minimum exclusion criteria regarding the existence of an explicit sustainability strategy and to the even higher (since 100%) quota of the required ESG coverage for the FNG-Label. In addition, many other elements required or recommended by the AMF at the time in connection with the investment process, the selection strategy, impact measurement, reporting, engagement, and the exercise of voting rights were and are examined and evaluated in the grading model. Discussions were also held with the Swiss FINMA in connection with the supervisory notice on preventing and combating greenwashing published in Nov'21 to demonstrate the compatibility of the FNG-Label with parts of the sustainability-related information required therein for Swiss collective investment schemes and to be able to better consider further elements within the scope of the SRI due diligence by means of the FNG-Label.

With regard to the EU-Ecolabel, there has still been no progress since summer 2021. In particular regarding questions on "Verification & Assessment", the Joint Research Center of the EU Commission (JRC) consulted the label organisations of the Scandinavian Nordic Swan, the Austrian Ecolabel and the FNG-Label, which have been involved since the beginning. These discussions led to a proposal by the German Competent Body, with the support of its Scandinavian and Austrian counterparts, which are formally responsible for awarding the EU-Ecolabel, to suggest to the JRC that the infrastructure of the review and assessment work around the FNG-Label (the Research Unit headed by Prof. Timo Busch of the University of Hamburg) assist in the development of the User Manual. The resulting elements will be integrated into the FNG-Label's criteria, which will be adjusted annually as soon as they are available. At present, however, it looks as if further decisions on the EU-Ecolabel will not be made before autumn 2023.

Finally, regarding efforts on SRI standardisation at the European level, including the ESMA consultation on the naming of sustainable funds, the following should be mentioned in perspective:

In recent years, there has been an enormous dynamic of investments in the context of sustainability - especially in Europe. This applies both in terms of volume, as well as in terms of product innovations and investment strategies. In order to reflect the overall development of this enormously grown and more complex market - the new world of sustainable investments, so to speak - an SRI classification system is currently being established, which is used by EUROSIF and then successively by the national Sustainable Investment Forums (SIFs). In parallel, the legislator has introduced new regulatory requirements, which many also use (not infrequently misleadingly) for product classification, although this was not the intention of the EU (keyword: SFDR misuse as labelling, in particular Articles 8 & 9 and an Article 8+ that did not arise from the regulatory system at all). Even the head of asset management at DG FISMA at the time [publicly](#) commented on this.

One thing all these developments have in common is that it is **not clear to** what extent individual investments or financial products actively **contribute to the transition of the real economy or have an impact**.

Especially with regard to Europe, a content-oriented conceptual framework is therefore necessary as a basis for any classification efforts. This is also because now, any classification based purely on quantitative indicators or on quotas (resulting from the regulatory system) cannot provide the sound data basis that would be necessary to be able to make sustainability assessments that are as objective as possible. For the time being, such systems are therefore unfortunately not suitable for the simple scaling desired by all. Unfortunately, this is made all too clear by the fact that asset managers have so far made little use of Taxonomy quotas, the findings on the informative value of Taxonomy alignments (including the known, sometimes widely divergent estimates of ESG service providers), the progress made by real economy reporting in terms of European Sustainability Reporting Standards (ESRS) and International Sustainability Standards Board (ISSB) (which is very good, but still a long way from being finalised in the formal EU process) and the efforts to centralise data and make it available by means of European Single Access Points (ESAP), which have probably been pushed back in the timetable.

For some years now, the Sustainable Finance Research Group of the University of Hamburg, the university spin-off, the non-profit association [F.I.R.S.T.](#) in conjunction with the assessment team of Advanced Impact Research GmbH ([AIR](#)) have been grappling with the question of how to overcome the central challenge not only of sustainable investments regarding the "Great Transition" and the integration of impact. This, however, not on a national but at least on a European level. A [white paper](#) published in this context with Eurosif in summer 2022 shows how double materiality, impact and SRI investment strategies can be combined into a new concept that takes into account different levels of ambition of investments with regard to a real economic transition. One of the foundations is the [typology of sustainable investments](#) by eleven sustainable finance researchers (with the selective assistance of the QNG) and the description of impact investments, which found its way into the fundamental work of the G7 Impact Taskforce on the topic of "[Impact Transparency, Integrity and Reporting](#)".

Against this background, the final ESMA guidelines on the naming of sustainable funds should be based on such a principle-based classification approach, which is based on a clear conceptual framework and which defines minimum conceptual requirements for investment products to be given a certain "classification" or "label". These classifications could then be complemented by a quantitative minimum threshold mechanism, logically built on the same underlying conceptual framework. In order to achieve the goal of preventing misleading communication and potential "ESG, sustainability or impact-washing" in fund names, the final guidelines would need to set both "downward thresholds" and "upward thresholds" by defining minimum (conceptual and quantitative) requirements that investment products must meet in order to be allowed to use 1) ESG-related, 2) sustainable, 3) impact-related and 4) transition-related terms in their names.

ON THIS YEAR'S CHANGES:

- **Reduction of the revenue threshold for companies that base their electricity generation on coal from 10% to 5%:**

The majority of the more than 30 stakeholders who provided feedback (asset owners, NGOs, former committee members, distribution channels, media professionals and asset managers) were in favour of reducing the revenue threshold. In addition, since the seven asset managers who are critical of the reduction now made very heterogeneous proposals, it would also not have been easy to draw a consensus for an exemption with transition indicators. The committee of the FNG-Label was also unanimously in favour of a reduction without an exemption.

Those responsible for the FNG-Label are aware of the dilemma of having to balance between easily understandable and clearly comprehensible minimum exclusion criteria on the one hand, and the need to take transition into account, which is considered reasonable among experts, on the other. However, more than ¾ of the feedback from last year and this year is in favour of the former: Feedback from [2022](#) and [2023](#) respectively.

Of course, these and other necessary changes will continue to be discussed and examined for feasibility by the assessment team at each future round of adjustments, especially considering the ongoing efforts of EFRAG's PTF-ESRS with regard to CSRD.

The various feedbacks against a reduction and the constructive criticism expressed therein, but also critical voices about not going far enough with fossil energy sources, we are taking as an opportunity to **set up a working group to discuss** criteria for better consideration of companies undergoing (serious) **transition**, which could then be applied in a renewed consultation next year. This will also include the **treatment of oil & gas**. At the same time, this should help the assessment team to find out at an early stage whether any criteria can be operationalised in coordination with the ESG service providers or databases recognised in the market, such as GCEL or GOGEL.

Further background in connection with rigid revenue thresholds and, above all, the future direction:

- The FNG-Label encompasses as many approaches as possible for implementing (more) sustainability in investments. It is not an explicit transition label. We are aware of the collision between transition and exclusions for some (not all!) companies. However, based on feedback so far, a compatibility of these concepts in this label is not possible. Due to the repeated postponement of the decision on the EU-Ecolabel, we are unfortunately not able to orient ourselves to it, as mentioned last year. For a perspective solution to this dilemma, see the last point of this list regarding a new SRI classification¹.
- An SRI label thrives on the perception of institutional and (increasingly) private investors. The current controversies surrounding coal as a fossil fuel point to the need for a further reduction of the tolerance threshold.
- It has not infrequently been criticised that funds bearing the FNG-Label can also contain large absolute "polluters" if only a relative turnover size is referenced. With a further reduction of the revenue threshold, this criticism is better taken into account.
- The majority of other national SRI labels are already at a 5% tolerance ([page 41](#)) and current adaptations of the Austrian eco-label and the French label ISR will move further in the direction of "fossil-free". We are in dialogue with both actors - [VKI](#) and [IFD](#) (formerly F4T).
- Reduction paths in terms of fossil energy sources emerge from the SFDR and Benchmark Regulation. Coal-fired power generation is also seen as non-transformable - which of course does not apply to energy suppliers as whole companies. Here, unfortunately, the FNG-Label is in the dilemma between transition and rigid turnover thresholds.

¹ Additional remark: Even though the FNG-Label does not have its own methodology geared to impact or transition, certain characteristics of these investment styles are captured within the criteria of the FNG-Label - with the limiting exception of the well-known dilemma due to the minimum exclusion criteria. For example, within the grading model, specifically reference benchmarks for stock selection (for example, CapEx, OpEx), thematic approaches, and key performance indicators (KPIs).

- The need for a more transition & impact-oriented SRI classification is already documented in the [proposal by the Sustainable Finance Science](#) and taken up by Eurosif. The feedback from future market surveys will be decisive for the future fundamental orientation.
- **Discontinuation of the European SRI Transparency Code:** Due to the Sustainable Finance Disclosure Regulation and [Eurosif's decision to phase out the European SRI Transparency Code by the end of 2023](#), this previously mandatory transparency element is no longer required for the FNG-Label in 2024.
- **Changes regarding the FNG sustainability profile:** The FNG sustainability profile must be updated in the year of application (previously this could go back to 31 March of the calendar year preceding the audit). The background to this is the revision of this transparency tool on the part of the FNG. The updated FNG Sustainability Profile will be made available by the end of March at the latest. The data of the previous sustainability profiles will be migrated, and it will be necessary to provide some additional information. If you have any questions in this regard, please contact the FNG: nachhaltigkeitsprofil@forum-ng.org
- **Continued change in the assessment of product standards (reporting), among others:** As already explained last year, it will also be necessary this year to adjust the assessment of criteria that have become mandatory under the Sustainable Finance Disclosure Regulation. For example, in the sub-category "SRI Reporting" of the category "Product Standards", as the requirements of the EU Sustainable Finance Disclosure Regulation continue to provide for regulatory adjustments in the assessment in this sub-category. This may also lead to a drop in the overall score in this year for reapplying products that have not made any year-on-year improvements.
- **Reversal of neutralisation of valuation of voting rights in the case of certain impossibilities:** Even if no voting rights can be exercised regarding environmental or social issues due to the lack of AGM resolutions, there are possibilities to become active oneself or to join collaborative actions. The practice of neutralisation introduced last year will therefore be reversed.
- **Continued increased integration of the EU Taxonomy:** The classification of environmentally sustainable economic activities within the framework of the EU regulatory framework on sustainable finance is a suitable reference point for being able to identify business activities explicitly considered "green" by the EU. The fact that the highly controversial areas of nuclear energy and natural gas have been added to the green taxonomy does not fundamentally change this. A financial product applying for the FNG-Label must nevertheless describe the nature of its individual investments. Here, the (not general, but rather concrete) reference to the six environmental objectives of the EU Taxonomy helps, for example, to establish a thematic reference or to better define KPIs (also over time or with a target reference). The integration of the EU Taxonomy into research, investment processes, portfolio construction, reporting and/or other elements is also forward-looking. However, because results on so-called Taxonomy alignment ratios still vary greatly depending on the estimation, survey and mapping methods, the consideration of such quantifiable elements is still only possible to a limited extent. Apart from this, there is now also an alternative taxonomy developed by NGOs, among others. The exclusions required by the FNG-Label, especially those relating to nuclear energy and fossil fuels, naturally continue to apply.
- **Technical-operational note:** Due to clarifications and the RTS of the Sustainable Finance Disclosure Regulation, the assessment team had to make minor adjustments to some analysis elements. As a result, it will unfortunately no longer be possible to fall back on information already provided in the previous year by means of referencing for some criteria (of course, "copy-paste" from extracted data from the previous year continues to be a possible way of making work easier). Of course, it is still possible to reference a "flagship fund" (reference fund) of this year's application.

Preamble

Founded in 2001, the Forum Nachhaltige Geldanlagen (FNG) is the professional association for sustainable investments in Germany, Austria, Liechtenstein, and Switzerland. One of its goals is to further develop and continuously improve the quality standards for sustainable investment products to ensure the quality of sustainable investments.

In this context, the FNG, together with its members and other stakeholders, developed a quality label for sustainable investment funds and similar products and introduced it to the market in 2015. In the course of the process, the FNG founded a subsidiary: the Qualitätssicherungsgesellschaft Nachhaltiger Geldanlagen (QNG) mbH. This bears overall responsibility for the FNG-Label. The methodology of the quality label has so far been based in part on the European SRI Transparency Code and the FNG Sustainability Profiles. With the entry into force of the EU Sustainable Finance Disclosure Regulation, more and more regulatory elements are finding their way into the FNG-Label. Due to the strong growth of the SRI quality standard and the associated increase in due diligence work, which in addition demands more and more time due to the complex regulatory framework, the externally independent review and assessment work had to be reorganised. In 2023, the official review partner will therefore no longer be the Sustainable Finance Research Group of the University of Hamburg, which has been financed by third-party funds, but the following review construct consisting of two units: The independent review and assessment work will be carried out by the non-profit scientific association [F.I.R.S.T.](#) in conjunction with [Advanced Impact Research GmbH](#) (AIR) as a university spin-off. Prof. Dr. Timo Busch from the University of Hamburg continues to be in the scientific lead and the operational responsibility also remains with the same expert. The employees of AIR carry out the operationalisation of the review and assessment work, produce research, and are jointly responsible for the further development of the methodology of the FNG-Label. The QNG continues to bear the overall responsibility, for the coordination, awarding, and marketing of the FNG-Label. An external committee with interdisciplinary expertise also accompanies the verification process.

The sustainable investment market has been experiencing rapid growth for several years, which is reflected in the growing variety of different financial products and sustainable investment strategies. The EU's Sustainable Finance Disclosure Regulation, which came into force in March 2021, has accelerated this development by leaps and bounds. At the same time, more and more investors perceive the sustainable capital market as an impenetrable jungle of products. Above all, the mass of several thousand investment funds that are classified as sustainable investments according to Art. 8 of the SFDR makes qualitative differentiation very complex. The latest regulatory developments mean that Art. 8 of the SFDR has now become a catch-all for almost all forms of (secondary market) investment funds with a sustainability focus, which is documented by the high number of downgrades from Art. 9 to Art. 8 of the SFDR alone. For many investors - even professional fund selectors - filtering "good" sustainability funds is now impossible due to a lack of know-how and time, among other things. This is also because the regulatory framework does not provide any substantive answers on the quality of sustainable investments. The MiFID sustainability preference clusters and the SFDR are unsuitable for this. In addition, due to the currently still unavailable valid data situation of systematic and comparable original company data, a purely quantifiable approach or classifications aimed at quotas (resulting from the regulatory system) still cannot be seriously implemented. The use of existing ESG metrics, which for the most part continue to be based on estimated values and for which the correlation of the ratings is only weak for individually comprehensible reasons, also does not represent an objective and independent alternative. Also, Taxonomy alignment quotas continue to vary widely, and are mostly in low single digits so far anyway. The continued regulatory efforts, including EFRAG's work on CSRD and ESRS/ISSB and the plan to make data publicly available via the European Single Access Point (ESAP), will only lead to more quantitative valuation approaches in the next few years.

Against the background of the EU Sustainable Finance Disclosure Regulation, a regulatory compulsion arises to classify financial products with sustainability relevance as compliant with Article 8 or 9 of the SFDR and to fulfill corresponding reporting requirements. In the context of the inquiry of sustainability

preferences required from clients according to MiFID-II, a classification of sustainable financial products based on EU regulations will also be necessary in order to be allowed to make sales at all. In the meantime, all product providers have a strong interest in offering such products in order not to be excluded from the market for sustainable investments. This will lead to even greater market dynamics.

A quality label can help to reduce information costs and provide more clarity. In addition, it helps to establish standards and thus ensure the quality of sustainable investments in a growing market. The sparring of product providers with the FNG-Label criteria as part of the review process for an application alone represents a hurdle. This is because the examination by an external and independent body is the first filter that leads to a higher quality level of sustainable investment. In addition, a grading model based on a minimum standard provides constant incentives for newcomers to improve, and for those with experience, it keeps motivation high to promote best practices every year. The FNG-Label is now used by product providers² from 14 (also non-EU) countries. In the course of the ongoing improvement of the French state label ISR, persons responsible for the FNG-Label were repeatedly invited by the French Ministry of Finance and the Institut de la Finance Durable, which is responsible for the label, to help improve it. In addition, together with the Scandinavian Nordic Swan and the Austrian Ecolabel, the FNG-Label participated in the EU Commission's working group on the extension of the EU-Ecolabel to financial products. A scientific study³ concluded that the FNG-Label excels in particular in the criteria of transparency, stringency and governance.

The FNG-Label offers product providers and the respective sales offices the opportunity to prove the quality and sustainability standards of their investment products. This is externally certified by an assessment team under the scientific direction of Prof. Dr. Timo Busch from the University of Hamburg and additionally accompanied by an independent expert committee of various stakeholders. The minimum standard with clearly defined, transparently described criteria prevents greenwashing. At the same time, the FNG-Label offers the opportunity to actively contribute to the further development of the sustainable investment market in German-speaking countries. In the sense of best practice, a framework is thus created in which innovation continues to emerge from the market.

As a general SRI quality standard, the FNG-Label is not an explicit transition or impact label. However, even if it does not have its own purely impact or transition-oriented methodology, the specific characteristics of investment funds or similar products committed to these investment styles are - with the limiting exception of the well-known dilemma posed by the minimum exclusion criteria – reasonably well captured by the various categories and subcategories of the FNG-Label.

At this point, the following comment should be made in response to the mostly constructive criticism reaching the FNG-Label and the future of SRI standardisation, especially with a focus on the European level:

The FNG-Label is first and foremost a guidance for investors looking for solid, professionally managed investment funds or similar products that are generally committed to sustainability. Nothing more and nothing less. With over 6,000 funds marketed in the EU, this is a time-saving aid. Sustainability is more than climate or environment; it is about ESG, SDGs, planetary boundaries and more. By means of "obligation and freestyle", the FNG-Label creates a minimum standard and distinguishes those products that are committed to more. The minimum standard with clearly defined, transparently described criteria helps to prevent greenwashing. Beyond the minimum requirements, however, competition for more demanding sustainable investment strategies is also promoted through a grading model. The more multi-layered and intensive a fund is in terms of sustainability at the various levels of the grading model, the higher its sustainability quality.

The FNG-Label thus helps to find serious and credible offers in the field of sustainable investments and even differentiates. This avoids that we have, as in the food sector, a multitude of different labels that

² Under product provider is understood/synonymously seen: Fund provider, fund advisor, fund initiator, capital management company in the role of portfolio manager, asset management universes, etc.

³ <https://fng-siegel.org/studie-ueber-sri-labels/>

sometimes even cause confusion. The label unites small and large houses as well as both asset managers very specialised in sustainability and conventional asset managers.

As long as there is still no uniform and systematically comparable robust database and the methods for impact measurement are not yet fully developed, we find our science-based approach, which currently focuses more on the "how" than the "what", appropriate. Our claim is to be the best suboptimal assessment system of the sustainability quality of investment funds and similar products under today's circumstances. This may not be very catchy for some, but it corresponds to what is factually possible and is therefore quite objective. The FNG-Label is a quality mark and not directly comparable with, for example, a score, a rating or a scale or a traffic light system. Kind of like, even if the comparison is not entirely appropriate, how Demeter differs from the Nutri-Score. Both are useful tools, but each has a different significance. For example, (quantitative) ESG portfolio scores have their *raison d'être*, of course, but their informative value is limited and dependent on the research approach behind them, which is known to be very individual and whose results (both ESG ratings and Taxonomy alignment ratios) correlate only weakly with the results of other research approaches. Investors must accept that, at least for the time being, sustainability in financial products cannot be expressed with a simple number, a simple colour, let alone a binary yes/no or similar.

This raises the question of how SRI standardisation can or should develop in the future, especially at the European level and against the background of a growing number of national SRI labels:

The enormous dynamics of investments in the context of sustainability - especially in Europe – were not only noticeable in the leap in volumes, but also in a multitude of product innovations and investment strategies. In order to reflect the overall development of this enormously grown and more complex market - the new world of sustainable investments, so to speak – an [SRI classification system](#) is currently being established, which is used by EUROSIF and then successively by the national Sustainable Investment Forums (SIFs). This is all the more necessary as the new regulatory requirements of the EU legislator are (misleadingly) also used by many market participants for product classification, even though this was not the intention of the EU (keyword: SFDR misuse as labeling, in particular Articles 8 & 9 and an Article 8+ that did not emerge from the regulations at all). Even the head of asset management at DG FISMA at the time commented [publicly](#) on this.

Studies⁴ show that the concrete impact of investment products is increasingly coming into focus. And the overarching challenge for society is described by the term "Great Transition". The challenge for product providers will therefore be to explain to investors which ecological and social consequences, both positive and negative, are associated with the specific sustainable investment product. Overarching classifications should therefore show what is inherent in the financial products in terms of **transition or impact potential** for social and/or ecological solution contributions. And besides the so-called impact desire, the avoidance of greenwashing is an important hygiene factor.

Especially regarding Europe, a content-oriented conceptual framework is, therefore, necessary as a basis for any classification efforts. This is also because now, any classification based purely on quantitative indicators or quotas (resulting from regulation) cannot provide the sound data basis that would be necessary to make sustainability assessments that are as objective as possible. For the time being, such systems are therefore unfortunately not suitable for the simple scaling desired by all. Unfortunately, this is made all too clear by the fact that asset managers have so far made little use of Taxonomy quotas, the findings on the informative value of Taxonomy alignments (including the known, sometimes widely divergent estimates of ESG service providers), the progress made by the reportings of the corporate world in terms of ESRS and ISSB (which is very good, but still a long way from being finalised in the formal EU process) and the efforts to centralise data and make it available by means of the ESAP, which have probably been pushed back in the timetable.

⁴ Here are examples for the German market: <https://wpsf.de/publikation/corporate-finance-new-evidence-on-german-retail-investors-the-desire-to-make-an-impact/> or <https://link.springer.com/article/10.1007/s41464-020-00085-z>

For some years now, the Sustainable Finance Research Group of the University of Hamburg and the university spin-off made necessary by the growth of the FNG-Label, the non-profit association [F.I.R.S.T.](#) in conjunction with the assessment team of [Advanced Impact Research GmbH](#) (AIR) have been grappling with the question of how to overcome the central challenge not only of sustainable investments with regard to the "Great Transition" and the integration of impact. This, however, not on a national but at least on a European level.

The aforementioned [SRI classification system](#) published in this context with Eurosif in the summer of 2022 shows how double materiality, impact, and SRI investment strategies can be combined into a new concept that takes into account different levels of ambition of investments with regard to a real economic transition and with a focus on impact. One of the foundations is the [typology of sustainable investments](#) by eleven sustainable finance experts (with the selective assistance of the QNG and two former members of the FNG-Label Committee) and the description of impact investments, which found its way into the fundamental work of the G7 Impact Taskforce on the topic of [„Impact Transparency, Integrity and Reporting“](#).

Other notes on the FNG-Label:

Sales prospectuses and other offering documents of financial products are reviewed beyond the already existing mandatory elements of regulatory sustainability reporting only to the extent that they contain information relevant to the assessment of sustainability quality from the perspective of the FNG-Label. A general review of sales prospectuses and other offering documents as well as continuous monitoring of all portfolio holdings always is not part of the label award process. However, ex-post portfolio screenings and random checks are. By awarding the label, the QNG, and the assessment team do not make any statement on the completeness, correctness of content, economic efficiency, or legal compliance of the offer and the investment activity of the respective financial product. Nothing to the contrary is intended by the applicants and the QNG, nor is it intended to be communicated to the investors of the financial products applying for the label.

The FNG-Label does not constitute investment advice, investment brokerage, or a purchase recommendation and does not consider any financial criteria when evaluating an investment fund or similar product. For investors, advice on these aspects, therefore, remains essential. The QNG and the FNG do not engage in banking or financial services and do not offer any advice regarding the purchase or sale of securities or financial instruments. Access to, or use of the QNG's or the FNG's sustainability content does not constitute a contractual relationship of any kind, in particular no advice or information contract with the QNG or the FNG.

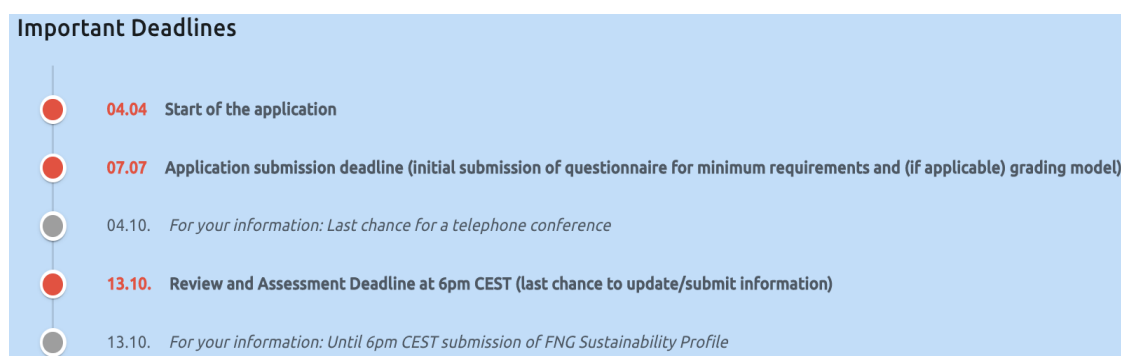
1. Label award terms and conditions

1.1. Label award procedure

The FNG-Label award procedure is carried out annually. The results are announced in the fourth quarter of the year and communicated officially (also externally) - normally at the end of November - at an awarding ceremony. The FNG-Label is valid from the date of the award ceremony until the end of the following calendar year, if the product meets the criteria during verification checks, which may be carried out at any time. The labelling procedure comprises the following steps:

- Call for applications: Applicants who have declared their willingness to participate to the QNG will be activated for the online tool with the agreed number of products. The QNG will also provide application information to applicants upon request. An application for the FNG-Label is in no way connected with a membership in FNG e.V.
- Submission deadline for applications: In each FNG-Label award cycle, the application must be completed online by the closing date (07.07.2023). This includes the minimum requirements and, if there is an application for it, information on the criteria of the grading model. The assessment team processes applications in the order in which they are received. Only after successful completion (including feedback loops) of the processing of the minimum requirements will the grading model be processed. The submission of the information for the grading model can nevertheless already be made with the submission of the information for the minimum requirements in the online tool.
- Review and assessment process:

Current review and assessment period procedure:



Information provided by the applicant in the application form must be fully valid at the time the application is submitted. **The central element of the application is the completion of the online tool.** The review and assessment of funds is based exclusively on written information. Verbal explanations given in personal meetings or telephone calls must be recorded in minutes. Statements and future commitments will not be considered. The content of the conference call offered as part of the review and assessment process is summarized in minutes by the assessment team and uploaded to the online tool.

Tip: Applications are processed on a first-come, first-served basis. This means that earlier applications are processed first. This is the same with the responses/feedbacks. A more responsive answer to the assessment team's feedback leads to a more expeditious/targeted review and a sooner possibility for a conference call to be released for booking. Conversely, this means that long response times, very late responses or documents submitted late can no longer be processed in the usual feedback loops due to a lack of time.

Feedback on the minimum requirements: Feedback on the minimum requirements is provided to applicants via the online tool for each of the criteria. Applicants can respond directly there.

Each applicant's minimum requirements are reviewed prior to the grading model criteria. Careful completion of the minimum requirements and prompt feedback on the assessment team's feedback accelerate the start of the grading model review.

Feedback on the grading model: Feedback on the grading model is provided to applicants via the online tool collectively on all products (these can also be downloaded as a csv file). Feedback on the corresponding product criteria is collected there. The applicant can choose to book a telephone call with the assessment team online. However, there is no entitlement to a telephone call. The results from the telephone call are transferred to the online tool based on a protocol.

If a telephone call is not desired or a suitable date cannot be found, responses and additional documents may be submitted in written form. It should be noted that no telephone calls can be held for late applications (submission after 07.07.).

- End of review and assessment process: Please note that the submission opportunity for further information and documents will end on 13/10/2023 6 pm CEST. The assessment team will not accept any new information or ask any further questions after this date.
- Review and assessment of minimum requirements and grading model: The applicant either only applies for the minimum requirements or also the grading model (for which passing the minimum requirements is required). The application deadline refers to the completion of the online questionnaire in the online tool (minimum requirements AND grading model (if applied for) including the submission of all documents). It should be noted that it is necessary to pass all the minimum requirements for the FNG-Label to be awarded with the FNG-Label at all. Without passing the minimum requirements, it is not possible to be awarded with stars.

2023 FNG-Label award calendar:

Call for applications:	4 April 2023
Application submission deadline:	7 July 2023
Announcement of products awarded:	Awarding ceremony 23 November 2023 in Frankfurt a.M.

Note: As shown in the review and assessment process, the last opportunity to report back to the assessment team is **13 October 2023 18:00 CEST!**

1.2. Processing fee

QNG charges the following processing fee (net), payable within 14 days after issuing of the invoice.

- EUR 5,000 per applicant product in case of a new applying product provider
- Discount for product provider,
 - in the instance that an application for the FNG-Label has previously been submitted (in previous years);
 - in the instance that they apply for the label with at least four products.

Product providers that submit their application documents after the submission deadline must pay an extra fee of EUR 500 per product. Review and assessment is included in the processing fee.

Application is always for the respective FNG-Label 2024/2025/2026 etc. annually again. Applicants who are "only" interested in the FNG-Label as such, can also apply for checking the minimum requirements only (the mandatory part without the voluntary part, i.e., grading model to obtain the stars) in a first step, which would lead to the receipt of the FNG-Label if fulfilled. In this case, the cost of a single product for the first year is EUR 2,900.

The costs charged separately by the FNG for the FNG Sustainability Profile are deducted from the processing fees.

Applicants must pay the processing fee for the product concerned to be reviewed and assessed. Processing fees are not refunded if the FNG-Label is not awarded or if the label grade awarded does not meet the applicant's expectations. Processing fees are charged to cover all expenses incurred in the review and assessment process and all other expenses related to the administration and in particular to increase the market penetration of the FNG-Label (marketing, communication, PR, database maintenance, congress and trade fair participations or other events). The fee should not be construed as a payment made to obtain the FNG-Label. Upon activation of new product in the online tool by the QNG, the applicant accepts these fees.

1.3. Label Committee

The FNG-Label Committee is a key element of the FNG-Label's organizational model. It comprises various stakeholders from the sustainable investment field, such as institutional and retail investors and representatives from NGOs, environmental or similar organizations, and the academic world. Three of the four FNG countries: Germany, Austria, Switzerland, and Liechtenstein are also represented on the Committee. It has an advisory and supervisory role; its independent expertise underpins the FNG-Label concept and contributes to its development. The Committee's tasks include, amongst other things, reviewing the award of the FNG-Label, advising on the further development of the methodology, and drawing up recommendations regarding dealing with complaints and complex or difficult cases. The Committee has the right to see the fund's reports and to conduct random checks. The Committee is bound by a formalized advisory board regulation and all members sign their own declaration of confidentiality. Minutes are taken or the entire meeting is recorded at each of the annual committee meetings prior to the award of the label (usually in November).

1.4. Compliance monitoring

The assessment team reserves the right to verify at any time that labelled product still comply with the FNG-Label criteria. If any aspects of the labelled product change, applicants are asked to submit information to check whether their compliance with the FNG-Label criteria has been compromised.

The applicant must comply with requests from the assessment team or QNG for any documents or other information needed to ensure the product's compliance with the FNG-Label criteria. In return, the assessment team and the QNG are obliged to confidentiality regarding information that has not (yet) been published. Applicants are obliged to keep QNG and the assessment team up to date with any changes in the investment process that are relevant for the label, both during the review and assessment process and during the validity period of the FNG-Label.

1.5. Non-compliance following the award of the label

Should the QNG or the assessment team identify a change in the product's management or communication procedures that violates the compliance with the minimum requirements and the FNG-Label grade awarded, they will conduct a formal review comprising the steps set out below:

- The applicant will be contacted to examine the issues in question more closely.
- The applicant has one month to restore compliance with the label criteria.
- If appropriate measures are taken within the required one-month timeframe, the product is permitted to retain the label.
- If the applicant's response implies that it cannot comply with the minimum requirements or the label grade awarded, or if no appropriate measures are taken within the required one-month timeframe, the label will be withdrawn or the label grade that has been awarded will be downgraded as appropriate. QNG shall ensure that all label withdrawals and all label downgrades are appropriately and accurately reflected in its external communications.
- In either case, the applicant is notified of the decision reached by the QNG or the assessment team.

- In the case of the label being withdrawn, the applicant must remove all references to the FNG-Label from all communications relating to the product.
- In the case of the label being downgraded, the applicant must correct the label grade in all communications relating to the product.
- Products that have had the label withdrawn cannot re-apply the following year.

1.6. Communications associated with the label

This section sets out the rules for communications relating to the FNG-Label and the conditions under which the FNG logo (referring here in all cases to all four Label grades, in German and in English) may be used. The aim of these rules is to ensure that there is consistency in communications regarding the FNG-Label and to pre-empt and prevent inappropriate use.

All product manufacturers, including any associated subsidiaries and points of sales / distribution networks, who issue communications relating to the FNG-Label, shall be bound by the rules of this Communications Charter and should act in accordance with it.

The FNG-Label and the associated logo are registered word and figurative marks. The award of the Label is associated with the award of a Label logo, which shows the year for which the Label is valid. In addition, the award of the Label is always associated with a particular Label grade.

A list of all the products that have been awarded the FNG-Label including the Label grade can be found at fng-siegel.org. In addition, the QNG supports that products labelled with the FNG-Label will be published on further relevant websites and databases.

1.6.1. The four grades of the logo

The FNG-Label logo is available for the following four grades, in each case in German and English (incl. monochrome) and in the formats jpg, png, eps and gif:



1.6.2. Terms of use of the FNG-Label

1. **Product manufacturers, who have been awarded the FNG-Label, are free to choose whether they use the FNG-Label for communication purposes.** If they use it, they shall be bound by the rules of this Communication Rules.
2. Product manufacturers, who have been awarded the FNG-Label are free to choose whether they use for communication purposes the grade of the FNG-Label received by the product or products concerned. **If product manufacturers choose not to use the grade awarded, only the logo without any stars may be used.**

3. **Product manufacturers shall be obliged to inform QNG about all their communications containing the logo shown in section 1.6.1 and other communications without showing the logo.** Each communication should be forwarded to fng-siegel@qng-online.de as a PDF, link, etc. **In practice, this happens the first few times** in order to show the style of the respective communication, to briefly coordinate again and also to get, if necessary, one or two more hints from the QNG. **Otherwise, "common sense" should be used, meaning a reader should be able to clearly recognize which concrete product has been awarded the FNG-Label.**
4. **All communications relating to the FNG-Label shall be valid exclusively for the calendar year for which it was awarded.** However, the Label for a particular calendar year may also be used starting from the date of the award, i.e., the award ceremony that normally takes place end of November.
5. **All communications relating to the FNG-Label are valid for only one calendar year in each case.** When a Label award is renewed, modified documents should be submitted to fng-siegel@qng-online.de for information.
6. If several products are shown in the same document and not all of them carry the FNG-Label, the logo or text references to the FNG-Label must relate only to the pages or paragraphs about the products carrying the FNG-Label. **The document must make clear which products carry the FNG-Label.** Putting this information in a footnote, for example, is not sufficient.
7. If several products carrying the FNG-Label, but at different grades, are described in the same document, the relations between the products and their corresponding grades must be clearly and unambiguously recognizable.
8. Communications regarding the FNG-Label should refer to the Label methodology and the relevant criteria. **The FNG-Label may under no circumstances be represented as a guarantee of performance or security or an invitation to invest in the product or products.** Caution is advised when making statements about "impact", especially with regard to the significance of the various grades (stars). Officially, the FNG-Label states on its [website](#): "[...] Je mehr und intensiver ein Produkt auf den verschiedenen Ebenen im Sinne der Nachhaltigkeit aktiv ist, umso qualitativ hochwertiger ist er. Der Schwerpunkt liegt auf der Auswahl von Titeln für das Portfolio und die Verantwortung, die ein aktiver Investor wahrnimmt, mittels Engagements und Stimmrechtsausübung auf mehr Nachhaltigkeit bei den investierten Titeln hinzuwirken. *Die Sterne sind dann letztendlich ein Ausdruck des Potentials, inwieweit das Finanzprodukt echte Wirkung im Sinne von (mehr) Nachhaltigkeit erzielen kann.*"
9. **QNG reserves the right to prevent and refuse the publication of any document that is inconsistent with the rules set out in this Communications Rules.**
10. **The FNG-Label may be withdrawn from any product manufacturer, who does not comply with the rules set out in this Communications Rules.**

1.6.3. Presentation recommendations

QNG and FNG promote the certified products in its media and public relations work and invites all the product manufacturers concerned to promote the award themselves. **All texts must clearly show that the award relates to one or more specific products and not to the product manufacturer as a whole.**

Sample headings:

- *XY product has been awarded the FNG-Label*
- *XY fund has received the FNG-Label for sustainable mutual funds*
- *XX of XY company's funds have been certified with the FNG-Label*

- XY product meets the minimum requirements of the FNG-Label (and is awarded for quality beyond the minimum requirements)
- XY product is awarded with the quality standard for sustainable investments (FNG-Label)

Sample text regarding certification:

Mutual funds and financial products with the FNG-Label meet the quality standard developed by Forum Nachhaltige Geldanlagen e. V. (FNG) for sustainable investments in the German-speaking countries. Successfully certified products pursue a stringent and transparent sustainability approach, the application of which has been checked by an independent review and assessment process and has been monitored by an external committee.

The quality standard comprises the following minimum requirements:

- *Transparent and easy-to-understand presentation of the fund's sustainability strategy in the context the FNG Sustainability Profile*
- *Exclusion of armaments and weapons*
- *Exclusion of nuclear power (including uranium mining)*
- *Exclusion of coal (mining and low power generation)*
- *Exclusion of fracking and oil sands*
- *Exclusion of tobacco (production)*
- *Exclusion in cases of systematically and / or severe violation of the principles of the UN Global Compact*
- *The fund's / The product's entire portfolio is checked against sustainability criteria (social and environmental responsibility, good corporate governance, United Nations Sustainable Development Goals or others).*

Sample text for communications about higher award grades (one to three stars):

The XY fund / The XY product has received XX out of three possible stars for its particularly ambitious and comprehensive sustainability strategy, which resulted in additional points in the areas of institutional credibility, product standards, and selection and dialogue strategies.

Sample text for general communications regarding the FNG-Label:

General additional information:

The FNG-Label is the quality standard for sustainable investments on the German-speaking financial market. It was launched in 2015 after a three-year development process involving key stakeholders. The sustainability certification must be renewed annually.

Information on the FNG-Label and the stakeholders involved:

*The FNG-Label is the quality standard for sustainable investment funds and similar products in German-speaking countries. The holistic methodology of the FNG-Label is based on a **minimum standard**. This includes transparency criteria and the consideration of **labor & human rights, environmental protection, and anti-corruption** as summarized in the globally recognized UN Global Compact. All holdings in the respective fund must also be fully analysed for sustainability. Investments in **nuclear power, coal mining, coal-fired power generation, fracking, oil sands, tobacco production, and weapons & armaments are excluded** (usually with a 5 percent revenue threshold).*

High-quality sustainability funds that excel in the areas of "Institutional Credibility", "Product Standards" and "Portfolio Focus" (stock selection, engagement, and KPIs) receive up to three stars.

The FNG-Label goes far beyond a pure portfolio view and is therefore holistic and meaningful. With 111 questions, the sustainability investment style, the associated investment process, the associated ESG research capacities, and any accompanying engagement process are analyzed and evaluated. In addition, elements such as reporting, controversy monitoring, stakeholder engagement, and the fund company as such play an important role.

The more multi-layered and intensive a product's sustainability activities are on the various levels, the higher its sustainability quality and the potential to ultimately achieve indirect and direct impact.

The independent assessment and evaluation work is conducted by the not-for-profit academic society F.I.R.S.T. in conjunction with the university spinoff Advanced Impact Research GmbH (AIR). The academic guidance is held by Prof. Dr. Timo Busch of the University of Hamburg. The Qualitätssicherungsgesellschaft Nachhaltiger Geldanlagen (QNG) bears the overall responsibility, especially for coordination, awarding, and marketing of the FNG-Label. An independent committee with interdisciplinary expertise also accompanies the review and assessment process. The FNG-Label has been awarded "highly recommended" by the consumer portal <https://label-online.de/> and has been included in the shopping basket of the Council for Sustainable Development. In addition, it participates with other national, state label systems in a working group within the framework of the EU action plan for financing sustainable growth and has been invited several times by the French Ministry of Finance to further develop their label, ISR. A scientific study⁵ comparing European SRI-Labels concluded that the FNG-Label excels particularly in the criteria of transparency, stringency and governance.

*Detailed information on the methodology can be found in the [rules of procedure](#)
Further information on the FNG-Label: www.fng-siegel.org/einfuehrung*

Sample messages relating to the FNG-Label:

- *The FNG-Label is the quality standard for sustainable investments in the German-speaking countries*
- *The FNG-Label is a holistic, professional, and credible quality mark for sustainable investments.*
- *The FNG-Label provides guidance in search for solid, professionally managed sustainability funds and similar products.*
- *The FNG-Label helps in the search for solid, sensible sustainability funds or similar investment products.*
- *In addition to the Label's minimum requirements, the multi-grade model promotes competition to pursue more ambitious sustainable investment strategies.*
- *By means of "compulsory and optional", the FNG-Label creates a minimum standard (obviates greenwashing) and distinguishes those products that are committed to do more.*
- *The more multi-layered and intensive a product's activities are on the various levels in terms of sustainability, the higher its sustainability quality and the potential to ultimately achieve indirect and direct impact within the meaning of (higher) sustainability standards. The FNG-Label helps to find serious and credible offers in the field of sustainable investments.*
- *Numerous experts in the finance sector and other stakeholders from civil society were involved in the creation of the FNG-Label, which is continuously being developed further.*
- *The credibility of the FNG-Label is underpinned through an independent review and assessment process under academic management and additional monitoring by an external committee, with interdisciplinary expertise.*

1.6.4. Technical aspects

The FNG-Label logo is available in both German and English as a jpg, png, eps or gif file.

The FNG-Label logo must be clearly legible, and must therefore be of at least the following **minimum size**:

- In printed publications: height 18 mm x width 14.6 mm
- In electronic communications: height 150px

⁵ <https://fng-siegel.org/studie-ueber-sri-labels/>

Larger versions are permitted. The FNG-Label logo contains the following **colors**: green 40/10/86/10 (CMYK) and blue 75/50/0/10 (CMYK). For black-and-white versions, the appropriate logo templates must be used. As a guide, the colours can be converted using the following values: green = 40% black, blue = 60% black, grey = 80% black.

1.7. Liability

By applying, the applicant expressly acknowledges that the QNG's and the assessment team's interpretation regarding the product's compliance with the FNG-Label criteria shall prevail. The QNG and the assessment team shall in no way be held liable if the FNG-Label is not awarded or if the awarded label grade does not meet the applicant's expectations, irrespective of the reasons for the non-allocation or the classification of the product into a certain label grade. In particular, the QNG and the assessment team cannot be held liable for repayment of processing fees, as explained in section 1.2 of this document.

By submitting the application documents, the applicant explicitly acknowledges that, by awarding the label, the assessment team and the QNG are not making any assertion as to the completeness, accuracy, economic viability, and the legal compliance of the offer or the investment activities of the financial product concerned. Anything to the contrary is neither intended by the applicant or QNG, nor intended to be communicated to the applicant's investors or investors in the financial product concerned. Any liability toward the applicant in this respect on the part of the QNG or the assessment team shall be excluded.

1.8. Confidentiality

The assessment team and the QNG are obliged to treat the received documents with the utmost confidentiality. No data, information, documents, etc. will be forwarded to a third party except where the product provider gives explicit written consent. Exceptions are review or validation requests regarding exclusion criteria or Global Compact controversies, which must be carried out with the help of third parties such as ESG rating agencies or other SRI specialist service providers. In this case, only ISINs and, if necessary, the related securities are used. If this should occur, the information will be made anonymous. Members of the FNG-Label Committee are exempt from this rule. By participating in the FNG-Label award process, the applicant confirms their agreement with this rule. In cases where the submission of specific confidential data by the applicant depends on the provision of a separate non-disclosure agreement or confidentiality agreement, the QNG and the assessment team will sign such documents.

1.9. Language of proceedings

The language of both oral and written proceedings shall be German, if necessary, English.

2. Label criteria

2.1. Overview

The FNG-Label methodology comprises two review and assessment sections:

- a) Minimum requirements
- b) Grading model

To verify the criteria, the assessment team may carry out random checks that go beyond the scope of the label award process.

2.2. Minimum requirements

In order for the FNG-Label to be awarded, the applicant has to meet all of the criteria in this section.

2.2.1. Eligibility

Sustainably managed mutual funds or equivalent investment vehicles of all asset classes that already applied for approval at the responsible supervisory authority may apply for the FNG-Label provided they comply with UCITS or an equivalent standard and they are distributed in at least one of the following countries: Germany, Austria, Switzerland, or Liechtenstein. Similarly, fund of funds or other fund constructs invested in target funds can apply for the FNG-Label, usually for the review and assessment of the minimum requirements (the mandatory part without the stars). In case of a request to apply for the grading model, consultation must take place in advance. The same applies to clearly defined, separable wealth management universe. These always require prior consultation (see appendix from p. 25).

The basic condition for marketing sustainable investments in the EU is compliance with Article 8 or 9 of the EU SFDR. The product applying must be classified accordingly. In the course of the SFDR, the product must be regulated according to Article 8 or 9. Specific regulations and exemptions can be found in the appendix (see appendix from p. 25). In the case of newly launched or very young funds, there may be a structural disadvantage, as certain criteria (e.g., a completed reporting, examples of engagement or proof of exercise of voting rights) cannot yet or not to a satisfactory extent be provided. For reissues, exceptions can be made for the subsequent submission of all not yet final but necessary documents for the assessment of the FNG-Label, which are directly related to the admission (actual, real invested portfolio, ISINs, issue date, volumes, FNG sustainability profile) until 15 December of the respective application year, insofar as the product admission only takes place after the end of the assessment and evaluation. In this case, only additional feedback loops by e-mail are usually possible.

2.2.2. Transparency and sustainability coverage

The following criteria are mandatory:

- A fully completed and publicly available FNG Sustainability Profile in German or English, which has been prepared in the version applicable as of March 2023. Please note that completing the FNG Sustainability Profile does not represent an FNG-Label application. The FNG Sustainability Profile is an element in the FNG-Label application process.
To create an access-point and for help filling it out, please contact the FNG: nachhaltigkeitsprofil@forum-ng.org or access link: <https://www.forum-ng.org/typo3/>.
Examples: <https://www.forum-ng.org/en/fng-sustainability-profiles>.
- Proof that all holdings in the portfolio are analyzed according to ESG or other sustainability criteria. In the case of non-covered securities, a period of generally three months is granted for the subsequent submission of an ESG analysis. The fulfilment / proof of the minimum exclusions (section 2.2.3.) remains unaffected by this. This also applies to target funds in funds (and all target funds within fund of funds).

The sustainability analyses must clearly show that the applicant screens issuers against environmental AND social AND governance criteria or alternatively, SDG or other sustainability criteria. This analysis must be of a comprehensive scope, meaning that, for example, one sentence per sustainability pillar is not sufficient. For example, the applicant must prove in an (internal) ESG analysis that it has analysed the implementation of environmental, social and governance aspects in the company and has used current sources (e.g., financial statements for analysis of the company's revenue). This means that, as a rule, internal analyses must not be older than one year. Further analysis options, for example according to SDGs, are possible. The aim is to justify the selection of the security / the issuer from a sustainability perspective that is as holistic as possible. Due to the 100 percent coverage, target funds of any kind in an applying fund or wealth management universe must also be subject to a sustainability analysis (at individual security level or fund level). This applies to all target funds within a fund or wealth management universe (and to all target funds within fund of funds). Likewise, the special provisions for microfinance funds as target funds pursuant to the Annex shall apply. Specifically, for "Use-of-Proceeds bond financial products", it must be clear whether the product also invests in regular government/corporate bonds and which securities are selected/analysed through a thematic analysis. In this context, the general rule for "use-of-proceeds bonds" with earmarked use of funds ("follow-the-money") is that the sustainability analysis must be carried out at the level of the specific use of funds (for example, through SPOs).

2.2.3. Exclusions⁶

Companies:

The applicant must prove that they have set up effective exclusion procedures (including monitoring processes) in their investment process, which enable them to exclude issuers that are active in the following sectors or are in violation of the following principles. A participation/ownership limit of 50 percent applies. As soon as a company has a shareholding of more than 50 percent in another company, this must also be checked by the FNG's exclusion criteria. The following exclusion criteria also apply to financial subsidiaries whose sole corporate purpose is to issue securities for their parent company (so-called "special purpose vehicles (SPVs)"). If such a financial subsidiary is in the portfolio and the parent company violates one of the minimum exclusion criteria, this violation also applies to the financial subsidiary, as its purpose is to enable the financing of the parent company's activities. In the case of the "Use-of-Proceeds Bonds", for which a use of proceeds can be assigned, violations of the criteria are reviewed and assessed at the level of the use of funds ("follow-the-money"). For this reason, an analysis of exclusions must have been performed at the project level (for example, approximated by SPOs or internal analyses at the project level). Likewise, the following criteria shall be applied to target funds⁷ of any kind in the applying fund or wealth management universe. For other asset classes or product categories, for which it is not always possible to write down the respective handling in these rules of procedures in advance of an application, the principle of the application of funds or the final beneficiary applies in connection with the following criteria. More detailed explanations can be found in the appendix of this document.

⁶ Please note that the following list contains groups of criteria that are not subject to a consensual formulation by the various ESG service providers. A uniform synchronisation is unfortunately not possible due to the individual formulation of many criteria. The revenue tolerances apply including the corresponding tolerance, e.g., exclusion over five percent revenues.

⁷ Likewise, the special provisions for microfinance funds as target funds pursuant to the Annex shall apply.

Index funds/ETFs must have adjusted their minimum exclusions in accordance with the FNG-Label criteria at the latest within the rebalancing process or by changing the index rules (incl. their coming into force) before the review and assessment deadline:

- **Weapons**
 - Companies that are involved in the manufacturing of controversial weapons and/or their essential components are excluded if the 0 percent revenue threshold is exceeded at the issuer level.
 - Companies that are involved in the manufacturing of conventional weapons/armaments and/or their essential components are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.⁸
- **Nuclear Energy**
 - Companies that are involved in uranium mining are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
 - Companies that are involved in the electricity generation based on nuclear energy are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
 - Companies that are involved in the operation of nuclear power plants and/or the manufacturing of essential components for nuclear power plants are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
- **Fossil fuels**
 - Companies that are involved in coal mining are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
 - Companies that are involved in the power production based on coal energy are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
 - Companies that are involved in the exploitation and/or processing of oil sands are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
 - Companies that are involved in the use and/or production of hydraulic fracking technologies are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
- **Other**
 - Companies that are involved in the production of tobacco are excluded if the 5 percent revenue threshold (≤ 5 per cent) is exceeded at the issuer level.
- **Norm-based Criteria**
 - Conformity with the ten Key Principles of the UN Global Compact: This usually refers to severe and / or systematic violations of the ten Key Principles, that are differentiated according to the following four topics:
 - **Human rights**: severe and/or systematic violations of human rights. Human rights are defined in the UN Universal Declaration of Human Rights and in the European Union's Charter of Fundamental Rights.
 - **Labour rights**: severe and/or systematic violations of the fundamental conventions of the International Labour Organization (ILO) and their four core principles (freedom of association and the right to collective bargaining, the elimination of forced and compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation).
 - **Environment**: severe and/or systematic violations of environmental laws and/or large-scale environmental destruction.
 - **Bribery and corruption**: severe and/or systematic bribery and/or corruption.

Countries:

An applicant invested in government bonds must prove that the financial product does not and cannot contain securities issued by countries to which any of the following applies (this includes monitoring processes). In case of the "Use-of-Proceeds Bonds", for which a use of proceeds can be assigned, violations of the following criteria apply at project level / level of the use of funds ("follow-the-

⁸ Conventional weapons include handguns/civilian firearms.

money”). For this reason, an analysis of exclusions must have been performed at the project level (for example, approximated by SPOs or internal analyses at the project level). Likewise, the following criteria shall be applied to target funds of any kind in the applying fund or wealth management universe.

Index funds/ETFs must have adjusted their minimum exclusions in accordance with the FNG-Label criteria at the latest within the rebalancing or change of the index rules or by changing the index rules (incl. their entry into force) before the review and valuation deadline:

- **Human rights/Democracy**
Countries that are classified as “not free” according to the current Freedom House ranking.
- **Environment**
Countries not legally bound by the UN Convention on Biological Diversity and Countries not legally bound by the Paris Convention on Climate Change (COP-21).
- **Corruption**
Countries which have a score below 35 in the current Transparency International’s Corruption Perceptions Index.
- **Nuclear Non-Proliferation Treaty**
Countries which are not legally bound by the Nuclear Non-Proliferation Treaty.

Lists of all countries that fulfil one or more of these criteria are publicly available. Links to the relevant lists can be found in the appendix.

Ideally, the required proof of the exclusions is provided through official documents such as a formalized company (investment) policy, the prospectus, or the like.

With regard to the exclusion as described above (for companies and countries), documents demonstrating the quality and procedure of the exclusion processes must be submitted. The assessment team reserves the right to examine the accuracy of the lists and the exclusion procedures.

If external agencies⁹ are involved in the exclusion screening, evidence of this screening must be submitted. Likewise, the exclusion according to the listed criteria must be complied with over the entire period of the label period. Investments in titles that violate the minimum exclusion criteria of the FNG-Label are not label-compliant and therefore not permitted. This applies both to investments with a short-term investment period (e.g., for liquidity management purposes) and to titles that are subject to an engagement process. The holding of a title despite proven exclusions (regarding countries and companies) on the basis that the applicant is in dialogue with the company regarding the relevant violation (e.g., regarding a controversy on a serious UNGC violation) is insufficient. Such securities must be sold no later than the end of the respective review and assessment phase. In addition, reference is made to § 1.5. in connection with non-compliance with the FNG-Label criteria for the period of validity of the FNG-Label.

⁹ The assessment team strives to keep the required exclusion filters of external agencies up to date. In the event of changes to these, the related criteria must also be updated by the applicant if necessary, so that the latest findings on methodology changes at external agencies are applied in the FNG-Label.

2.3. Grading model

2.3.1. Scoring system and label grades

In the grading model, the applicant is awarded points for meeting the criteria for the categories specified in the table. In order to be positively assessed, the compliance to the criteria must be clearly proven. A specific label grade will be awarded depending on the weighted sum of points achieved¹⁰.

The weighting for the different categories is as follows:

Category		Weighting (in %)
Institutional Credibility		10
Product Standards		20
Portfolio Focus	Selection Strategy	35
	Dialogue Strategy	25
	ESG Key Performance Indicators	10
Total score		100

Special products characteristics (for example asset class) are considered accordingly. The scores are not denoting the weighting for every single criterion within one category.

The label grades awarded are the following:

Basic label: The basic grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of 24.99 percent or less in the grading model.

One-star label: This grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of between 25.00 and 49.99 percent in the grading model.

Two-star label: This grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of between 50.00 and 69.99 percent in the grading model.

Three-star label: The highest grade is awarded to applicants, who meet all the criteria in the minimum requirements section and, in the case of an application, achieve a total score of at least 70.00 percent in the grading model.

2.3.2. Institutional Credibility (weighting of 10 percent)

Regarding the institutional credibility, the assessment focuses on sustainability efforts at the product provider level¹¹. The applicants must demonstrate that they

¹⁰ Note: Adding up the stars in the individual categories or averaging them does not indicate the overall result, as the number of stars per category is determined based on the number of points achieved, which in turn is essential for determining the overall result. The overall star rating results from the weighted points achieved in the respective categories.

¹¹ Note: In case of white label funds, the fund provider (often the fund's namesake) is always audited.

- have defined a sustainable investment policy that clearly describes the sustainable investment processes (positive/negative selection, engagement, voting rights, Taxonomy and SFDR integration (e.g., PAIs), etc.) and is publicly available for all investors;
- have established responsible investment at the top management level (e.g., whether responsible investment lays within the responsibility of the board or managing director, responsible investment is a separate team, responsible investment has an independent budget);
- foster SRI / ESG education for the employees in the area of asset management;
- take into account knowledge/competence in the field of sustainability in the recruitment of new employees in the area of asset management
- have linked the remuneration structure of employees in the area of asset management to the sustainability performance (of the applicant company or marketed products), e.g.: linkage of the remuneration of SRI asset managers to the sustainability performance of funds;
- incorporate ESG data about issuers systematically in all investment processes (ideally for all assets under management);
- apply dialogue strategies at the product provider level;
- manage a significant proportion of the applicant's total assets under management according to an SRI approach; the trend of SRI assets under management over the last 12 months will be considered;
- have established an investment policy on the exclusion of controversial weapons, such as cluster bombs or anti-personnel mines or NBC weapons, at company level and draw attention to it in mandates;
- have established company-wide guidelines on how the applicant aims to tackle climate change in general (e.g., portfolio decarbonization or foot printing, engagement activities, green product offer, etc.);
- implements sustainable investment policies regarding fossil fuels (for example present/ designated exclusion of certain activities or decarbonization(s) strategies of the portfolio);
- has drawn a public investment policy that regulates the sustainability of derivatives and the basic handling of derivatives;
- campaign for a responsible financial service industry.

2.3.3. Product Standards (weighting of 20 percent)

Regarding the Product Standards, the assessment focuses on the quality of the research procedures and of the SRI reporting at product level. The following aspects will be assessed:

- SRI research process
The applicant must demonstrate that they employ a significant amount of experienced SRI/ESG analysts compared to financial analysts and that they have established an advisory committee on sustainability or investment board at product level.
- SRI research quality of sustainability analysis
The applicant must prove that the sustainability analysis for each type of issuer (company, country, supranational issuer, regional entity, and others) is based on a robust analysis structure – independent of the issuer's size. It should be clear whether the applicant obtains e.g. external sustainability information on issuers (for example from Inrate, ISS ESG, RepRisk, MSCI ESG, Clarity AI, Refinitiv, ESG Screen 17, Moody's ESG Solutions (formerly V.E or imug), rfu, Morningstar|Sustainalytics, ESG Book, etc.) and if so, to what extent the product provider systematically incorporates specific findings from internal ESG research (e.g. results from thematic studies, internally developed innovative sustainability approaches, sector studies, controversy monitoring, engagement activities) systematically into the final ESG rating of the issuer. The applicant must also ensure that it updates the ESG analysis regularly.

- SRI reporting on sustainability key figures of the product that are crucial for the investment decision

The applicant must report properly and ideally quarterly in publicly available product on the sustainability key figures/performance of the product and/or holdings that are crucial for the investment decision. In addition to the fact sheet, this might include communication media such as newsletters, mailings or similar, which contain for example CO₂ data, 1.5°C-/2°C-compatibility, portfolio ESG rating versus benchmark or SDG contribution including sub-targets, special key performance indicators or other measurements. Information, which is only disclosed to institutional investors, will be considered partially.¹² Additionally, it is assessed whether the applicant provides information on the products current investments in (OTC) derivatives for all investors on a regular basis.

- Derivates

The use of derivatives is important for securing risks. However, the use of derivatives is not free of risks and is also discussed from a sustainability perspective. Therefore, this sub-category examines how the applicant handles derivatives in the product. Here, it is assessed whether the applicant has formulated an exclusion policy applicable to the product for derivatives on certain underlyings such as agricultural commodities (soft commodities) or product groups such as structured products that benefit from a downward movement of the underlying. In addition, the actual use of derivatives is reviewed. Furthermore, it is assessed whether the applicant takes sustainability information into account when using derivatives. This can be sustainability analyses (e.g., ESG analysis, SDG analysis, etc.) on the underlying asset(s) and/or the counterparties or whether the issuer is committed to a product and transparency standard (e.g., DDV Sustainability Code).

Detailed regulation regarding the use of derivatives can be found in the appendix to this document.

2.3.4. Portfolio Focus (weighting of 70 percent)

Regarding the elements of Portfolio Focus, the assessment addresses the extent to which the product provider has established internal procedures, systems, guidelines, and measures for actively improving the overall sustainability performance of the product. This category is divided into three sub-categories:

1. Selection Strategy
2. Dialogue Strategy
3. Sustainability Key Performance Indicators

2.3.4.1. Selection Strategy (weighting of 35 percent)

The assessment examines all the procedures and systems product providers have set up to select issuers which perform well in terms of sustainability and to exclude controversial issuers or activities from the eligible investment universe. At product level, the following criteria are assessed:

- Negative selection

The product provider must have high-quality exclusion procedures in place, which enable it to exclude controversial issuers from its eligible investment universe. The quality of the exclusion procedures and therefore the points awarded are measured by the number and severity of exclusion criteria applied and by the number of controversial issuers or activities classified as “non-eligible” (severity here refers, for example, to the depth of the supply chain (e.g., is only coal mining excluded, or trading/power generation as well?) and revenue threshold).

¹² Exempted are funds, which, due to their legal status, are only offered to institutional clients. In case of legal disclosure hurdles, the applicant must explain them.

- Positive selection

The product provider must demonstrate that the scope and quality of internal processes and tools are appropriate for identifying issuers, which perform well in terms of sustainability, and make sure to invest preferentially in these issuers. Depending on the investment approach, the following criteria will be applied:

- ESG positive selection (Best-in-Class/Best-of-Class/Best-in-Universe/Best-effort/Best-in-Progress/ESG-Integration or similar):

In case of Best-in-Class or comparable approaches the issuer's sustainability performance is expressed in the issuer's ESG rating. A product provider must have developed effective tools that ensure the preferred inclusion of issuers with high sustainability ratings in the investment universe and portfolio.

- To measure the quality of the process, different systems are positively assessed:

- 1) Investment universe construction: The investment manager is looking for a high ESG portfolio quality by including only issuers with the highest ESG rating (or similar, e.g., individual sustainability indicators (like CapEx/OpEx)) in the applicant's eligible investment universe and by discarding titles with low ESG ratings out of the initial investment universe. The higher the selectivity grade among comparable investment universes and asset classes, the better the product will be evaluated.

- 2) Portfolio construction: The investment manager is looking for a high ESG portfolio quality either by integrating ESG ratings (or similar, e.g., individual sustainability indicators) of issuers directly into the portfolio construction process or by using a benchmarking-system to compare the fund's performance with a sustainable reference.¹³ The more ambitious the ESG ratings in the portfolio construction process have to be, the better the evaluation of the product.

- To measure the sustainability quality of the portfolio, the assessment team will examine the actual sustainability performance of the portfolio and its development over the past calendar year prior to the assessment, based on historic sustainability product data (01.01.2022 to 31.12.2022).

- Or thematic approach: Under a thematic investment approach, an issuer's sustainability performance is expressed by the conformity of the issuer's activities with defined sustainability themes. The assessment team reserves the right to ask for relevant evidence when identifying theme-related elements of analysis and to include the outcome in the assessment, even if these are not explicitly addressed by the applicant as "themes". The results may be included in the assessment and influence the rating as theme approach or non-theme approach. Furthermore, it applies to the assessment that third-party products that play a role in the title selection are included in the analysis.

- To measure the quality of the process, the assessment will closely examine the applicant's definition of a sustainable activity and the analysis relevant for the security selections. In all cases, the applicant must describe how the defined sustainable activity can contribute to sustainable development. In the case of "Use-of-Proceeds Bonds", it is examined whether the framework of the specific emissions is in line with the standards accepted by the FNG-Label

¹³ Benchmark system does not necessarily refer to the classic comparison against a conventional/financial benchmark. These can also be purely internal systems.

through a second party opinion. The assessment applies a strict definition of sustainable activities based on the following standards (see Appendix):

1. Environmental themes¹⁴: Climate Bond Initiative (CBI) Taxonomy and current version of EU Taxonomy, Green Bond Principles of the International Capital Market Association (ICMA), EU Green Bond Standard¹⁵.
 2. Social themes: Social Bond Principles of the International Capital Market Association (ICMA)
 3. General sustainability themes: UN Sustainable Development Goals (SDGs).
- Furthermore, it is evaluated whether the sustainability themes on which the sustainability analysis is based were derived from the sustainability themes at indicator level from the above-mentioned standards.
 - In addition to the definition of sustainable activities, it is also examined whether a formal objective for the security selection is established at issuer level (e.g., the share of theme-compliant revenues, SDG minimum score or share of EU taxonomy compliant activities) and for which share of the portfolio this applies. In the case of “Use-of-Proceeds Bonds”, the assessment evaluates what proportion of the portfolio must be invested in “Use-of-Proceeds Bonds”.
 - In addition, it is assessed whether the applicant checks the Uses of Proceeds of the “Use-of-Proceeds Bonds” (if this is possible through allocation reporting) or the contributions of the financed projects or activities (if it is possible through impact reporting).
 - To measure the portfolio’s sustainability performance/quality, the actual share of sustainable investments as defined by the applicant is assessed. Ideally, the applicant provides evidence for the entire portfolio (for every single title).
 - In the specific case of “Use-of-Proceeds Bonds” where the use of proceeds can be allocated, sustainability performance is assessed at the level of the concrete projects/activities themselves, not at the level of the issuer. Second party opinions are used to assess what proportion of the portfolio is invested in “Use-of-Proceeds Bonds”.

2.3.4.2. Dialogue Strategies (Weighting of 25 percent)

The assessment focuses on assessing the guidelines and procedures established by product providers to raise issuers’ awareness of sustainability. The assessment will also evaluate what measures have been taken in relation to voting, an active product-related engagement, or general engagement processes to improve the sustainability performance of issuers. The following aspects will be assessed:

- Voting rights

The product provider must demonstrate that it has drawn up and published voting guidelines, which clearly address sustainability issues. Since the category of the dialogue strategy is in “portfolio focus”, the product provider should also provide evidence that it exercises its voting rights for share issuers in the portfolio, especially with regard to social and environmental aspects. Accordingly, the focus is on the voting rights exercised for the portfolio holdings. If the voting rights are exercised (collectively) at the institution or KVG level of the product provider, the connection with the product being applied with must be clearly explained. It

¹⁴ Current regulatory innovations are considered in the respective subsequent label test phase (e.g., EU GBS) as soon as they have been introduced in a legally binding manner.

¹⁵ The European Commission presented a proposal for an enactment on European green bonds in July 2021. As it is not yet a legally binding act, it is not subject to the review and assessment process.

should also be shown that a report on the exercise of voting rights is published during the year, which describes the general voting activities and those, if any, with reference to social or environmental votes.

The assignment of voting rights to shareholder alliances, collaborative undertakings or specialized proxy voting agencies will also be positively considered. It is also reviewed and rewarded whether the product provider initiates or supports shareholder proposals regarding sustainability aspects for portfolio holdings and beyond. This section will not be applied to products that are not invested in equities.

- Engagement processes

The basic idea of formal engagement is to achieve clear improvements in an issuer's sustainability performance while actively exercising one's right as the company's owner or stakeholder. The applicant shall prove that it has established a policy on engagement activities with issuers that clearly describes the intended process of engagement. The outcome of these activities shall be reported on a regular basis, ideally at least semi-annually. The specific objective of the engagement with the issuers must be explained. It is helpful to describe whether, for example, a specific goal (e.g., a transition goal) is predefined and scheduled and whether intermediate steps towards achieving targets, such as analyst conferences, meetings with business field managers, exchange with investor relations or controlling tools, are defined. In addition, the applicant should clearly document how it contributed to improve an issuer's sustainability performance either as part of an own engagement process throughout the company or as part of a Collaborative Engagement Initiative. The objectives of the described engagement process should relate to sustainability aspects.

In addition, the applicants should explain and ideally publish product-related engagement activities. The FNG-Label aims to increase transparency of the engagement activities of applicant. Therefore, the applicant should demonstrate that it carries out engagement on sustainability aspects with several issuers in the portfolio, and that the applicant reports on the outcome of these dialogues in publicly available documents. If engagement takes place on the institutional level of the product provider, the connection to the product being applied with should be explained.

The mere description of engagement processes or the existence of a policy is part of the audit. Evidence of substantive response to inquiries is also part of the audit and assessment work.

2.3.4.3. Sustainability Key Performance Indicators (KPIs) (Weighting of 10 percent)

This section of the assessment focuses on the use of sustainability key performance indicators by product providers to measure specific sustainability performance aspects at the product level. The product provider must demonstrate the application of at least one sustainability key performance indicator that is crucial for the investment decision (e.g., including some from the EU taxonomy) and the measurement against a benchmark reference. In addition to a conventional benchmark, this comparison is ideally be made with regard to a sustainability benchmark. It must explain and provide evidence of the methodological basis on which the measurement was conducted and indicate whether and which of the captured sustainability key performance indicators outperformed the benchmark reference during the last calendar year. Ideally, all information should be publicly available. For this criterion, the full score will only be awarded for publicly information and data that is available for all investors and covers the whole last calendar year.

Appendix

The appendix outlines exemptions for specific assessment sections, product types, and investment approaches.

Minimum requirements

Eligibility:

The following product types can only apply for the FNG-Label after prior consultation because of their specific product characteristics:

- Structured funds
- Guarantee funds
- Microfinance funds
- Private/Equity/Private Debt Fonds
- Cat Bonds Fonds
- Funds of funds
- Certificates (Structured Products)
- Wealth management universe

Note: Due to the special characteristics of the product types mentioned above, challenges arise in minimum requirements, for example. This affects, among other things, the minimum exclusions. There is also a need for further clarification due to the often special "Use-of-Proceeds"-focus and investment elements where the "follow the money" principle comes into play (especially in the case of certificates due to their bearer bond character). Prior consultation is, therefore, necessary to clarify beforehand what challenges might arise. Acceptance for application after consultation does not automatically lead to the award of the FNG-Label.

In addition, the following regulations apply:

ETFs can apply for the label as long as they are physically replicating. In this case, the indexing process is the primary subject of the analysis.

Section Minimum Exclusion Criteria:

In the case of other asset classes or product categories, for which it is unfortunately not always possible to write down the respective handling in these Rules of Procedures in advance of an application, the principle of the use of proceeds or the final beneficiary applies in connection with the minimum exclusion criteria. For example, in the case of catastrophe bonds (Cat Bonds) or asset-backed securities (or more specifically mortgage-backed securities or crypto currencies), the nature of the focused investment leads to a specific examination of the extent to which the exclusion criteria of the FNG-Label are included by these special investments. Since it is often difficult to prove e.g., concrete revenue thresholds, alternative (usually inductive and internal) procedures, which must be available to the applicant, are examined and evaluated. Ideally, the applicant seeks dialogue with the QNG in advance of an application, as there can be no advice of passing the minimum requirements without knowing further details and the assessment team reserves the right, in the case of not yet comparable cases from the past, to work out an initially rudimentary approach to the respective new asset class or product category during the ongoing FNG-Label review and assessment process in exchange with the QNG (and at the latest through the committee meeting in the run-up to the award of the label).

Microfinance funds:

In the case of microfinance funds, in addition to the minimum exclusions of the FNG-Label, the exclusion criteria of the International Finance Corporation (IFC) can also be positively considered in the review and assessment process. However, they do not replace the minimum exclusion criterion in connection with the ten core principles of the UNGC. Verifying compliance with the minimum exclusions at the most granular level of all final borrowers is not realistic. In the case of microfinance funds, it is therefore carried out in three steps instead: First, an applicant must prove that the minimum exclusions are contractually defined in "loan agreements" between the microfinance fund and the microfinance institutions (MFIs) and that compliance is ensured. Secondly, there must be the possibility to check the portfolio breakdown of MFIs in a regular screening (for example, via a detailed sector screening). Thirdly, there must be evidence that the granting of credits by MFIs is verified via regular sample checks by the applicant on the spot. It is pointed out that with reference to the minimum exclusions, there can only be limited (ex-ante) verifiability in the case of old holdings (already existing credit agreements before 04.04. of the respective Label assessment year), but that there must be a corresponding controversy monitoring. As soon as an adjusted or new credit agreement is concluded within the framework of a revolving credit facility or general contract prolongation or new business, it must be ensured that the minimum exclusion criteria are also formally recorded in "loan agreements" and that the three steps described above are met. If, after the FNG-Label has been awarded, it becomes clear during the validity period that one (or more) MFIs in the applicant portfolio violate the minimum exclusions through their lending practices, the process described in § 1.5. will be initiated, which may result in the withdrawal of the FNG-Label. Furthermore, such an incident would be an indication of non-existent or non-functioning controversy monitoring, which can also lead to the FNG-Label being withdrawn.

Comprehensive sustainability analyses at the MFI level must be presented for the entire portfolio, including old holdings, as the focus here is on transparency. A microfinance fund that holds loans to MFIs in its portfolio without being able to present a comprehensive sustainability analysis for each of these MFIs therefore does not fulfil the minimum requirements of the FNG-Label.

Exclusion of countries:

Rankings and lists, which are used as a basis for the exclusion of countries, can be found under the following links:

- Ranking of free and non-free countries (Freedom House): www.freedomhouse.org
- Convention on Biological Diversity (United Nations Environment Program): <https://www.cbd.int/>
- Paris Convention on Climate Change: <https://unfccc.int/process/the-paris-agreement/status-of-ratification>
- Corruption Perceptions Index (Transparency International): <http://www.transparency.org/>
- Nuclear Non-Proliferation Treaty (United Nations Office for Disarmament Affairs): <http://www.un.org/disarmament/WMD/Nuclear/NPT.html>

Grading model

Product Standards Category:

Derivatives:

The use of derivatives must be limited to instruments, which have a stable leveraging effect and are used to hedge certain market risks. The applicant guarantees that the legal provisions on the use of derivatives are complied with, and that information is published in accordance with the legal requirements. Information on the possibility of using derivatives and on the strategy and risk level of the use of derivatives must be provided in the product prospectus, product reporting or another, publicly available Document.

The product provider is responsible for providing the following data upon request by the assessment team:

- A list of the derivative products used
- An explanation of the potential impact of derivatives uses on the product's ESG quality
- Explanations of the volume, level of exposure, and frequency of use of derivatives, as shown in the examples below:
 - Futures on interest rates: "The portfolio management bases its use of derivatives on the German BUND FUTURE in order to mitigate interest rate fluctuations. This affects X% of the portfolio's assets."
 - Futures on equity indexes: "The portfolio management bases its use of derivatives on the X equity index to hedge against price falls on equity markets in the selected investment universe. This exposure amounts to a maximum of X% of the portfolio's assets."
 - Swaps on interest rates: "The portfolio management uses swaps on interest rates to mitigate interest rate fluctuations."
 - Put options: "The portfolio management uses put options on equities in the portfolio, with exposure to these not exceeding the proportion of the portfolio accounted for by the underlying value of the equities, to hedge against an anticipated drop in the equity price."

Portfolio Focus section:

Thematic approach:

To define industries that have a strong connection to sustainability criteria, the FNG-Label follows the taxonomy of the climate bond initiative (CBI) provided that CBI's working groups have defined the industries' connection to sustainability criteria (see: <https://www.climatebonds.net/standard/taxonomy>; <https://www.climatebonds.net/standard>), or the ICMA Green Bond Principles (see: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>), EU Green Bond Standard¹⁶.

In order to define social activities with a clear connection to sustainability criteria, the FNG-Label follows the taxonomy of the Social Bond Principles of ICMA, provided that the technical working groups of this initiative have already further classified the connection to sustainability criteria of the industries (see: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/>)

Furthermore, the six subject areas of the EU taxonomy can be used to define environmentally sustainable activities (see Article 9 EU regulation 2020/852: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN>). These are Climate change mitigation,

¹⁶ EU Green Bond Standard: (current status see: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard_en). The European Commission presented a proposal for a regulation on European green bonds in July 2021. As it is not yet a legally binding delegated act, it is not subject to the review and evaluation work.

Climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, Pollution prevention and control and the protection and restoration of biodiversity and ecosystems. In addition, the delegated climate act of the first two environmental objectives, climate change mitigation and adaptation, has been in force since January 2022.

The decision to include "nuclear power & natural gas" in the taxonomy was made in March 2022. The supplementary delegated act for environmental targets 1 and 2 WITH nuclear power and gas entered into force in July 2022. The new requirements are to be applied as of January 1, 2023. The reporting templates of the RTS on the SFDR will be adjusted so that the shares of taxonomy-compliant activities in the areas of nuclear power and gas are to be published separately. The adjusted reporting templates have been published in the official journal on 17.02.2023. However, the inclusion of these two activities does not change their assessment in the context of the FNG-Label application. In addition, reference is made to the corresponding sub-category "Positive criteria" in the category "Selection strategy" (§ 2.3.4.1.) regarding the proof of sustainability quality/performance or its measurement.

Information and documents on the taxonomy:

- Information and documents on the taxonomy:
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852>
- Technical Screening Criteria Climate Protection (Annex I):
https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf
- Technical Screening Criteria Adaptation to Climate Change (Annex II):
https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-2_en.pdf
- EU Taxonomy Compass:
<https://ec.europa.eu/sustainable-finance-taxonomy/>

In addition, UN Sustainable Development Goals (SDGs)-compliant activities are also classified as sustainable activities

(https://unstats.un.org/sdgs/indicators/Global%20Indicator%20Framework%20after%202020%20review_Eng.pdf).

All issuers and activities that cannot be assigned to these sustainability themes are not assessed as thematic investments with a clear definition of sustainable activity.