



FIRST

*Finance Impact Research
Sustainability Transparency*



ADVANCED
IMPACT
RESEARCH



Forum Nachhaltige Geldanlagen

FNG-Label

for Sustainable Investment Funds and
similar products



Rules of Procedure 2024

Last amended: 21.03.2024

Table of contents

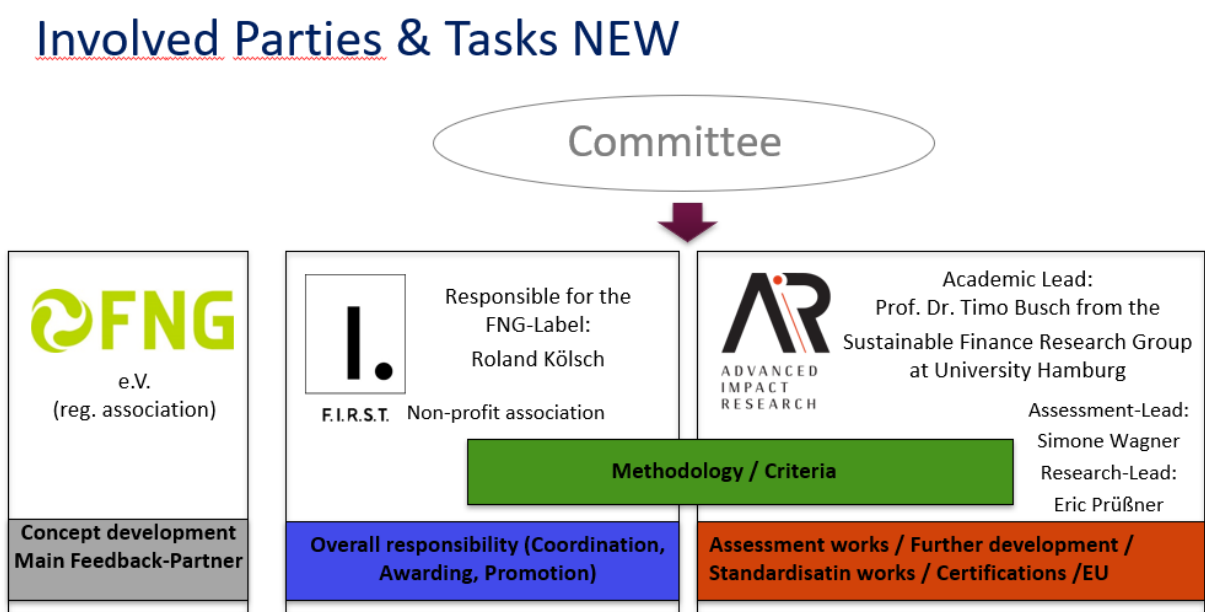
Amendments to last year and further notes	2
Preamble	6
1. Label award terms and conditions	14
1.1. Label award procedure	14
1.2. Processing fee	15
1.3. Label Committee	16
1.4. Compliance monitoring	16
1.5. Non-compliance following the award of the label	16
1.6. Communications associated with the label	17
1.6.1. The four grades of the logo	17
1.6.2. Terms of use of the FNG-Label	17
1.6.3. Presentation recommendations	18
1.6.4. Technical aspects	20
1.7. Liability	21
1.8. Confidentiality	21
1.9. Language of proceedings	21
2. Label criteria	22
2.1. Overview	22
2.2. Minimum requirements	22
2.2.1. Eligibility	22
2.2.2. Transparency and sustainability coverage	22
2.2.3. Exclusions	23
2.3. Grading model	25
2.3.1. Scoring system and label grades	25
2.3.2. Institutional Credibility (weighting of 10 percent)	26
2.3.3. Product Standards (weighting of 20 percent)	27
2.3.4. Portfolio Focus (weighting of 70 percent)	28
2.3.4.1. Selection Strategy (weighting of 35 percent)	28
2.3.4.2. Dialogue Strategies (Weighting of 25 percent)	30
2.3.4.3. Sustainability Key Performance Indicators (KPIs) (Weighting of 10 percent)	31
Appendix	32
Minimum requirements	32
Grading model	34

Amendments to last year and further notes

Preliminary commentary on the reorganization of the FNG-Label (new structure):

Due to the strong growth of the FNG-Label, the assessment could no longer be managed as a third-party-funded project at the chair of Hamburg Professor Timo Busch. The scientist therefore founded a new assessment research structure specifically for the FNG-Label in 2021 at the explicit request of the FNG (see [Newsletter 02/2021](#), p.4): This consists on the one hand of the non-profit science association [F.I.R.S.T.](#), which is responsible for the FNG-Label certifications, and on the other hand of the university spin-off Advanced Impact Research ([AIR](#)). This is where the assessment team is operationally based. As a result of the developments in the QNG and the FNG, the following solution was found, which offers advantages for all parties. Overall, the reorganized FNG-Label will be more future-proof: It gets a more solid sponsorship through the non-profit science association F.I.R.S.T. and becomes structurally independent, can develop faster and more efficiently in terms of content, and has a greater impact in terms of EU orientation.

Re-organization illustrated:



The members present at two FNG AGMs at the end of 2023 and the beginning of 2024 approved the new structure and thus the reorganization of the SRI quality standard with a repeatedly strong majority, thus providing a tailwind for the new course of the FNG-Label. In particular, the new structure will make it easier to tackle the challenges of the future. Be it about regulation or in terms of integration into overarching developments in product classification at the EU level. As license giver, the FNG remains an important partner and will be able to perform its function as a forum in the best sense, providing valuable input for further development opportunities. An Advisory Board has been set up specifically for this purpose.

Externally, everything remains the same and the FNG-Label functions as usual. The assessment process also guarantees continuity as before. Internally, a different structure has now been chosen, which gives the FNG-Label even more independence through the new sponsorship by a non-profit association. The voluntary committee will continue to perform its role of advising and monitoring.

These are all good prerequisites for the continuity of this SRI orientation, which is still necessary and, above all, well-known and valued in the market after almost ten years. Because as long as there is still a great deal of confusion surrounding the figures for sustainable investment quotas, the EETs unfortunately do not yet allow for sufficiently objective fund comparisons, stewardship is not yet properly recorded and the question of transformation and impact is an elephant in the room anyway,

there is a need for qualitative work in terms of content and further developments in this direction. This is precisely what will now be better achieved in the new setup.

The EU regulatory framework is currently only addressed within the FNG-Label where it is legally binding for the design of sustainable financial products and where content-oriented criteria provide meaningful supplementation. For instance, this occurs where the SFDR provides clear provisions, where the Taxonomy is used as a reference framework for defining environmental topics, or where the Benchmark Regulation serves for target or KPI definition. In connection with the SFDR, for example, the general reporting scope expands, which in turn affects criteria in the "Product Standards" category within the FNG-Label's grading model. 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 for the German-speaking markets, namely Austria, Liechtenstein, Switzerland, and Germany, and is committed to integrating the overarching harmonization of sustainable investments desired by the EU. While being aware of the importance of other national efforts, the FNG-Label has, for example, already made tobacco exclusion mandatory due to the "Deutsche Verbändekonzept", ensuring that products with the FNG-Label are compatible with these requirements relevant to the German market. Furthermore, the methodology of the FNG-Label has already been harmonized in many parts with the so-called AMF Doctrine (French Financial Market Authority on "Information to be provided by collective investment schemes incorporating extra-financial approaches"). This particularly applies to the minimum exclusion criteria regarding the presence of an explicit sustainability strategy and the even higher (at 100%) percentage of necessary ESG coverage required by the FNG-Label. Additionally, many other elements demanded or recommended by the AMF about the investment process, selection strategy, impact measurement, reporting, engagement, and exercise of voting rights have been and are being examined and evaluated within the tiered model. In connection with the Swiss Financial Market Supervisory Authority's (FINMA) supervisory communication on the prevention and combating of greenwashing published in November 2021, discussions have been held with FINMA to demonstrate the existing compatibility of the FNG-Label with parts of the sustainability-related information required for Swiss total capital investments and to better incorporate further elements within the SRI due diligence framework using the FNG-Label.

Regarding the EU Ecolabel, there have been no further developments since summer 2021, and currently, it does not appear that further decisions on the EU Ecolabel will be made.

THIS YEAR'S CHANGES

- **Minimum exclusion criteria: No change but greater consideration of transition criteria in the grading model**

In June 2023, a roundtable was held to address criticisms and explore opportunities for further development of the FNG-Label.¹ As a result, a working group on “Transition & Exclusions (incl. Oil & Gas)” was established, which held virtual meetings on October 19, 2023², and February 15, 2024³. Stakeholder opinions regarding the evolution of the FNG-Label were diverse. On one hand, there was support for strict exclusion criteria, while on the other hand, some advocated for relaxing rigid revenue thresholds and introducing transition criteria or exemptions in the label’s minimum exclusion criteria.

However, most of the attendees were against making corresponding adjustments to the minimum exclusion criteria. Instead, the introduction of targeted transition aspects within the grading model was endorsed. Subsequently, the assessment team elaborated on the current consideration of such transition criteria in detail and developed new proposals for the future incorporation of transition aspects within the grading model, which were discussed in the second meeting of the working group with stakeholders. Following this, the proposals will be integrated into the tiered model⁴. The incorporation of transition aspects within the grading model will be presented or communicated both in the online tool and in the rules of procedure. Further details can be found in the corresponding [protocol](#) under footnote three.

The introduction of such aspects in the minimum requirements was rejected for various reasons. Particularly, the current data is perceived as insufficient or not systematic regarding the introduction of such criteria/exemptions, which could lead to allegations of greenwashing and feasibility issues (further reasons can be found in the protocols of the roundtable/working groups⁵). By considering them within the grading model, products that already incorporate relevant and transparent transition aspects will be able to demonstrate this.

The evolution of the FNG-Label is a complex process that must consider various interests and viewpoints. The inclusion of transition aspects within the grading model is an important, albeit initial, step to make the Label forward-looking and simultaneously aligned with the needs of stakeholders.

- **Continued changes to the assessment of product standards (reporting), among other things:** As already explained last year, it will also be necessary this year to adjust the assessment of corresponding criteria that have become mandatory under the EU Disclosure Regulation. For example, in the “SRI reporting” sub-category of the “Product standards” category, as the requirements of the EU Disclosure Regulation continue to result in regulatory adjustments to the assessment. This may also lead to a reduction in the overall result this year – albeit to a much lesser extent than in the year of the SFDR introduction – for products that reapply and have not made any improvements compared to the previous year.
- **Continued increased integration of the EU taxonomy:** The classification of ecologically sustainable economic activities within the framework of EU regulations on sustainable finance is a suitable point of reference for identifying business areas explicitly regarded as “green2 by the EU. The fact that

¹ Minutes of the roundtable on 22.06.2023: <https://fng-siegel.org/media/private/ProtokollAustauschrunden-062023.pdf>

² Minutes of the working group meeting on 19.10.2023: https://fng-siegel.org/media/private/Protokoll-Transition_Exclusions-19102023.pdf

³ Minutes of the working group meeting on 15.02.2024: https://fng-siegel.org/media/private/Protokoll-Transition_Exclusions-15022024.pdf

⁴ See footnote three.

⁵ See footnotes one and two.

the highly controversial areas of nuclear energy and natural gas have also been included in the green taxonomy does not fundamentally change this for the time being. A financial product applying for the FNG-Label must nevertheless describe the nature of its individual investments. This is where the (not blanket, but more specific) reference to the six environmental objectives of the EU taxonomy helps, e.g. to establish a thematic reference or to better define KPIs (also over time or concerning objectives). The integration of the EU taxonomy into research, investment processes, portfolio construction, reporting, and/or other elements is also forward-looking. However, because the results of so-called taxonomy alignment ratios still vary greatly depending on the estimation, collection, 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 and others. The exclusions required by the FNG-Label, in particular concerning nuclear energy and fossil fuels, naturally continue to apply.

- **In reference to the new MiFID statement:** In the context of the current MiFID II regulation, we are pleased to inform you that we have further developed the FNG-Label to better meet the requirements of the current directive. Starting this year, a statement regarding the MiFID II suitability of the applying product will be integrated within the final text of the FNG-Label 2025 closing report. This statement, which we will also include in the overview of awarded products in our external communications, will outline the extent to which the product meets the MiFID II requirements from the perspective of the FNG-Label's assessment team.

The assessment team will rely on the data resulting from the label application to make a well-founded assessment. The classification will be made according to the following criteria:

- i) The product has a minimum share of sustainable investments and has implemented corresponding investment processes.
- ii) The product has a minimum share of taxonomy-compliant investments and has implemented corresponding investment processes.
- iii) The product can demonstrate an investment strategy that considers PAI elements.

These enhancements, coupled with the specific requirements of the FNG-Label, contribute to further strengthening transparency and trust in the financial products sector. They enable investors in the promoted products to make more informed decisions that align with their individual preferences and investment goals. Additionally, they provide better guidance for advisors in product consultation.

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, along with its members and other stakeholders, developed a quality label for sustainable investment funds and similar products, which was introduced to the market in 2015. As part of this process, FNG established a subsidiary: Qualitätssicherungsgesellschaft Nachhaltiger Geldanlagen (QNG) mbH. Until 2023, QNG was responsible for the overall management of the FNG-Label. For reasons of independence, the assessment work has been carried out by an external partner. Initially, the French media, research, and education firm Novethic, specialized in sustainable investments, conducted the assessment in the early years. In 2018, these tasks and processes were professionalized by transferring them to the chair held by Timo Busch from the Sustainable Finance Research Group at the University of Hamburg, where a dedicated team was established. However, due to the significant growth of the quality standard, managing these tasks as a third-party-funded project became untenable. Therefore, at the explicit request of FNG, Timo Busch established a new assessment and research structure specifically for the FNG-Label in 2021: This structure consists of the non-profit scientific association [F.I.R.S.T.](#), responsible for the FNG-Label certifications, and the university spin-off [Advanced Impact Research GmbH](#) (AIR). The staff of AIR conduct the assessment, perform research, and are jointly responsible for the further development of the methodology of the FNG-Label. Additionally, an external committee with interdisciplinary expertise accompanies the assessing process. For the sake of sustainability, since spring 2024, the non-profit scientific association F.I.R.S.T. has taken over the overall responsibility for the FNG-Label from QNG. This more solid structure renders the FNG-Label structurally independent, allowing it to evolve more rapidly and efficiently in content, and enhancing its effectiveness in terms of EU orientation.

The sustainable investment market has experienced rapid growth in recent years, particularly due to the emerging Sustainable Finance regulations of the EU, reflected in the increasing diversity of different financial products and sustainable investment strategies. The EU's Disclosure Regulation, which came into effect in March 2021, has further accelerated this development. At the same time, more and more investors perceive the sustainable capital market as an opaque jungle of products. Especially the multitude of several thousand investment funds classified as sustainable investments under Article 8 of the Disclosure Regulation – a pure transparency requirement without substantive minimum standards – makes qualitative differentiation very challenging. Regulatory developments have now made Article 8 of the SFDR a catch-all for almost all types of (secondary market) investment funds with sustainability relevance. For many investors – even professional fund selectors – filtering “good” sustainability funds has become impossible due to a lack of expertise and time constraints. This is also because the regulations do not provide substantive answers to the quality of sustainable investments. The MiFID sustainability preference clusters and the Disclosure Regulation are unsuitable for this purpose. Stewardship, as one of the most important channels of impact with engagement and voting rights, currently receives no attention in regulation. Due to the still not particularly robust data, especially regarding systematically and comparably original company data, a purely quantitative approach or classifications targeting quotas derived from regulation is still not reliably implementable. Additionally, relying on existing ESG metrics, mostly based on estimates, with weak correlations of ratings for individually understandable reasons, does not provide an objective and independent alternative. Moreover, Taxonomy Alignment quotas still vary greatly, especially in the low single-digit range. There are also significant differences in the approach and interpretation of sustainable investment quotas according to the Disclosure Regulation⁶. Not to mention the quality or sustainability

⁶ See (a) a simulation by ISS-ESG, which, with an identical index, arrives at a sustainable investment rate of 13% or 84% according to SFDR, depending on the approach and rigor:

of the quotas (which can range from a lax, high-quota approach of (secondary market) funds under SFDR 2 (17) to strict, Taxonomy-aligned, but usually not very high quotas of Use-of-Proceeds, Private Equity, AIFs, etc.). Continued regulatory efforts, including EFRAG's work on CSRD or ESRS/ISSB, particularly on double materiality and the initiative to make data available via the European Single Access Point (ESAP), will only lead to increased valid quantitative evaluation approaches in the coming 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 fulfil 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 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 providers⁷ from 14 (also non-EU) countries. In the course of the recently completed reform of the French state label ISR, people who are 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 study⁸ concluded that the FNG-Label excels 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 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:

<https://insights.issgovernance.com/posts/different-views-of-sustainability-alternative-approaches-to-applying-the-eus-disclosure-and-naming-rules-in-practice/> and (b) further other findings with a broad spectrum of quotas (incl. based on taxonomy-calculations): <https://fng-siegel.org/media/downloads/SRI-QuotenVerwirrung-032024.pdf> (p.5, 7 and 8)

⁷ 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.

⁸ <https://fng-siegel.org/studie-ueber-sri-labels/>

The FNG-Label is first and foremost a guide 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 10,000 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 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.

We claim to be the best suboptimal assessment system for 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 standard and not directly comparable with, for example, a score, a rating, 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 still with a simple number, or 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:

Dynamic of SRI Development and neglected key issue

In recent years, there has been an enormous dynamism in sustainability-related investments, particularly in Europe. This applies both in terms of volume and for product innovations or investment strategies. To capture the overall development of this vastly expanded and more complex market – the new world of sustainable investments, so to speak – an [SRI classification system](#) is currently being established, initially by EUROSIF and then successively by national Sustainable Investment Forums (SIFs). In parallel, legislators have introduced new regulatory requirements, which many use for product classification, although this was not the intention of the EU (referred to as SFDR misuse as labeling, particularly Articles 8 and 9 and Article 8+ that does not arise from regulation). Even the former Asset Management Chief of DG FISMA [publicly commented](#) on this, and the [Dutch regulator explicitly warns](#) against it.

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

Studies⁹ show that the concrete impact of investment products is increasingly coming into focus. The overarching societal challenge is described by the term “Great Transformation”. Therefore, the challenge for product providers will be to demonstrate to investors what ecological and social consequences, both positive and negative, are associated with the specific sustainable investment product. Higher-level classifications should therefore represent the **transformation or impact potential** of financial products for societal and/or ecological solutions. In addition to the so-called impact desire, avoiding greenwashing is an important hygiene factor.

Especially concerning Europe, a conceptually oriented framework as the basis for any classification efforts is necessary. This is also because, at present, any classifications solely based on quantitative indicators or quotas derived from regulation cannot provide the robust data foundation needed to make as objective sustainability assessments as possible. Therefore, such systems are unfortunately not suitable for the universally desired simple scaling for the time being. The reliance on Taxonomy quotas, insights into the significance of Taxonomy alignments (including the known, sometimes widely varying estimates of ESG service providers in this regard), the (very good but still far from final in the formal EU process) progress of real economy reporting in terms of European Sustainability Reporting Standards (ESRS) and International Sustainability Standards Board (ISSB), and the efforts regarding data centralization and availability via the European Single Access Point (ESAP), which are likely to be postponed, make this all too clear.

General Remarks on Transformation & Impact – The time has come

Discussions on the topic of transformation have intensified since the introduction of the EU Taxonomy, which focuses primarily on what is considered green. The issue of transformation was further promoted at the EU level by the publication of the [Report on Transition Finance](#) by the Platform on Sustainable Finance in March 2021. Against this backdrop, the topics of impact and transformation are increasingly coming into focus within the FNG-Label.

The development of the review and assessment process of this SRI quality standard has already been outlined in an [article to Absolut|Impact](#). The beginning integration of EU Sustainable Finance regulatory requirements into the FNG-Label was already a topic in this contribution.

The previous adjustments have always been well integrated into the well-known, objectively verifiable, and established methodology of the FNG-Label without changing the core and basic structure of the label. Since the recurring discussion rounds, which first took place in the summer of '21, aimed at finding reasonably consensual and, above all, certifiable ways to implement transformation within the framework of audit and evaluation work, this endeavor has proven to be a significant challenge. Whether it is capturing transition funds as a quasi-independent SRI investment style or opening up the minimum exclusion criteria of the FNG-Label, for example, through exemptions for the rigid, yet still desired by many stakeholders, clearly defined revenue thresholds. And then, of course, there is the question of how these exemptions should be objectively verifiable and defined. And all of this, especially against the backdrop of considerations on various transformation criteria, which have barely begun to be implemented in many places, if criteria discussions have already begun at all. Indeed, ESMA recently proposed only on a meta-level a new category for transformation strategies in its [Update on the guidelines on funds' names using ESG or sustainability-related terms](#), and the new BaFin chief also proposes a product category that accompanies the transition from “brown” to “green”. However, he simultaneously warns that “such an investment strategy is not trivial” and that there needs to be “truly active management that assesses companies’ transformation plans and accompanies their implementation”. The efforts of a major research project and the Sustainable Finance Advisory Board have already been mentioned above.

⁹ Examples from 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>

Lastly, it should be recognized that such an endeavor must succeed in harmonization at the EU level. The recently concluded consultation by the European Commission on improving the Disclosure Regulation with the specific proposal to introduce product categories could pave the way for this.

SFDR Consultation: Proposal for an SRI Product Classification

from initial foundations through advanced considerations to a concrete proposal for future SRI standardization at the EU level

Building on the insights gained through nearly a decade of SRI due diligence work, involving the analysis of over a thousand financial products, mostly investment funds, applying for the FNG-Label, this text will delve into significant developments in SRI insights, key questions, standardization of sustainable investments, and potential EU-wide harmonizations over the past three years:

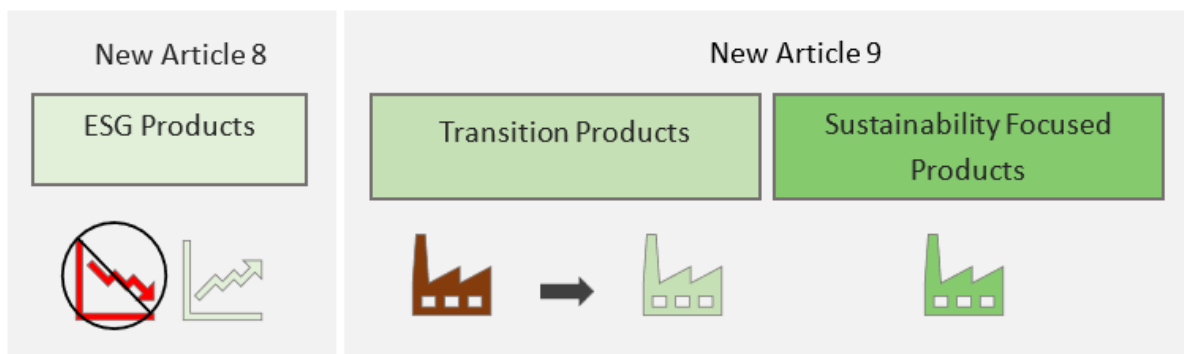
A **pivotal initial milestone** that heralded the next important step in the development of sustainable investments was the **principle paper** authored by eleven scholars under the leadership of Timo Busch and published in January 2021 ("[Impact investments: a call for \(re\)orientation](#)", p.15 bottom), which also involved other protagonists from the Sustainable Finance Science Platform, notably Christian Klein as a co-author and Marco Wilkens as an input provider, as well as QNG. This marked a kind of **Sustainable Finance 3.0** with a **new focus** on the **impact of sustainable investments**. The SRI typology and description of impact investments developed in this foundational work found their way into the basic work of the [G7 Impact Taskforce](#), which also included Professor Alexander Bassen from Hamburg, and whose [report](#) was published in November 2021 (<https://fng-siegel.org/media/presse/FNG-Siegel-Newsletter-022021.pdf>, p.14 bottom).

Subsequently, Marco Wilkens, a researcher from Augsburg and former member of the FNG-Label committee, further explored **impact channels** he had conceptualized and **systematized** in an **Impact Framework**. Alongside his colleagues, he published a conceptual approach to the impact of sustainable investment funds that is compatible with the evolution of guidance tools such as classifications, labels, or similar designations (<https://fng-siegel.org/media/presse/FNG-Siegel-Newsletter-022022.pdf>, p.23 bottom).

Further work related to the **understanding of the impact of financial products** (<https://fng-siegel.org/media/presse/FNG-Siegel-Newsletter-012022.pdf>, p.5-10), particularly in the context of the EU Sustainable Finance regulations increasingly implemented in the market from 2021 onwards, followed. The **new classification of sustainable investments** with a focus on Sustainable Finance 3.0, published and put up for discussion by Eurosif in 2022, is an attempt to implement all these insights in the market (<https://fng-siegel.org/media/presse/FNG-Siegel-Newsletter-022022.pdf>, p.4 bottom). Eurosif released an **update to the classification** in mid-February, following numerous feedback rounds with asset managers.

Moreover, the previously contemplated thoughts on **future SRI standardization**, especially at the European level (<https://fng-siegel.org/media/presse/FNG-Siegel-Newsletter-012023.pdf>, p.3 bottom), have now materialized in **the Position Paper on Improving the SFDR – Proposal for financial product categories from a sustainability perspective**. It draws from the results of the review and assessment on the aforementioned over a thousand investment funds that have applied for the FNG-Label.

In the context of the **SFDR consultation** that concluded shortly before Christmas, it proposes three **categories for financial products with sustainability relevance**, based on which Articles 8 & 9 of the SFDR are to be more clearly defined.



1. **ESG Products:** Financial products that manage ESG risks & opportunities → (new) Article 8
2. **Transition Products:** Financial products that invest in securities transitioning towards sustainability. → (new) Article 9
3. **Sustainability-Focused Products:** Financial products that invest in securities already sustainable. → (new) Article 9

Further detailed, it looks like this (with subcategories, thus a 5-tier system):

		Impact Products			
Product Category	ESG Products	Transition Products		Sustainability Focused Products	
Objective	Managing assets' ESG risks & opportunities to optimize risk & return profile	Invest in transition investments	Contribute to assets' transition as an investor	Invest in sustainable investments (SFDR/EU-Taxonomy)	Contribute to assets' sustainable performance as an investor
Investment Strategy	Positive or Negative Screening	Positive & Negative Screening	New Capital (Positive & Negative Screening) or Stewardship	Positive & Negative Screening	New Capital (Positive & Negative Screening) or Stewardship
Measurement Sustainability Performance		Evidence of assets' transition	Evidence of assets' transition & investor contribution	Evidence of assets' sustainable performance	Evidence of assets' sustainable performance & investor contribution
Investor Contribution	-	Impact-aligned	Impact-generating	Impact-aligned	Impact-generating
Portfolio Level Threshold	-	70% transition investments		70% sustainable investments	

The goal is to contribute to the discussion for the upcoming revision of the SFDR. It is becoming apparent that a 3-tier classification is considered very meaningful. The further elaboration of regulatory details will certainly be intensively discussed.

The submitted discussion contribution seeks to strike a balance between clear terminology, consistency among existing Sustainable Finance regulations, clarity of the proposed categories for investors, and minimizing the transition effort to the new categories.

This position paper is related to the so-called new world of sustainable investments, to which the aforementioned purely market-statistically capturing [SRI classification system](#) developed by Eurosif and recommended for use by the national Sustainable Investment Forums (SIFs) or already used as a [pilot by SSF in Switzerland](#), is currently being established/positioned in the market.

At an SFDR Expert Workshop of the EU Commission (DG FISMA) on the topic “Product classification – solution or quagmire”, discussions were held with representatives from the Scandinavian SRI label Nordic Swan, LuxFLAG, the FNG-Label, and a dozen other participants in the presence of several dozen selected SRI representatives from European asset managers on the extent to which retail and institutional investors would benefit from (among other things) these product categories and which categorization is considered sensible. The need for a (three- to five-part) product-oriented classification of the SRI market emerged. At the same time, questions were raised about the integration with the naming regulation proposed by ESMA. Interaction with national labels was also on the agenda. And last but not least, the question of the meaningfulness of the current sustainability preference query after MiFID II/IDD will also arise.

Further notes on the FNG-Label:

Sales prospectuses and other offering documents of financial products are only reviewed to the extent that they contain relevant information for assessing the sustainability quality from the perspective of the FNG-Label, beyond the mandatory elements of regulatory sustainability reporting already in place. A general review of sales prospectuses and other offering documents, as well as continuous monitoring of all portfolio holdings, is not part of the label award process. However, ex-post portfolio screenings and random checks may occur. With the awarding of the label, F.I.R.S.T. and the assessment team do not make any statement regarding the completeness, factual accuracy, profitability, or legal regularity of the offer and investment activities of the respective product. Contrary to this, neither the applicants nor F.I.R.S.T. intend or are intended to communicate any such information to investors or the financial products applying for the label.

The FNG-Label does not constitute investment advice, investment brokerage, or purchase recommendation, and does not consider financial criteria in evaluating an investment fund or similar product. Therefore, consulting on these aspects remains essential for investors. F.I.R.S.T. 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. Accessing sustainability content from F.I.R.S.T. or the FNG, or using it, does not establish any contractual relationship, particularly no advisory or information contract, with F.I.R.S.T. or the FNG.

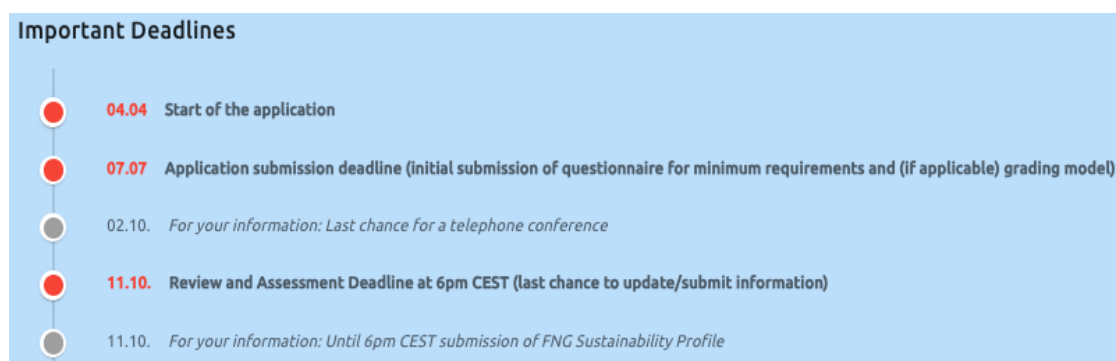
1. Label award terms and conditions

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 labeling procedure comprises the following steps:

- Call for applications: Applicants who have declared their willingness to participate to F.I.R.S.T. will be activated for the online tool with the agreed number of products. F.I.R.S.T. will also provide application information to applicants upon request. An application for the FNG-Label is in no way connected with 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 (07.07.2024). 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/feedback. 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 11.10.2024 at 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). **For a successful submission, the application of the minimum requirements and the grading model must be sent to the assessment team by clicking the button at the bottom of each page ("[...] send bindingly to the assessment team") in the online tool.** 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 stars.

2024 FNG-Label award calendar:

Call for applications:	4 April 2024
Application submission deadline:	7 July 2024
Announcement of products awarded:	Awarding ceremony 28 November 2024 in Frankfurt a.M.

Note: As shown in the review and assessment process, the last opportunity to report back to the assessment team is 11 October 2024 at 6 pm CEST!

1.2. Processing fee

F.I.R.S.T. charges the following processing fee (net), payable within 14 days after issuing the invoice. In the case of a German billing address, the reduced VAT rate of 7 percent for non-profit organizations applies.

- 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 2025/2026/2027 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. The fees are charged to cover all expenses related to the review and assessment, as well as any other administrative expenses and efforts to increase the market penetration of the FNG-Label (marketing and promotion on our part, including placement in product and fund databases, with insurers, funds of funds, and other fund selectors, participation in congresses and trade fairs, and other events). The fee should not be construed as a payment made to obtain the FNG-Label. Upon activation of the new product in the online tool by the F.I.R.S.T., 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 declaration of confidentiality. Minutes are taken or the entire meeting is recorded at each of the annual committee meetings before the award of the label (usually in November).

1.4. Compliance monitoring

The assessment team reserves the right to verify at any time that the labeled product still complies with the FNG-Label criteria. If any aspects of the labeled 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 F.I.R.S.T. 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 F.I.R.S.T. are obliged to confidentiality regarding information that has not (yet) been published. Applicants are obliged to keep F.I.R.S.T. and the assessment team up to date with any changes in the investment process that are relevant to 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 F.I.R.S.T. 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. F.I.R.S.T. 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 F.I.R.S.T. 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 English) may be used. These rules aim 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 by 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 F.I.R.S.T. supports that products labeled 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 F.I.R.S.T. 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@first-ev.org 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 F.I.R.S.T. **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@first-ev.org 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 regarding 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. **F.I.R.S.T. 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

F.I.R.S.T. and FNG promote the certified products in their media and public relations work and invite 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.**

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 of 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 systematic 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 analysed 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 review and assessment is conducted by the non-profit scientific association F.I.R.S.T. in conjunction with the university spinoff Advanced Impact Research GmbH (AIR). The academic guidance is held by Timo Busch of the University of Hamburg. The F.I.R.S.T. e.V. 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 study¹⁰ 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 standard 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

¹⁰ <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 F.I.R.S.T.'s and the assessment team's interpretation regarding the product's compliance with the FNG-Label criteria shall prevail. F.I.R.S.T. 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, F.I.R.S.T. 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 F.I.R.S.T. are not making any assertion as to the completeness, accuracy, economic viability, and 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 F.I.R.S.T. 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 F.I.R.S.T. or the assessment team shall be excluded.

1.8. Confidentiality

The assessment team of AIR and the F.I.R.S.T. 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 to F.I.R.S.T. and the assessment team, F.I.R.S.T. 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

For the FNG-Label to be awarded, the applicant must 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, funds 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 a clearly defined, separable wealth management universe. These always require prior consultation (see appendix). The basic condition for marketing sustainable investments in the EU is compliance with Article 8 or 9 of the EU SFDR. The product applied must be classified accordingly. In the context 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., 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 review and assessment. 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 accessible FNG Sustainability Profile in German or English, created in the new version valid from March 2023. An updated FNG Sustainability Profile for the year of application must be available. Please note that completing the FNG Sustainability Profile does not constitute an FNG-Label application. The FNG Sustainability Profile is part of 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 fulfillment/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 funds 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. Applicants must, for example, demonstrate in an (internal) ESG analysis that they have analysed the implementation of environmental, social, and governance aspects in the company and have used current sources (such as financial statements for revenue analysis typically not older than twelve months). 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/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 the 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 funds of funds). Likewise, the special provisions for microfinance funds as target funds according 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. The proof can be provided, for example, through second-party opinions (SPOs). It should be noted that the publication date of the SPO cannot precede the issuance date of the bond.

2.2.3. Exclusions¹¹

Companies:

The applicant must prove that they have set up effective exclusion procedures (including monitoring processes (e.g., monitoring of exclusions)) in their investment process, which enables 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 product category “Use-of-Proceeds Bonds”, where fund usage is traceable, violations of the following criteria at the project level or the level of specific fund usage are considered complete exclusions (zero percent). 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 funds¹² 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.

Index funds/ETFs must have adjusted their minimum exclusions following 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:

¹¹ 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.

¹² Likewise, the special provisions for microfinance funds as target funds pursuant to the Annex shall apply.

- 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 percent) is exceeded at the issuer level.¹³
- Nuclear Energy
 - Companies that are involved in uranium mining are excluded if the 5 percent revenue threshold (≤ 5 percent) is exceeded at the issuer level.
 - Companies that are involved in electricity generation based on nuclear energy are excluded if the 5 percent revenue threshold (≤ 5 percent) 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 percent) is exceeded at the issuer level.
- Fossil fuels
 - Companies that are involved in coal mining are excluded if the 5 percent revenue threshold (≤ 5 percent) is exceeded at the issuer level.
 - Companies that are involved in power production based on coal energy are excluded if the 5 percent revenue threshold (≤ 5 percent) is exceeded at the issuer level.
 - Companies that are involved in the extraction and/or processing of oil sands are excluded if the 5 percent revenue threshold (≤ 5 percent) 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 percent) 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 percent) 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, which 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 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 (including monitoring processes (e.g., monitoring of exclusions)). In the case of the product category “Use-of-Proceeds Bonds”, where fund usage is traceable, violations of the following criteria at the project level or the level of specific fund usage are considered complete exclusions (zero percent). For this reason, an analysis of exclusions must have been performed at the project level (for example, approximated by

¹³ Conventional weapons include handguns/civilian firearms.

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 following 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 that have a score below 35 in the current Transparency International’s Corruption Perceptions Index.
- Nuclear Non-Proliferation Treaty
 - Countries that 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 agencies¹⁴ 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.

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. To be positively assessed, compliance to the criteria must be clearly proven. A specific label grade will be awarded depending on the weighted sum of points achieved¹⁵.

¹⁴ 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.

¹⁵ 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

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 product characteristics (for example asset class) are considered accordingly. The scores do not denote 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 institutional credibility, the assessment focuses on sustainability efforts at the product provider level¹⁶. The applicants must demonstrate that they

- 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 lies 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;

essential for determining the overall result. The overall star rating results from the weighted points achieved in the respective categories.

¹⁶ Note: In case of white label funds, the fund provider (often the fund's namesake) is always assessed.

- 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 calendar year will be considered;
- have established an investment policy on the exclusion of controversial weapons at the 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 footprinting, engagement activities, green product offer, etc.);
- implements sustainable investment policies (inclusive transition plans) regarding fossil fuels (for example present/designated exclusion of certain activities, transition of certain business areas, 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 (e.g., regarding transition such as Climate Action 100+).

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 the 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 an investment board at the 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 products 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 that is only

disclosed to institutional investors, will be considered partially.¹⁷ Additionally, it is assessed whether the applicant provides information on the products' current investments in (OTC) derivatives for all investors regularly.

- 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 regulations 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 that perform well in terms of sustainability and exclude controversial issuers or activities from the eligible investment universe. At the 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). It is also considered in the assessment if the product provider uses exemptions for certain exclusion criteria (e.g., transition criteria) – even if they are not based on revenue thresholds (e.g., commitments to the Science Based Targets).

- 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:

¹⁷ 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.

- 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; here, for example, business models in transformation.)) 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.¹⁸ The more ambitious the ESG ratings in the portfolio construction process have to be, the better the assessment 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 through an SPO. The assessment applies a strict definition of sustainable activities based on the following standards (see Appendix):

¹⁸ Benchmark system does not necessarily refer to the classic comparison against a conventional/financial benchmark. These can also be purely internal systems.

1. Environmental themes¹⁹: Climate Bond Initiative (CBI) Taxonomy and current version of EU Taxonomy, Green Bond Principles of the International Capital Market Association (ICMA), EU Green Bond Standard²⁰.
 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 the 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 the 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”.
 - A fund is classified as thematic only if the formal objective for security selection, based on the definition of sustainable activities, applies to 50 percent or more of the portfolio. For example, this is the case when a fund aims for a minimum of 50 percent sustainable investments based on an appropriate definition of sustainable activities.
 - 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. SPOs 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, 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 concerning social and environmental aspects

¹⁹ 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.

²⁰ 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.

(such as votings concerning transition 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 must be clearly explained. It 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, concerning 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 regularly, 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 improving an issuer's sustainability performance either as part of its 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 (e.g., transition aspects). In addition, the applicants should explain and ideally publish product-related engagement activities. The FNG-Label aims to increase the transparency of the engagement activities of the 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 should be explained. The mere description of engagement processes or the existence of a policy is part of the assessment. Evidence of substantive response to inquiries is also part of the review and assessment.

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 transition criteria such as CapEx) and the measurement against a benchmark reference. In addition to a conventional benchmark, this comparison is ideally made regarding 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 public 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 cryptocurrencies), 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 F.I.R.S.T. 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 F.I.R.S.T. (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 concerning 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 following 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 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 Standard²¹.

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,

²¹ 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 assessment.

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.