MINISTÈRE
DE LA TRANSITION
ÉCOLOGIQUE
ET DE LA COHÉSION
DES TERRITOIRES
Liberté
Égalité
Fraternité

GREENFIN LABEL
FRANCE FINANCE VERTE

Questions & Answers
Label *Greenfin France Finance Verte*

Audit approach

Q/ Which approach should we use for feeder funds? They are eligible according to the Criteria Guidelines but should the approach we use be that for funds of funds, especially for the 10% allocation of non-labelled funds?

A/ At least 90% of funds of funds must be invested in funds with the Greenfin label. The remaining 10% should not be invested in nonlabelled funds but in transferable securities or money market instruments as defined in Article 50 (2)(a) of the UCITS Directive. The feeder funds are funds that only invest, in full or in part, in shares of another fund (the 'master' fund). They are comparable to funds of funds. At least 90% must therefore be invested in funds with the Greenfin label. The remainder of the assets (that may be less than 10%) must be invested in transferable securities or money market instruments as defined in Article 50 (2)(a) of the UCITS Directive.

Q/ With regard to fund eligibility, is a fund eligible for the label if it does not observe the level of 75% of companies with their registered office in Europe, but it is able to clearly demonstrate the link between its investments and the development of activities in Europe?

A/ A fund that does not observe the level of 75% of companies with their registered office in Europe, even if it is able to clearly demonstrate the link between its investments and the development of activities in Europe, is not currently eligible for the label. This change in the rule could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines.

Transparency

Q/ Is an infrastructure debt fund that is not a member of ICMA's Green Bond Principles (principles for benchmark bonds traded on regulated markets) eligible? In essence, the investment process of this bond fund observes the GBP recommendations (earmarking of a project, reporting).

A/ One of the eligibility criteria for candidate bond funds is the management company's membership of the Green Bond Principles of the International Capital Market Association (ICMA). If the management company that manages this fund is not a member of these Green Bond Principles, the bond funds that it manages are therefore not eligible for the Greenfin label (cf. II. 'Fund assets' in eligibility criteria of candidate funds). This membership is demonstrated by the management company appearing in the list of members of ICMA's Green Bond Principles or by it providing proof of its application for membership of ICMA's Green Bond Principles. However, and under the first labelling campaign, it may be considered that even if this condition is not met, this does not preclude the award of label (minor non-compliance).

Use of derivates

Use of derivatives for exposure for equity funds

Q/ Why are only derivatives on the benchmark index possible? (cf. MSCI Euro vs Eurostoxx, two comparable indices that can be used for provisional exposure without altering the fund).

A/ Index derivatives other than the derivatives on the benchmark index can be used provided that they concern a market or investment universe comparable to that of the benchmark index, in particular in geographic terms. For example, the derivatives on the Eurostoxx index can be validly used if the benchmark index is the MSCI Euro. This change in the rule could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines.

Over-the-counter instruments

Q/ What does the analysis of the Greenfinquality of a counterparty mean?

A/ The 'Greenfin quality of counterparty' for over-the-counter instruments may be interpreted as the counterparty observing the exclusion rules and having no knowledge of any major ESG controversy. This interpretation could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines.

Annex 5 - Use of derivatives for hedging for equity funds

Q/ How can coherence between the use of derivatives for hedging and the fund's policy on Energy and Ecological Transition be demonstrated?

A/ The notion of coherence is achieved when a share, the risk of which is individually hedged by a derivative, is no longer recognised in the fund's Greenfin Cassets. For example, a share XXX, certified Greenfin, hedged by the purchase of a put option on share XXX, is not recognised as Greenfin, as long as the hedging exists. The derivative used for hedging must observe the exclusion and major ESG controversy risk rules. This change in the rule could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines.

Annex 5 - Use of derivatives for bond funds

Q/ Which indicator best reflects the following requirement? The bond portfolio (cash + derivatives) should not seek a net short position in interest rate risk or in credit risk.

A/ The indicator which reflects this requirement is 'interest rate and credit sensitivity (cash + derivatives)', the provision of which is required in Annex 5: This sensitivity must not be negative, i.e. the overall portfolio must not increase in value when the interest rates increase or when credit spreads widen.

Positive impacts

Q/ The calculation methods for impacts are still under development, in particular those concerning natural resources and biodiversity. Even for certain available data, such as Scope 1 and 2 CO2 emissions, these are still not fully reliable for two reasons: - many companies are still not subject to mandatory verification of their extra-financial data and the methods vary between establishments; - even when it is provided by third parties (Bloomberg, Trucost), it is based on estimates and extrapolation.

A/ A review of procedures (existence and quality of processes, sources and controls implemented in order to obtain this impact data) may be considered as sufficient within the framework of this first labelling campaign. For CO2 emissions, the methodological approach must be described. This interpretation could be proposed to the Label Committee which may, however, change it to the extent it decides as part of the development of the Criteria Guidelines and in light of the evaluation that will be made of the change in methodologies for measuring impacts, in particular in the case of GHG emissions.

Greenfin Classification

Q/ For equity funds, an overly stringent interpretation of the classification leads to considering only breakthrough innovations or 'exclusive actors of energy and ecological transition' as admissible. In order to ensure the eligibility of equity funds for the label, it would seem necessary to allow room for interpretation in the assessment of eligible activities, in particular for the two examples below, which will almost systematically be encountered.

<u>1st scope of activities</u>

Substantial improvement in environmental performance of an existing product How should automotive sector suppliers such as Michelin and Continental, which may be real agents for innovation and reductions in GHG emissions, be dealt with? They have a positive impact on the Greenfin via their positioning for the most efficient tyres on the market; likewise, for Valeo or Plastic Omnium, which have a substantial portfolio of environmental innovations (NOx, SOx and GHG reductions).

2nd scope of activities

Extension of the agriculture sector to several securities in the food industry Very few listed securities in the agricultural sector can meet the requirements of the taxonomy. Can the securities in the two examples given below be considered as eligible? - Based on GHG emissions /kCal, the vegetable sector will be preferred to the meat sector and, on this basis, securities such as Bonduelle, Hain Celestial Group and Sunopta are included in a fund; - Based on the use of exclusively natural ingredients, securities such as Naturex and Symrise are selected to the detriment of companies which use chemically-derived ingredients.

A/

1st scope of activity

Equipment suppliers providing energy saving solutions may be classed: - either in the 'Services' category of the 'Energy' section of the Criteria Guidelines: 'design and realisation of energy-related savings projects'; - or in the 'Energy-efficient products' or 'Industrial processes' category of the 'Industry' section of the reference document: 'Energyefficient products / / For example green concrete, automation by comparing one production technology to another.'

2nd scope of activity

Any extension of the classification to certain fields, not currently covered, falls under the development of the label and is the responsibility of the Label Committee. At this stage, the response is therefore negative. A change in the rule to introduce agribusiness companies complying with certain rules could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines.

Q/ Are companies that develop products enabling a reduction in air pollution, in particular construction / renovation materials that can improve indoor air quality, included in the Greenfin label taxonomy? If yes, under which category?

A/ These products that enable a reduction in air pollution may fall under the following categories:

- 'Industries / Industrial processes (Eco-efficiency improvements / cleaner production)';
- 'Waste management, pollution control and sequestration - technologies and products / Products or technologies that reduce and capture GHG

emissions)';
- 'Building / Energy-efficiency technology and products manufacturing and supply'.

Q/ Are automotive equipment manufacturers eligible for the Transport category: Electric / fuel-efficient / alternative fuel vehicles for the part of their activity corresponding to these vehicles?

A / Neither automotive manufacturers nor their vehicle equipment manufacturers fall within excluded activities.

The latter may be covered by the 'Production' activity of the 'electric vehicles', 'fuel-efficient vehicles' (insofar as they are hybrid vehicles) and 'alternative fuel vehicles' categories as they contribute directly to the production of such vehicles. However, they may also fall within two other categories:

- 'Services' of the 'Energy' section of the 'Design and realisation of energy-related savings projects' reference document;
- 'Energy-efficient products' or 'Industrial processes' of the 'Industry' section of the 'Energy-efficient products' reference document.

Q/ Are fuel-efficient vehicles only hybrid vehicles or more broadly vehicles with reduced consumption, if yes from what level?

A/ Highly-efficient conventional vehicles that meet mandatory emissions standards (plus an additional hurdle rate to be determined) have been excluded from the label classification (cf. Annex 2, A] of section 1.).

Therefore, only hybrid vehicles - in the 'fuel-efficient transport / vehicles' category - or alternative fuel vehicles - in the 'alternative fuel vehicles' category are currently referred to within the framework of the Greenfin label classification.

Q/ Highly-efficient conventional vehicles that meet mandatory emissions standards (plus an additional hurdle rate to be determined) have been excluded from the label classification (cf. Annex 2, A] of section 1.). Therefore, only hybrid vehicles - in the 'fuel-efficient transport / vehicles' category - or alternative fuel vehicles - in the 'alternative fuel vehicles' category are currently referred to within the framework of the Greenfin label classification.

A/ Cf. the response to the question on automotive equipment manufacturers.

This interpretation of the classification could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines.

Q/ How should fossil-based hydrogen production be considered?

A/ Fossil-based hydrogen production is by definition (cf. Annex 2) excluded.

Exclusions

Q/ If an energy producer provides a significantly greater share of renewable energy compared to that of the market (for example in an island context) but the remainder is produced from fossil-based sources, and it aims to provide 100% renewable energy in the energy mix in the long term, can it be included in the portfolio, the renewable pro

A/ In the current framework of the Greenfin label classification, such a producer is excluded. This interpretation of the rule could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines

Q/ How should non-controlled joint-ventures that carry out excluded activities be dealt with?

A/ There are three consolidation accounting methods for subsidiaries:

- Full consolidation when they are majority-controlled (directly or indirectly);
- The equity method when there is a significant influence over the operating and financial policy of its subsidiary (significant influence is presumed when a company holds, directly or indirectly, 20% or more of the voting rights of this undertaking);
- Equity interests in the absence of control or significant influence.

Criterion 1.3 of the Criteria Guidelines states ["that] no investment shall be made in companies, projects or activities pertaining to the excluded sectors set out in Annex 2, with the exception of their green bonds as defined above." The Criteria Guidelines does not specify whether it concerns a direct or indirect holding.

Pragmatically, the first (full consolidation) and the third case (simple equity interest) can be dealt with fairly simply. If the joint-venture is fully consolidated, the fund may not be labelled; if the joint-venture is recognised as a simple interest, this does not preclude the labelling of the fund.

If the joint-venture is accounted for using the equity method, the assessment that should be made regarding whether or not it is possible to label the candidate fund is left to the judgement of the certifying body under this first labelling campaign. The certifying body will issue a decision based on criteria such as the reality of the control carried out by the parent company, the 'weight' of the jointventure in relation to the fund assets, whether or not an exit option is possible, etc. These criteria are provided for illustration purposes only, as the certifying body may identify others which seem more appropriate.

This interpretation could be proposed to the Label Committee which could, however, change it to the extent it decides as part of the development of the Criteria Guidelines.