# Towards Sustainability Initiative

## Short presentation of the Towards Sustainability Initiative

In November 2019, the Towards Sustainability Labelling Agency (CLA)[1], awarded the first 'Towards Sustainability' labels to financial products that were compliant with the Towards Sustainability Quality Standard for sustainable and socially responsible financial products.

Since then, more than 470 products, including investment funds, index products, insurance funds and saving products have obtained the label, amounting to more than 400 billion EUR that is managed respecting the criteria of the Quality Standard. About a quarter of these products are distributed on the Belgian market, three quarters in the rest of Europe and beyond, making it the most comprehensive and inclusive labelling initiative for sustainable financial products.

More than 60 financial institutions from over 10 countries are currently involved in the Towards Sustainability Initiative. In just three years, the Towards Sustainability label has become the market standard for sustainable financial products in Belgium and increasingly also in other European countries.

The Towards Sustainability label has deliberately chosen to be a broad label, which aims to make its impact by appealing to a large group of diverse financial institutions on the one hand and being suitable for retail and institutional investors with different profiles on the other hand. In this way, it aims to gradually make the entire market of financial products more sustainable. Of course, in addition to broad sustainability labels, such as Towards Sustainability, there is also room for more focused labels for dark-green investments that target a specific niche of investors and preferences.

[1] Officially, Central Labelling Agency of the Belgian SRI label vzw/asbl, abbr. as CLA

## Mission of Towards Sustainability

- **Raise** the level of sustainability of the **whole** financial market
  - *Involve all financial institutions*
  - *Involve all investors*
- **Mainstream** sustainability in financial products
  - *Quantitatively and qualitatively increase sustainability of financial products*
- Provide **clarity and assurance** to end investors
  - *Complement the complex and incomplete legal framework*
  - *Prevent greenwashing & greenhushing*

**Inclusive, ambitious, evolutive**

However, being a broad sustainability label does not mean sacrificing quality and rigor. The Towards Sustainability label is considered one of the most ambitious sustainability labels in Europe[2]. Products seeking the label must conduct a thorough sustainability analysis of all the companies and sovereigns in which they invest. Companies involved in serious and repeated violations of international standards on human and labour rights must be excluded. Companies with significant involvement in the production of weapons and tobacco products, or in the mining of coal, shale gas and tar sands also have no place.

The Towards Sustainability quality standard does not a priori exclude the conventional oil and gas sector, nor electricity generation based on natural gas or nuclear power. However, the label seeks to reward the efforts of companies in these sectors that are ambitious, and that are credibly and demonstrably committed to transitioning to environmentally friendly business processes.

Investments in governments are also subject to conditions regarding the strength of their governance, compliance with fundamental international standards and treaties, their democratic nature and anti-corruption practices.

However, sustainable investing is not only a matter of exclusion. Products with the Towards Sustainability label must demonstrate how they are striving to make a positive impact by favouring those companies that perform well on one or more dimensions of sustainability (ESG – Environment, Social & Governance).

To meet the requirements of the label, portfolio managers can use external exclusion lists and external ESG rating agencies. However, the information from these external sources is rarely unambiguous, not always complete, or up-to-date, and therefore cannot be followed blindly. It always remains the responsibility of the portfolio manager to conduct an in-depth financial and sustainability analysis based on available data, and

[2] Sustainable investment fund labeling framework: An apples-to-apples comparison - Qontigo - April 2022 and Panorama des labels européens de finance durable - Novethic - May 2022

to decide whether or not the investment in a particular company or government fits in with the investment policy of the sustainable product.

### Detailed objectives of Towards Sustainability

1. **Move the whole market towards more sustainability**
   - **Mainstream** sustainability in financial portfolios
   - A **broad and diverse offer** of high-quality sustainable products: no niche
   - A sustainable product for **all investor profiles**: doubtful & convinced, defensive & dynamic
   - Encourage product managers to **go beyond** the expectations of the Quality Standard
2. **Mitigate confusion in retail and institutional investors**
   - Not only transparency but also **clarity**
   - **Practical and user-friendly** tool to help institutional and retail investors find a product that suits their sustainability preferences and personal convictions
   - Provide **channel** to voice investor convictions
3. **Combat greenwashing**
   - **Guaranteed minimal level** of sustainability materiality and depth
   - Independent expert **verification**
4. **Multi-dimensional, no niche**
   - Appreciate **different avenues** towards sustainability: environmentally, socially and governance-wise
   - Allow for **transition**
5. **Evolutive**
   - Regular **revision** of the expectations in a multi-stakeholder context
   - Fully aligned with but **beyond regulatory** obligations
   - Gradually **raise the level** of ambition of the Quality Standard

Independent expert verification is essential for the credibility of any label. The CLA has appointed a Verifier for this task. The Verifier is a partnership of Forum Ethibel, ICHEC Brussels and the University of Antwerp and it checks whether all products meet the conditions of the Towards Sustainability Quality Standard.

For the sustainable investor, the Towards Sustainability label is the beginning of the conversation. The label guarantees that a minimum but ambitious level of sustainability is achieved, and that the product has been subjected to an independent sustainability audit. In addition, it requires the portfolio manager to be transparent about its specific implementation of its sustainability policy.

With these tools, the investor can search for the sustainable financial product that matches their personal sustainability preferences and convictions, and broader investor profile.

For more information about the initiative, the Towards Sustainability Labelling Agency (CLA) and the list of products that have been awarded the label, please visit https://towardssustainability.eu/

## Revision of the Quality Standard

The Towards Sustainability label, like any sustainability label, is necessarily an evolving label. The criteria are regularly reviewed in a multi-stakeholder context and tightened in order to keep in tune with evolving societal needs, investor expectations, scientific insights, data availability and regulatory framework.

The initial 2019 Quality Standard was fully revised in 2021 and again in 2023. As of 2024, the current revision cycle, which biennially reviews the whole of the Quality Standard, is modified to a more targeted approach focussing on specific sustainability issues or areas of the Quality Standard. The new approach is based on multi-stakeholder consultations and workshops about particular topics. Depending on the topic, stakeholders invited to participate in these will be current label holders, investor representations, civil society organisations (with focus on finance, environment or social issues), ESG data providers and rating agencies, governmental agencies, supervisors, sector associations, think tanks, and unions.

In 2026, against the backdrop of ESG deprioritization and scepticism, originating in the US but also spreading to Europe, the CLA has decided to perform an evaluation of the label and a new revision of the Quality Standard. This will also be an opportunity to assess the label's alignment with the upcoming revision of the Sustainable Finance Disclosure Regulation (SFDR2).

The evaluation is projected to run from September 2026 to April 2027, with the aim to publish the conclusions by June 2027. The exercise will be conducted in consultation with portfolio managers and other stakeholders such as academics, civil society, policymakers.

# Towards Sustainability Quality Standard 2023 Criteria

## Contents

Short presentation of the Towards Sustainability Initiative ..... 1
Revision of the Quality Standard ..... 3
Introduction to the 2023 revision ..... 8
Process ..... 8
Consolidated version of the revised criteria ..... 8
Timing ..... 8
General introduction ..... 9
Ambition ..... 9
Approach ..... 9
Basic principles ..... 10
Practical implementation of the Quality Standard's expectations ..... 10
Products in scope of the Towards Sustainability label ..... 11
Binding nature of the Quality Standard ..... 12
Signatory status ..... 12
1. Sustainability strategies ..... 14
1.1 ESG Materiality ..... 14
1.2 ESG integration ..... 23
1.3 Normative & controversy screening ..... 26
1.4 Best-in-class/universe selection ..... 27
1.5 Sustainability themed investing ..... 28
1.6 Impact investing ..... 29
1.7 Objective to do better than a benchmark on one or more ESG indicators ..... 30
1.8 Other strategy ..... 31
1.9 Stewardship - Corporate engagement and shareholder action ..... 32

1.10 Solidarity/Charity ..... 35
2. Specific asset classes, investment techniques and product types ..... 36
2.1 Sovereign exposures ..... 36
2.2 Securities lending ..... 39
2.3 Unsegregated portfolios ..... 40
2.4 Saving deposit products ..... 41
2.5 Branch21 insurance products ..... 42
2.6 Structured products ..... 43
2.7 Investments in underlying portfolios ..... 44
3. Sector policies (Corporate-level criteria) ..... 46
3.0 All sectors ..... 46
3.1 General approach regarding sections 3.2-3.7 ..... 47
3.2 Tobacco ..... 50
3.3 Weapons ..... 51
3.4 Coal ..... 55
3.5 Unconventional oil & gas ..... 57
3.6 Conventional oil & gas ..... 58
3.7 Power generation ..... 60
3.8 Financial institutions ..... 62
3.9 Label holders ..... 66
4. Clarifications ..... 67
4.1 Cash or cash equivalents, crypto currencies, precious metals ..... 67
4.2 Derivatives ..... 68
4.3 Use-of-Proceeds instruments ..... 69
4.4 Short selling ..... 70
4.5 Real Estate portfolios ..... 71
4.6 Index-based products ..... 72
4.7 Indices ..... 73
4.8 Prospectus or equivalent ..... 74
4.9 Disclosure of policies ..... 75
4.10 Disclosure of indicators ..... 77
5. Supervision ..... 78
5.1 The Towards Sustainability Labelling Agency (CLA) ..... 78

5.2 The Verifier ..... 79
5.3 Verification layers ..... 80
5.4 Non-compliance ..... 81
Annexes ..... 82
1. Potentially harmful activities and related sectors/industries ..... 82
2. Contributing activities ..... 82
3. Sectors with elevated risks of significant harm to sustainability factors ..... 83

# Introduction to the 2023 revision

This document presents the criteria of the 2023 revision of the Towards Sustainability Quality Standard (QS23).

## Process

The priorities for the current revision were determined by the CLA Board of Directors:

1. Alignment and complementarity of the Towards Sustainability Quality Standard with (upcoming) EU legislation and future EU initiatives on sustainable finance (such as EU Taxonomy, Sustainable Finance Disclosure Regulation, Climate Benchmark Regulation, MiFID/IDD Sustainability preferences, Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive, Deforestation Regulation, EU Green Bond Standard, EU Ecolabel, etc.)
2. Realisation of the objective to gradually increase the level of ambition of the Quality Standard, in setting an aspirational minimal standard without reducing sustainable products to a niche.
3. Strengthen the Quality Standard as an instrument to combat ESG-washing and preserve market integrity.
4. Exploring possibilities for equivalence with other label of similar level
5. Clarification of criteria and protection against circumvention of requirements

The revised criteria were developed by the CLA Eligibility Commission in line with the CLA Board of Directors' priorities and taking into account concerns gathered from relevant stakeholders. Information on the CLA governance structure and the composition of the commissions can be found on the CLA website: https://www.towardssustainability.eu/about-us/the-cla

The revised criteria integrate the results of multiple external checks that were performed concerning feasibility, verifiability, data availability and regulatory compliance.

## Consolidated version of the revised criteria

This document consolidates the 2023 revision of the 2021 version (QS21), the technical guidance document to the QS21, and the relevant sections of the initial Quality Standard (QS19).

The current updated version (June 2026) integrates additional guidance based on questions and feedback the CLA has received from stakeholders since the publication of the revised Quality Standard in June 2023. It does not contain substantive new criteria but clarifies the intended interpretation of the existing criteria. Some outdated external references are also updated.

## Timing

The revised criteria will come into effect in January 2024 for newly labelled portfolios and in June 2024 for currently labelled portfolios.

# General introduction

## Ambition

The niche of socially responsible and sustainable financial products should lead by example and show in a pragmatic, realistic but ambitious way how financial performance and a high standard of societal performance can be reconciled.

The objective of the Towards Sustainability Quality Standard (QS) is to qualitatively and quantitatively increase the level of socially responsible and sustainable financial products, and to mainstream its principles towards traditional financial products.

It speaks for itself that to have any meaningful impact on the transition towards a sustainable economy and society, the integration of sustainability considerations (regarding environmental, social and good governance factors - ESG) should go beyond a niche and into mainstream financial products and services.

## Approach

The benchmark for the Towards Sustainability Quality Standard are the needs of society and the expectations of the fast-growing group of savers and investors with a special interest in the responsible and sustainable character of their savings and investments.

Clients should be able to rely upon the assumption that the money they put into a 'socially responsible' or 'sustainable' financial product shall not be used to finance activities and practices generally accepted as 'unsustainable', and shall, to a greater or lesser extent, directly or indirectly, be used to finance activities with a positive contribution to society.

With that objective, the Quality Standard requires exclusion of the financing of a limited number of practices that are widely regarded as unsustainable. The focus however lies on transparency and the provision of relevant and helpful information, by which potential clients can determine if the policy of a specific product is in line with their personal convictions.

The Quality Standard stipulates a set of portfolio and process level requirements which a financial product should at least fulfil to receive the label. However, distributors and product managers are strongly encouraged to formulate their own approach and objectives regarding sustainability that go beyond the minimal requirements stated in the standard.

The Quality Standard does not pretend to define or enshrine what it means to be a 'sustainable' financial product, as that would fail to acknowledge the evolutive and aspirational character of sustainability. Compliance with the principles of the standard should rather be interpreted as a sign that a product is on the road towards sustainability. The progress made on that road and so also the degree of sustainability will differ between products, depending on their strategy and level of ambition. However, being in line with the standard implies that a manager is taking up its social responsibility by having in his decisions particular and substantiated consideration for

social, environmental and governance issues thus also safeguarding long term financial performance.

## Basic principles

The Towards Sustainability Quality Standard is a minimal norm and as such sets minimal sustainability-related expectations regarding products that are promoted, presented or offered as being 'sustainable', 'socially responsible', 'SRI', 'ESG' or similar denominations (e.g., on websites, in marketing material).

The expectations are formulated on three axes:

a) Having explicit sustainability related (ESG) characteristics and/or objectives (positive angle)
b) Avoiding harm (negative angle)
c) Being transparent about the implementation of a) and b)

The most detailed and specific requirements are about the negative angle i.e., regarding avoiding the financing of (very) harmful or unsustainable activities. This is one of the main assumptions of (retail) investors regarding sustainable products.

From the positive angle, the Quality Standard states that a positive ESG approach must be present, without specifying in detail what that approach should be and how it should be implemented for all possible sectors or asset classes. The product manager is free to choose the ESG focus or theme of the portfolio. The main requirement is that there is transparency on the positive ESG approach, that it has measurable impact on the security selection, and that it is underpinned by appropriate and credible organization, procedures and resources.

The Quality Standard does not define what 'sustainable' environmental, social or governance activities are or which specific economic activities 'contribute to environmental, social or governance objectives'. This is the aim of the EU Taxonomy. However, the Quality Standard will refer to EU Taxonomy definitions when relevant.

## Practical implementation of the Quality Standard's expectations

The Quality Standard does not stipulate how the requirements should be fulfilled in practice: this is left to the expertise of the portfolio manager. Portfolio managers should put in place the internal organisation, processes and resources they deem necessary to be able to comply with the requirements. Based on their best judgement and expertise, they should select the most appropriate instruments, data providers, third-party exclusion lists, etc for their situation.

This might, in some cases, lead to diverging interpretations by different managers on the eligibility of a specific company. This does not, however, need to be problematic if the manager is accountable, open and transparent about their decision-making process.

Accountability is key. Professor of Ethics Geoffrey Hunt describes it as the preparedness to give an explanation or justification to stakeholders for one's judgments, intentions, and actions. It is a readiness to have one's actions judged by others and,

where appropriate, accept responsibility for errors or misjudgements, and recognition for competence, conscientiousness and excellence. It is associated with responsiveness to the views of all stakeholders, which includes a willingness to explain, defend, and justify actions or decisions.

The Quality Standard starts from a principles-based approach. Key characteristics and features that are essential for a credible socially responsible or sustainable portfolio are formulated. These principles are accompanied by general or sometimes detailed implementing guidelines that specify how the principles should be interpreted and that give guidance when implementing them in specific portfolios, always keeping in mind the investors' expectations that the money they invest in socially responsible financial products should not flow to or benefit unsustainable activities.

The Quality Standard provides a mix of exclusion, impact, engagement, transparency and accountability related expectations. The balance of these elements and the specific requirements associated, will evolve and be adapted over time to reflect the evolving expectations of investors and the needs of society, and the legislative translation of these expectations and needs. As such, the Quality Standard is not fixed and is evaluated regularly in a multi-stakeholder context, as to assure its relevance to society.

## Products in scope of the Towards Sustainability label

The main scope of the Quality Standard is all standardised, collectively managed portfolios that are actively marketed or promoted as being socially responsible or sustainable towards retail, private and institutional clients.

Financial products of Belgian law and of foreign law, managed by domestic or foreign managers, commercialised by domestic or foreign distributors are in scope. Registration for (public) distribution (in Belgium) is not a requirement.

The notion of 'financial products' is used in a broad sense and covers investment products (e.g., mutual funds, private equity funds, life-insurance products, pension funds, structured notes) and savings products.

Custom-made portfolios tailored to the specific financial and sustainability expectations of individual private or institutional clients are not strictly in scope; although the principles laid out in this Quality Standard could be inspirational.

The label is meant for financial products where the end-client does not have a say in the investment decisions. Products or services where the end-client can decide on a part of the investment cannot receive the label. For instance, advisory or discretionary contracts that allow the end-client to deviate from model portfolios or to decide on the amount of cash in its portfolio, cannot as such be labelled.

These contracts, models or investment plans could however be presented as 'sustainable' when they propose investments in a range of standardised underlying portfolios that are QS-compliant.

## Binding nature of the Quality Standard

The Quality Standard does not limit the commercialisation of 'traditional' products but does set a framework for products explicitly marketed as 'socially responsible', 'sustainable' or alike. Neither does the standard limit the financing of companies by way of traditional products (i.e., products not marketed as being socially responsible or sustainable).

The Quality Standard is not legally binding. As such, for transitional or technical reasons, products could be marketed as socially responsible or sustainable without being compliant with the Quality Standard. This is of course not encouraged as a structural situation.

The use of the Quality Standard is not mandatory. However, the institution using the label is under the obligation to comply with the terms and requirements of the label. Non-compliance with the requirements of the label may result in the label not being renewed or the withdrawal of the label by the CLA.

The use of the label may fall under national regulations relating to information obligations of financial institutions and in particular the rules regarding the marketing of financial instruments and products towards non-professional clients.

If a product uses the label but is in fact not compliant with the Quality Standard, clients or competitors could bring legal action, namely a cease-and-desist order against the relevant financial institution, administrative penalties and exceptionally criminal penalties. If a judge sees fit, an entity could be subjected to a prohibitory injunction or fines. Some jurisdictions also provide for the possibility for consumers and SMEs to initiate class actions.

## Signatory status

Distributors and managers can become a signatory of the Towards Sustainability Quality standard, so as to show their engagement and ambition in the field of sustainable investing.

Becoming a signatory means that the signing entity voluntary accepts the Quality Standard as the reference framework for products it promotes[3] as socially responsible or sustainable and that are destined for distribution on the Belgian market. By signing, a distributor/manager undertakes to ensure that at least 90% of its socially responsible or sustainable products, measured by assets under distribution/management, that are actively commercialised in Belgium have obtained or are in the process of obtaining the Towards Sustainability label. The Signatory shall apply the Quality Standard to their remaining responsible and sustainable product offering as far as reasonably practicable. In addition, and as far as applicable, the entity will comply with the QS's criteria for financial institutions (3.8), except for the ESG ratings criterium.

[3] Basically, using sustainability-related claims in product names and in products' marketing communications

Becoming a signatory implies no commitment concerning the distribution or management of other products (not promoted as socially responsible or sustainable), non-public products, or products not intended for the Belgian market.

A manager or distributor can apply for the label for some of its products without becoming a Signatory.

Signatories will loyally support, promote and advocate the principles of the 'Towards Sustainability' initiative.

For their commitment and their support for the Towards Sustainability initiative, Signatories can expect to receive increasing visibility on the Towards Sustainability website and in other communication efforts. They will be among the key interlocutors of the CLA when revisions of the label criteria are considered, and when new projects are started. They also receive a discount on the labelling fee.

# 1. Sustainability strategies

## 1.1 ESG Materiality

### a) ESG screening of the portfolio

The eligibility of all assets in the portfolio shall be subject to selected ESG strategies (See b)), except for purely technical assets when these do not negatively affect the ESG character of the portfolio.

Considered technical assets are:

- Cash and cash-like assets (e.g., money market funds, ETCs) used for liquidity management or hedging (See 4.1)
- Derivatives used for efficient portfolio management or hedging (i.e., non-speculative) (See 4.2)
- Index-based products based on broad market indices used for hedging (See 2.7 & 4.6).

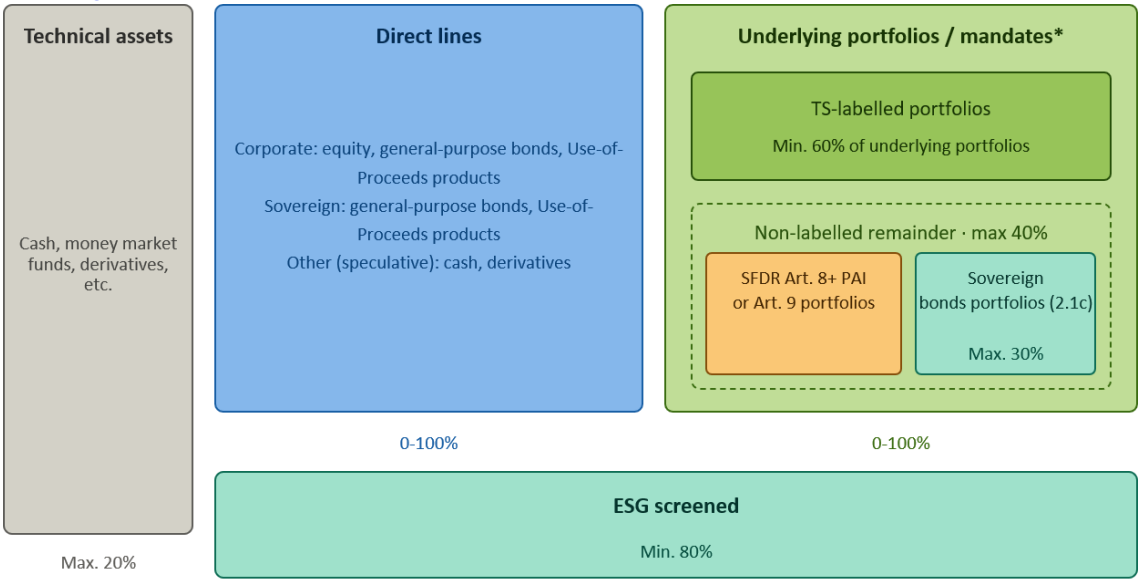
The proportion of technical assets shall not structurally be more than 20% of the portfolio. This means that at least 80% of the portfolio must be subject to ESG-screening and contribute to the ESG characteristics promoted by the portfolio.

The manager may temporarily deviate from this limit in extraordinary market circumstances in order to protect investors' financial interests.

The ESG characteristics and/or objectives of the portfolio shall be articulated in the investment statements and accompanied by a robust governance process.

The manager shall provide disclosure about the portfolio-level ESG characteristics and/or objectives in line with SFDR art. 8 or art. 9.

### QS-aligned portfolio asset allocation




** Percentages related to the types of underlying portfolios in this bucket only to be applied to portfolios that (occasionally or structurally) invest more than 10% of their total AUM in underlying portfolios (2.7 A), else no limiting percentages (2.7 B).*

### Data availability

Where information relating to any of the indicators used in the QS is not readily available, the manager shall provide details of the best efforts used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating and engaging with third party data providers or external experts, or making reasonable assumptions. Such assumptions and estimates should only compensate for limited and specific parts of the desired data elements and produce a prudent outcome.

## b) Strategies

A sustainable financial portfolio shall make use of the following (4) strategies:

1. ESG integration (see 1.2)
2. Normative screening (see 1.3)
3. Exclusion (see 2.1 and 3)
4. One main additional strategy [*Secondary additional strategies are allowed*]

The first 3 strategies ensure the portfolio does not finance activities that pose significant harm to sustainability factors.
The additional strategy supports the ESG characteristics or the sustainable objectives the portfolio wants to realize.

The additional strategies can have varying degrees of selectivity or focus:

a) Best-in-class/universe selection (see 1.4)
b) Sustainability themed investing (see 1.5)
c) Impact investing (see 1.6)
d) Objective to do better than a benchmark on one or more ESG indicators (see 1.7)

e) Other strategy, recognized by the CLA, that results in favouring more sustainable issuers in the selection process (see 1.8)

The main additional positive ESG strategy will be mentioned on the Sustainability ID. [*The first 3 mandatory strategies are implied*]. Investors will be able to filter products based on the types of additional strategies.

Next to the required minimum of 4 ESG strategies, the non-technical part of the portfolio shall also comply with the expectations regarding:

- GHG intensity (See c))
- Gender diversity (See d))
- Sustainable investments (See e))
- Corporate engagement and shareholder action (See f))

### Exemption sovereign-issued instruments

For the part of the portfolio that consist of (non-use-of-proceeds) sovereign-issued instruments that comply with the criteria under 2.1 c), only ESG integration is required as a strategy. No additional strategy is required.

Other (non-use-of-proceeds) sovereign-issued instruments, which do not comply the criteria under 2.1 c), need to be subject to an additional strategy.

## c) GHG intensity

### i. Disclosure

The manager shall measure and disclose the GHG intensity (Weighted Average Carbon Intensity, WACI) of the corporate part (SFDR PAI 1.3) and the sovereign part (SFDR PAI 1.15) of the portfolio.

(3) 'GHG intensity of investee companies' shall be calculated in accordance with the following formula:

$$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{current\ value\ of\ all\ investments\ (€M)} \times \frac{investee\ company's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i}{investee\ company's\ €M\ revenue_i}\right)$$

(4) 'GHG intensity of sovereigns' shall be calculated in accordance with the following formula:

$$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{current\ value\ of\ all\ investments\ (€M)} \times \frac{The\ country's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i}{Gross\ Domestic\ Product_i\ (€M)}\right)$$

### ii. Performance expectation

The GHG intensity of the corporate part of the portfolio shall be at least better than the GHG intensity of the portfolio's appropriate reference benchmark(s).

Portfolios that apply 'beating a benchmark' (1.7) as their additional strategy and that have designated GHG intensity as ESG indicator, automatically fulfil this expectation.

If, and only if, the portfolio does not have a reference benchmark (designated in the product's prospectus or equivalent document), the GHG intensity of the portfolio shall be at least better than an appropriate regionalized GHG intensity level set by the CLA.

The regionalized GHG intensity levels will be determined annually by the CLA and based on the GHG intensity of regional broad market benchmarks. Regions are Europe, US, Rest-of-World (not Europe and not US), World. Current regionalized GHG intensity levels are[4]:

| Values, in tons $CO_2e/M$ | Europe | US | Rest-of-World | World |
|---|---|---|---|---|
| Corporates – GHG Intensity Scope 1+2 | 215 | 169 | 683 | 460 |
| Corporates – GHG Intensity Scope 1+2+3 | 811 | 973 | 1529 | 1237 |

For this expectation, GHG intensity shall be calculated including scope 3 emissions if reliable data is available, else it can be limited to scope 1+2.

The GHG intensity of the portfolio can be measured and compared with the performance expectation at a specific point in time each year (the most recent value available at time of application) or as a rolling average over the previous year. The manager should be consistent for all its portfolios.

For use-of proceeds instruments, GHG intensity at project level should be used. If this is not available, a conservative estimate based on similar projects or sector averages can be used, else they should be excluded from the calculation.

Green bonds cannot be considered to have a GHG intensity of zero. Avoided emissions cannot be used as a metric in this context.

Passively managed index-based products (ETFs) may ignore this performance expectation, as in the case of passive tracking both product and index should essentially obtain the same result.

### iii. Application

This expectation will be checked at the moment of initial label awarding, label extension and label renewal. This means once per year.

A portfolio cannot fail ii) on 2 consecutive occasions. So, if a portfolio does not meet the expectation on one occasion, it must meet it on the next. However, the applicability of this expectation will be reviewed based on the initial disclosures (30/6/2024).

If expectation ii) cannot be met due to the specific sustainability-related objectives of the thematic or impact strategy of the portfolio (see 1.5 and 1.6), the manager shall explain.

The manager shall report annually to the CLA:

- The benchmark's performance on GHG intensity, if applicable
- The portfolio's performance on GHG intensity

[4] 31/12/2022 figures based on research by Sustainalytics. Largest available universe of companies, weighted by market capitalisation.

In any case, the manager shall integrate the decrease of investee companies' GHG intensity over time in the portfolio's ESG due diligence and as a theme in its engagement and shareholder action efforts.

Managers are encouraged to explore more holistic and forward-looking indicators of environmental and climate transition, beyond GHG intensity e.g., Net Environmental Contribution (NEC), to guide their transition strategy.

## d) Gender diversity

### i. Disclosure

The manager shall measure and disclose the Board gender diversity of the corporate part (SFDR PAI 1.13) of the portfolio.

### ii. Performance expectation

The Board gender diversity of the corporate part of the portfolio shall be at least better than the Board gender diversity of the portfolio's appropriate reference benchmark(s) or have at least 33% of board members of the underrepresented sex.

Portfolios that apply 'beating a benchmark' (1.7) as their additional strategy and that have designated Board gender diversity as ESG indicator, automatically fulfil this expectation.

If, and only if, the portfolio does not have a reference benchmark (designated in the product's prospectus or equivalent document), the Board gender diversity of the portfolio shall be at least better than an appropriate regionalized Board gender diversity set by the CLA.

The regionalized Board gender diversity levels will be determined annually by the CLA and based on the Board gender diversity of regional broad market benchmarks. Regions are Europe, US, Rest-of-World (not Europe and not US), World. Current regionalized Board gender diversity levels are[5]:

| Values, in % | Europe | US | Rest-of-World | World |
|---|---|---|---|---|
| Corporates – Board gender diversity | 33 | 28 | 17 | 23 |

The Board gender diversity of the portfolio can be measured and compared with the performance expectation at a specific point in time each year (the most recent value available at time of application) or as a rolling average over the previous year. The manager should be consistent for all its portfolios.

Use-of-proceeds instruments should be ignored in the calculation of the portfolio Board gender diversity.

[5] 31/12/2022 figures based on research by Sustainalytics. Largest available universe of companies, weighted by market capitalisation.

Passively managed index-based products (ETFs) may ignore this performance expectation, as in the case of passive tracking both product and index should essentially obtain the same result.

iii. Application

This expectation will be checked at the moment of initial label awarding, label extension and label renewal. This means once per year.

Considering the challenges regarding data quality and portfolio integration, the first 2 years i.e., until 30/6/2026, expectation ii) can be met on a best effort basis.

As of 30/6/2026, a portfolio cannot fail ii) on 2 consecutive occasions. So, if a portfolio does not meet the expectation on one occasion, it must meet it on the next. However, the applicability of this expectation will be reviewed based on the initial disclosures (30/6/2024 to 30/6/2026).

The manager shall report annually to the CLA:

- The benchmark's performance on Board gender diversity, if applicable
- The portfolio's performance on Board gender diversity

In any case, the manager shall integrate the improvement of gender diversity over time in the portfolio's ESG due diligence and as a theme in its engagement and shareholder action efforts.

Portfolio managers are encouraged to explore more holistic and forward-looking indicators of gender diversity, beyond Unadjusted gender pay gap and Board gender diversity, to guide their strategy.

e) SFDR 'Sustainable Investments'

As the current unclarity about the scope, definition and calculation methodology does not allow for reliable and comparable reporting of the proportion of 'sustainable investments' in a portfolio (as defined by SFDR art. 2(17)), a criterium based on this indicator cannot be set and thus no minimum proportion of 'sustainable investments' is required.

The manager shall however disclose:

- the (committed) proportion of 'sustainable investments' in the portfolio
- which specific types of investments it qualifies as 'sustainable investments'
- which calculation method is used (Revenue-weighted, Pass-Fail or other approach).

As of when a clear, uniform and common definition, calculation methodology and scope for 'sustainable investments' are established that allow for reliable comparability between reported figures, a significant minimum (committed) 'sustainable investments', calculated on all asset classes in the portfolio in scope of the definition, shall be required.

All non-technical assets shall contribute to the ESG characteristics promoted by the portfolio or be sustainable investments.

### f) Stewardship - Corporate engagement and shareholder action towards sectors with elevated risks

Investee companies in sectors with elevated risks of significant harm to sustainability factors shall be subject to corporate engagement and/or shareholder action, in the manner and extent described in ii. and iii., at the level of the manager *[Note: Not at the level of an individual portfolio]*.

#### i. Sectors in scope

Sectors with elevated risks of significant harm to sustainability factors are:

a) High-impact sectors form a sustainability due diligence point of view:
   - Textiles manufacture and wholesale
   - Agriculture/fishery and wholesale
   - Mineral resources extraction, basic products manufacture and wholesale

b) As far as not already included in a):
   - Sectors involved in activities subject to limitations (Weapons, Tobacco, Coal, Oil & Gas, Power generation) (See 3.)
   - Other carbon-intensive & high-emitting sectors (e.g., cement, shipping, aviation)

Indicative sector/industry classifications (See Annex 3.)

#### ii. Expectations regarding engagement

Regarding engagement with investee companies in the sectors under i, the manager shall disclose:

- The conditions or selection criteria applied to decide whether to start engaging with a company (e.g., size of total holdings or % of shares in a company at the AM-level, financed emissions, PAI outliers, ESG-risk, controversies)
- The number of companies engaged with in the previous year
- The average number of annual contact points per company selected for engagement and the characteristic of the contacts
- The average duration of the engagement trajectory and what happens afterwards

If the manager states that it performs engagement, under the disclosed conditions, in elevated risk sectors or beyond, its engagement approach (policy, process and topics) should meet the expectations under 1.9 a) and c). Furthermore, an annual engagement report must be published, containing the elements under 1.9 d) if possible.

iii. Expectations regarding exercise of voting rights

Regarding shareholder action (voting) towards investee companies in the sectors under i, the manager shall:

- Exercise its shareholders rights in at least 50% of investee companies (in the portfolio or in the total holdings of the manager) in these sectors. Proxy voting can be used.
- Disclose the types of resolutions voted on (e.g., nominations, remuneration)

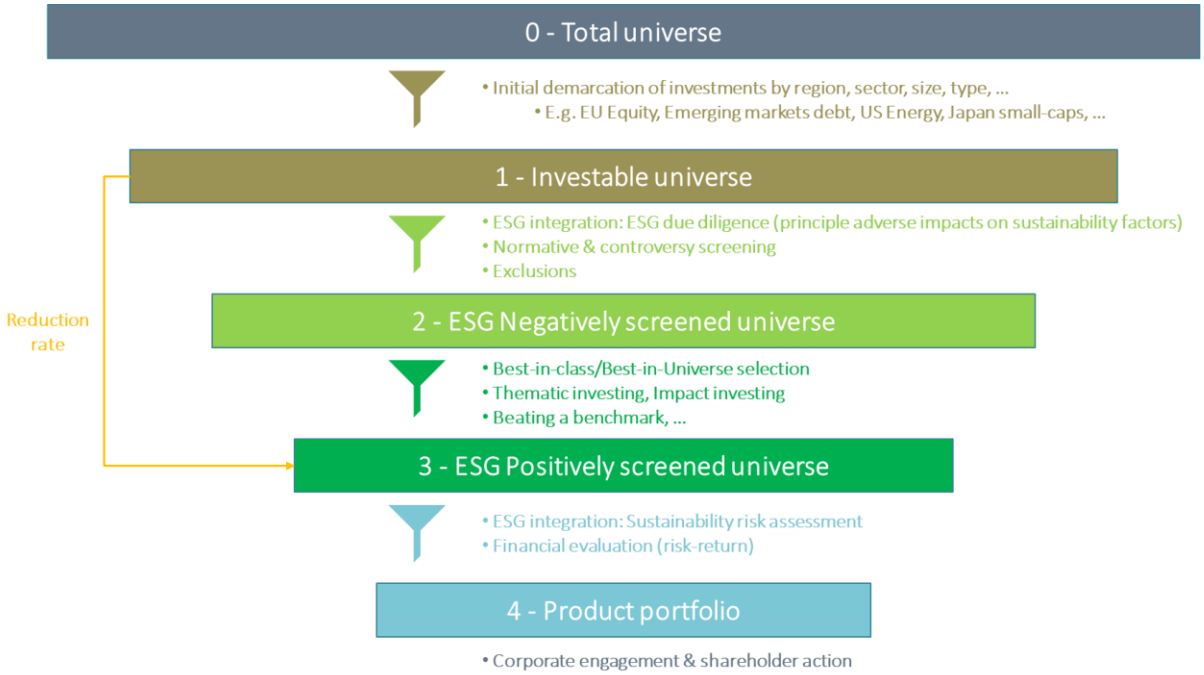
Collaborative shareholder initiatives are encouraged.

iv. Reporting

The manager shall report annually, the % of investee companies in these sectors in labelled portfolios, that a) is engaged with and b) is voted in.

For general expectations regarding corporate engagement and shareholder action, see 1.9.

## g) Sustainability strategies – universe reduction




### Comments

- The selection of 'sectors with elevated risks of significant harm to sustainability factors' is based on sectors for which the OECD has developed specific sectoral guidance in order to promote the effective observance of OECD Guidelines on Multinational Enterprises. See the list of sectoral guidance documents at: http://mneguidelines.oecd.org/sectors/.
  As regards the financial sector, due to its specificities, in particular as regards the value chain and the services offered, even if it is covered by sector-specific

OECD guidance, it is not selected as a high-risk sector. This sector is however covered indirectly by the QS as a whole and specifically by sections 3.8 and 3.9.

- FSMA FAQs about marketing communications for UCIs (Dec 2022): https://www.fsma.be/en/news/faqs-about-marketing-communications-ucis, section 9
- European Institute for Gender Equality (EIGE) - Gender Statistics Database: https://eige.europa.eu/gender-statistics/dgs/indicator/wmidm_bus_bus__wmid_comp_compbm/datatable

## 1.2 ESG integration

ESG integration reflects the principle of double materiality.

For each position in the portfolio an ESG due diligence result shall be present. This does not mean that an (external) ESG rating should be available for each position. The appropriateness of specific positions within the applied sustainability strategies can also be evaluated by using internal models.

The ESG evaluation of positions can take the form of a quantitative (or qualitative) analysis based on different ESG data/indicators. An extensive and formal ESG investment case for each single holding is not required, however, potential ESG risks and/or ESG opportunities should be identified.

ESG integration can be operationalized in diverse ways and will be the focus of the triennial on-site audit by the Verifier.

In any case, the portfolio should not contain ESG 'blind spots', this means positions of which the potential ESG impact/risk is completely unknown. Excluding technical assets (see 1.1 a)), the portfolio should thus be fully screened from an ESG perspective.

The manager shall have formal and credible policies and procedures in place to assess:

a) the likely impacts of sustainability risks on the return of the portfolio
b) the risk of principal adverse impacts on sustainability factors (E+S+G) of each investment

The manager shall consider, where appropriate:

- the OECD Guidelines for Multinational Enterprises: Responsible Business Conduct for Institutional Investors
- the UN Principles for Responsible Investing (UN PRI)

For a) and b) the manager can use information obtained directly from the issuer, data sourced from ESG data providers or rating agencies and public available data.

The sectors with elevated risks of significant harm to sustainability factors (see 1.1 f) i)) shall receive particular consideration in the manager's ESG integration process.

The depth and focus of the ESG due diligence process shall take into account the likelihood and size of the potential negative impact (= materiality) on sustainability factors of each investment.

A controversy screening (e.g., based on UN Global Compact violations) is not considered sufficient as ESG integration.

### Data providers

The QS does not stipulate how its requirements should be fulfilled in practice: this is left to the expertise of the manager. The manager should put in place the internal organisation, processes and resources they deem necessary to be able to comply with

the requirements. This may mean using the services of external data providers, but this is not mandatory.

In many cases, raw ESG data is provided by specialized external data providers. It is however the manager and not the data providers who decides whether an investment in a specific company is in line with its ESG policy and thus eligible for a sustainable portfolio. ESG data provided by data providers or external exclusion lists are only a tool and a resource for the manager to base its ESG due diligence on. A manager may decide to ignore or overrule the provided ESG data if it is convinced more appropriate or correct data is available that will allow them to make a better choice from an ESG point of view.

In any case, the responsibility for an investment choice always rests with the manager.

The Verifier will generally make no judgement on the correctness of the data provided by a data provider. We are aware of the possibility that different data providers may have a diverging ESG evaluation of individual companies (as may different managers). However, when the Verifier believes the quality of a specific data source questionable, they will share this concern.

### ESG due diligence and analysis

ESG due diligence and analysis processes form the basis for implementing sustainability objectives and strategy, at the portfolio and the management level.

Managers shall have in place an ESG due diligence processes to identify, prevent, mitigate, and account for how they address any adverse ESG impacts in the value chain of their activities.

Such an ESG due diligence encompasses:

- Assessing actual and potential ESG risks
- Integrating and acting upon the findings
- Tracking the effectiveness of responses
- Communicating how impacts are identified and addressed.

ESG due diligence is risk-based i.e., the policies and processes put in place should be appropriate to the industry, region, size and type of the involvement within the value chain.

Besides risk analysis, the ESG processes can also identify opportunities and manage and measure any positive impact that the product manager might aim for.

Based on his best judgement and expertise, the product manager should select the most appropriate instruments, research, data providers, third-party exclusion lists, etc. to meet its ESG due diligence and analysis requirements.

Considering the challenge to gather the data required to get a complete picture of the sustainability of a company, product managers should stress the importance detailed ESG reporting in their contacts with the companies they finance.

The inherent complexities in the financial sector such as extensive and complex business relationships or the rapidity of transactions make practical application of effective due diligence systems challenging. The OECD Guidance on Responsible Business Conduct for Institutional Investors explains the application of the OECD Guidelines for Multinational Enterprises in the context of institutional investors. The paper highlights key considerations for institutional investors in conducting due diligence that will help to identify and respond to environmental and social risks.

## 1.3 Normative & controversy screening

The manager shall have in place procedures to monitor the alignment of investee companies with the Minimum Safeguards of the EU Taxonomy Regulation, esp.:

- The UN Global compact
- The UN Guiding Principles on Business and Human Rights (UNGPs)
- The OECD Guidelines for Multinational Enterprises (as far as relevant)
- The ILO Conventions

This means that managers shall at least verify, based on available information, whether investee companies are not involved in (structural, repetitive and severe) controversies or violations of these frameworks.

Additionally, there shall be no clear indications of companies' involvement in manufacturing doubt about the principal adverse impacts on sustainability factors of their activities (e.g., actively spreading misinformation). This shall be part of a controversy screening.
Clear indications that an issuer is involved in a disinformation campaign (e.g., minimising climate change or human right violations) or in irresponsible lobbying should have a substantial impact on the issuer's eligibility.

For requirements for sovereign issuers (States), see 2.1.

### Comments

- Final Report on Minimum Safeguards of the EU platform on sustainable finance (October 2022): https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf
    - The OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines)
    - The UN Guiding Principles on Business and Human Rights (UNGPs)
    - The Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work
    - The International Bill of Human Rights
- Compliance with the Corporate Sustainability Due Diligence Directive (CSDDD) may be considered sufficient for demonstrating investee companies' compliance with the Minimum Safeguards requirements under the EU Taxonomy Regulation.

## 1.4 Best-in-class/universe selection

A best-in-class or best-in-universe strategy shall select from the 'ESG negatively screened universe' only the issuers with the highest ESG ratings, evaluated per industry/sector/region (best-in-class) or evaluated on the level of the universe as a whole (best-in-universe).

The ESG ratings can be based on a quantitative or qualitative ESG rating scale.

The issuers selection threshold can be relative (top percentile) or absolute (minimum rating).

The investable universe, as defined by the manager, shall at least be reduced by 25%, as a result of the combined application of mandatory exclusions (See 3.), normative screening (See 1.3) and the best-in-class/universe selection.

The manager shall describe to the CLA how the defined investable universe is appropriate to the portfolio's investment policy and focus (asset classes, geography, sector, company capitalisation, theme) and does not have an intrinsic bias to circumvent labelling criteria.

This criterium will be checked at the moment of initial label awarding, label extension and label renewal. This means at least once per year.

A portfolio cannot fail this criterium on 2 consecutive occasions. So, if a portfolio does not meet the criterium on one occasion, it must meet it on the next.

The manager shall report to the CLA which % of the reduction results from the application of mandatory exclusions (See 2.1 & 3) and normative screening (See 1.3) on the one hand, and the Best-in-Class/Universe selectivity on the other hand.

The manager shall describe the source of the ESG ratings, the ESG rating scale and methodology, the selection threshold and methodology used.

## 1.5 Sustainability themed investing

A sustainability themed investing strategy shall select investments using one or more well-defined themes based on relevant frameworks, recognized by the CLA, to measure contribution to sustainability factors (EU Taxonomy, SDGs, EU Green Bond Standard, ICMA Social Bond Principles, etc).

Additionally, it shall comply with at least 1 of the following:

a) At least 70% of the assets in the portfolio (measured by company or by AUM) are related to the theme(s). An investee company is considered related to a theme if at least 50% of its revenue is related to the theme.
b) At least 50% of the total portfolio (by AUM) is invested in economic activities contributing to the theme.
c) The portfolio uses a best-in-universe strategy (see 1.4) selecting the top 25% highest rated issuers ('leaders') based on an ESG rating appropriate to the theme.
d) The portfolio classifies as an SFDR art. 9 portfolio and has sustainability themed investing as a strategy.

The manager should demonstrate to the CLA:

- How the selected theme is considered an 'ESG' theme and based on which external framework. If reference is made to the Sustainable Development Goals (SDGs), the manager should show how the selected ESG themes contribute to the realisation of not only one or more of the 17 SDG goals but also of specific SDG targets.
- How potential adverse impact on ESG factors are taken into account in the selection of investee companies linked to the chosen ESG theme
- What the positive contributions are of these investee companies to the thematic ESG factors, including what methodology and KPIs are used to measure this contribution, e.g. minimal thresholds for ESG impact metrics relevant to each theme.
- The manager shall disclose the selection of the theme(s) and the implementation in the portfolio.

## 1.6 Impact investing

An impact investment strategy shall apply the 9 Principles of the Operating Principles for Impact Management (OPIM) or align with the 4 'Core Characteristics of Impact Investing' as formulated by the Global Impact Investing Network (GIIN).

The manager shall report to what degree and how the 9 Principles of the Operating Principles for Impact Management (OPIM) are applied.

### Comments

- Impact investing is qualitatively different from SRI investing. It provides additionality by (directly) financing effective solutions to societal needs, and it measures the investment's contribution to improvement of those needs.
- 9 Impact Principles: Invest for Impact | Operating Principles for Impact Management (impactprinciples.org)
    - The elements of the process are strategy, origination and structuring, portfolio management, exit, and independent verification.
- The 4 'Core Characteristics of Impact Investing' formulated by the Global Impact Investing Network (GIIN): https://thegiin.org/assets/Core%20Characteristics_webfile.pdf
    1. Intentionally contribute to positive social and environmental impact through investment alongside a financial return
    2. Use evidence and impact data in investment design
    3. Manage impact performance
    4. Contribute to the growth of impact investing

## 1.7 Objective to do better than a benchmark on one or more ESG indicators

The manager shall designate and disclose:

- A benchmark appropriate to the portfolio.
- ESG-relevant KPI(s) that will be used to measure the portfolio's improvement vs the benchmark. [*Note: When GHG Intensity and/or Board gender diversity are designated as ESG indicators, this would also fulfil expectations under 1.1. c) and/or d)*]

The manager shall formulate a target for the portfolio to perform on the selected KPI(s):

- At least 15% better than the benchmark if it concerns a non-ESG benchmark.
- At least 5% better than the benchmark if it concerns an ESG, not QS-aligned benchmark.
- At least equal to the benchmark if it concerns a QS-aligned benchmark, an EU PAB or CTB benchmark, or a thematic ESG benchmark determined by the manager in line with the ESG-objective of the portfolio.

The manager shall describe to the CLA how the designated benchmark is representative of the portfolio's investment policy and focus (asset classes, geography, sector, company capitalisation, theme) and does not create an intrinsic bias to circumvent labelling criteria.

The manager shall report annually to the CLA:

- The benchmark's average score on the selected KPI(s).
- The portfolio's average score on the selected KPI(s).

## 1.8 Other strategy

Other strategy, recognized by the CLA, that results in favouring more sustainable issuers in the selection process.

## 1.9 Stewardship - Corporate engagement and shareholder action

The manager shall disclose the characteristics of its engagement approach.

The engagement approach should be based on purposeful, targeted communications with companies on specific matters of concern with the goal of encouraging change when appropriate.

Engagement efforts can be organised individually or collaborative, can have various degrees of intensity, and can cover a range of different actions from bilateral communications to exercising voting rights.

### a) Engagement policy

Engagement efforts shall be based on a formal engagement policy. This policy shall at least describe:

i. Engagement objectives and priorities
- These should be clear, detailed and actionable focused on effecting change
- Describe how engagement topics are selected

ii. Escalation procedure
- Detailing the actions that the manager will undertake if engagement milestones are not met.
- These actions shall be sufficiently concrete to be actionable. It is recommended that they are specific, measurable, achievable, realistic, and timebound and include timelines for reviewing engagement progress and maximum timelines for taking escalation steps when engagement milestones are not met.
- If the engagement strategy varies across regions or asset types, this should be articulated.
- Escalation steps may include:
  1. AGM questions and/or voting against management at AGMs
  2. Letters to, and meetings with, boards of directors
  3. Public statements including pre-declaring voting intentions, filing shareholder resolutions, and open letters
  4. Changing capital allocation, divestment or refusal to purchase new debt

iii. How engagement is organised in practice
- Individual or collective/collaborative. If collaborative, which role is played (Lead, participant, supporter)
- Types of engagement: letters, e-mails, meetings

iv. How engagement efforts are monitored e.g.:
- Status: e.g., 'ongoing', 'escalated', and 'closed'
- Outcome: e.g., 'with success', 'without success', etc

### b) Voting policy

Exercising voting rights is a form of engagement and shall be included in the engagement policy or have a separate voting policy.

The manager is encouraged to:

- Improve transparency on proxy voting by publishing voting policies, voting records, and voting rationales in a manner that is timely and user-friendly.
- Vote at all AGMs, regardless of geography or the level of holdings.
- Pre-declare voting intentions for important and/or contentious ESG resolutions to encourage others to vote and to increase understanding of the issues at hand.

### c) Topics for engagement

Topics to be addressed in engagement efforts, as far as material to the sector:

- Social - Human rights and labour rights
- Governance - Gender diversity
- Environment - Decarbonisation and 1.5°C alignment
- Environment - Natural resource use/impact, esp. water and biodiversity
- Environment - Pollution/waste, esp. single-use plastics

### d) Reporting

The manager shall publish an annual engagement report.

The manager is encouraged to include in this report, as far as not commercially sensitive:

- The approximate number of issuers engaged (multiple engagements with a single issuer count as one) and the proportion of firm-wide holdings that this figure represents
- The approximate total number of engagements (multiple engagements with the same issuer on different topics count separately).
- Type of engagement (top-down thematic-driven vs bottom-up issuer-driven)
- Sectors engaged with
- Asset classes engaged with
- Method of engagement (letters/emails/meetings).

The manager shall publish as part of the engagement report or separately, a detailed annual report of its voting on a nominative company by company level and provide specific details on votes cast on ESG-relevant resolutions. If publishing at this level is not operationally feasible for structural reasons, the manager shall explain.

The use of specific portfolio management techniques shall not preclude engagement when chosen as a strategy or when required by the QS.

Corporate engagement or shareholder action does not count to reach the required minimal number of ESG strategies (see 1.1 b)).

### Comments

- ShareAction's 2022 Voting Expectations of Asset Managers (March 2022): https://api.shareaction.org/resources/reports/Voting-expectations-2022.pdf
- ShareAction – Voting matters (Jan 2023): https://shareaction.org/reports/voting-matters-2022

## 1.10 Solidarity/Charity

The use of a solidarity or charity component by the manager can be taken into account (as a strategy) and mentioned on the Sustainability ID when the manager has in place monitors and reports about the impact to the charity.

The manager shall disclose:

- the details of the solidarity approach and the beneficiaries of the charity
- the % (of fees) that go to selected charities, if applicable

However, this strategy does not count to reach the required minimal number of ESG strategies (see 1.1 b)).

# 2. Specific asset classes, investment techniques and product types

## 2.1 Sovereign exposures

### a) Classification of sovereign issuers

Sovereign exposures are exposures to central governments, central banks and supranational issuers.

States that issue sovereign instruments are classified based on the income level of their economy, based on the classifications of the World Bank: low-income, lower middle-income, upper middle-income and high-income economies.

To be eligible for a QS-compliant portfolio, all States shall comply with the base criteria under b). States classified as high-income economies shall also comply with the additional criteria under c).

### b) Base criteria for all economies

Non-use-of-proceeds sovereign-issued instruments cannot be directly linked to the financing of sustainable activities. The proceeds are allocated by governments in a discretionary way.

Governance indicators are an appropriate measure for the fair and responsible allocation of proceeds by governments.

Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

The strength of the governance of a State is measured using the 6 Worldwide Governance Indicators[6] (WGI), established by the World Bank:

1. Voice and Accountability
2. Political Stability and Absence of Violence/Terrorism
3. Government Effectiveness
4. Regulatory Quality
5. Rule of Law
6. Control of Corruption

[6] https://info.worldbank.org/governance/wgi/ and https://databank.worldbank.org/source/worldwide-governance-indicators. Each country receives a score between -2.5 and 2.5 on each of the 6 WGI.

A State is eligible if both of the following conditions[7] are met (thresholds based on 2022 scores, to be recalculated annually):

- The average of its scores on all 6 WGIs is at least -0.59 (-0.47 in 2026)
- It does not score less than -1.00 on a single WGI (-0.96 in 2026)

### c) Additional criteria for high-income economies

In addition to the base criteria under b), high-income economy States shall also meet all the following conditions:

- The State has ratified or has implemented in equivalent national legislation:
  - the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work
  - at least half of the 18 core International Human Rights Treaties
- The State is party to:
  - the Paris Agreement
  - the UN Convention on Biological Diversity
  - the Nuclear Non-Proliferation Treaty
- The State does not have a particularly high military budgets (>6% GDP, reassessed when required by geopolitical needs)
- The State is not considered a 'Jurisdiction with strategic AML/CFT deficiencies' by the FATF
- The State scores at least 40/100 on the Transparency International Corruption Perception Index
- The State is not qualified as 'Not free' by the Freedom House 'Freedom in the World'-survey
- The State does not have the death penalty legal and in use

States that meet these criteria (and also those under b)) are eligible for the exemption under 1.1 b).

### d) Exception

Portfolios can invest for reasons of diversification or (currency risk) hedging, in public debt instruments issued by core reserve (non-EURO) currency issuers[8] that do not comply with the above requirements, to a maximum of 30% (in total) of the portfolio. This threshold may temporary be exceeded in the event of extraordinary market circumstances to protect investors' financial interests.
In any case, the use of this exception will be indicated on the Sustainability ID.

Use-of-proceeds instruments issued by non-compliant States can still be eligible (See 4.3).

---

[7] The thresholds are determined by resp. the median of the average WGI-score and the median of the lowest scoring WGI of the category of low- and middle-income economies. Updated annually in October.

[8] I.e., the US, Japan and the UK. Currently only relevant for US federal issued sovereign instruments and Japan issued sovereign instruments. The UK as issuer is expected to be compliant with c).

State-owned companies or private companies active in ineligible States are not automatically ineligible themselves. They should be evaluated using the criteria applicable to (private) companies. However, their business activities and government relations will be relevant to take into account.

The CLA will provide label holders with a list of eligible States. The list will be updated annually (in December). Investment policies can refer to this list to demonstrate compliance instead of explicitly mentioning the criteria in b) and c).

### Comments

- World Bank Sovereign ESG Data Portal:
  - https://blogs.worldbank.org/opendata/new-resources-sovereign-esg-data-and-investors
  - http://esgdata.worldbank.org
  - https://databank.worldbank.org/source/environment-social-and-governance
  - Relevant Governance indicators: https://databank.worldbank.org/source/worldwide-governance-indicators
    - Control of Corruption: Estimate
    - Government Effectiveness: Estimate
    - Political Stability and Absence of Violence/Terrorism: Estimate
    - Regulatory Quality: Estimate
    - Voice and Accountability: Estimate
    - Rule of Law: Estimate
- UN PRI: https://www.unpri.org/investment-tools/fixed-income/sovereign-debt
- ILO Fundamental conventions: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:10011:::NO:10011:P10011_DISPLAY_BY,P10011_CONVENTION_TYPE_CODE:1,F
- International Human Rights Treaties: https://indicators.ohchr.org
- Paris Agreement: https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en
- UN Convention on Biological Diversity: https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-8&chapter=27&clang=_en (any deposit type)
- Treaty on the Non-Proliferation of Nuclear Weapons (NPT): http://disarmament.un.org/treaties/t/npt (any deposit type)
- Military Expenditures: https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS
- AML/CTF deficiencies - High-Risk Jurisdictions subject to a Call for Action (i.e. "black list"): https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html
- Corruption Perception Index: https://www.transparency.org/en/cpi/2025
- 'Freedom in the World' survey: https://freedomhouse.org/report/freedom-world

## 2.2 Securities lending

The use of securities lending shall not preclude engagement when chosen as a sustainability strategy or when required by the QS. This means that the lender should get back control over the securities to exercise his voting rights as beneficial owner. Borrowing securities with the purpose of using them to exercise voting rights as borrower is not accepted. Thus, the lenders should have the ability to recall and/or restrict securities for a certain period during the lending programme.

The lender shall have a dialogue with the custodian/agent lender about the possible integration of sustainability considerations in the securities lending criteria.

The lender shall, on a best effort basis, ensure and monitor that the securities are not used contrary to its own ESG policies and the principles of the QS. The lender shall have credible procedures in place to manage potential conflicts.

## 2.3 Unsegregated portfolios

Sustainable financial products of which the assets are not legally separated (ring-fenced), can determine a virtually separated asset pool within the larger unsegregated asset pool in such a way as to ensure that the assets underlying the sustainable financial products are traceable and correspond with the money invested in them.

### a) Composition

As for the composition of the virtually separated asset pool:

- The assets in the virtual pool shall be QS compliant. QS criteria referring to a portfolio or product shall in this context only apply to the virtual pool and not to the unsegregated portfolio, unless otherwise stated.
- The size of the virtual pool shall be equal or greater than the total value of all sustainable financial products that make use of it.
- The percentage of corporate-issued securities in the virtual pool shall, as far as technically possible, be at least as high as the percentage of corporate-issued securities in the total unsegregated asset pool.
    - This expectation should be seen as a means to safeguard the ESG materiality of the assets in the virtual pool. For specific product types, e.g. savings products, this may also be ensured via other means.

### b) Audit

As for the auditability of the virtually separated asset pool:

- QS compliant assets shall be clearly earmarked
- The compliance of the virtual pool's composition shall be independently attested
- The applicant shall explain to the Verifier its definition of corporate-like assets. If no external ESG rating of specific assets is available, a credible and robust internal methodology for assessing the ESG-quality of these assets can be applied.

### c) Transparency

In addition, the manager shall be transparent and report about:

- The asset allocation of the unsegregated asset pool
- The ESG relevant evolution of the unsegregated asset pool
- The % of unsegregated asset pool that is QS compliant

## 2.4 Saving deposit products

A saving deposit product of which the assets are not legally separated (ring-fenced) on the balance sheet, shall determine a virtually separated asset pool within the larger unsegregated asset pool in such a way as to ensure that the assets underlying the sustainable financial products are traceable and correspond with the money invested in them (See 2.3).

In addition, the manager shall indicate to what degree the depositary bank complies with the requirements on financial institutions (See 3.8)

## 2.5 Branch21 insurance products

A Branch21 insurance product of which the assets are not legally separated (ring-fenced), shall determine a virtually separated asset pool within the larger unsegregated asset pool ('main fund') in such a way as to ensure that the assets underlying the sustainable financial products are traceable and correspond with the money invested in them (See 2.3).

For Branch21 insurance products the condition under the 2nd bullet of 2.3 a) shall be checked using the following formula:

$$\frac{AUM\ of\ virtually\ separated\ asset\ pool}{AUM\ of\ unsegregated\ asset\ pool} > \frac{Mathematical\ reserve\ of\ sustainable\ Branch\ 21\ products}{Mathematical\ reserve\ of\ all\ Branch\ 21\ products\ in\ the\ unsegregated\ asset\ pool}$$

### Grandfathering

- If a fixed income position, that is part of the guarantee providing structure, was QS compliant when the position was bought but is not QS compliant anymore, the position can be held for a maximum of 5 years.
- The grandfathered fixed income positions cannot be increased and can in total not represent more than 10% of a virtually separated asset pool.
- These fixed income positions can only serve to cover existing guarantees, not to cover new guarantees for new clients. Fixed income positions covering guarantees for new clients shall be QS compliant.
- As soon as possible, without negative effects for the guarantee, the fixed income positions shall be sold.

## 2.6 Structured products

A structured product is QS compliant when all composing parts are QS compliant i.e.:

1. For the funding component (asset basket or fixed income instrument), one of the below:
   a) The issuers of the assets in the asset basket or of the fixed income instrument are QS compliant.
   b) The asset basket is a QS compliant virtually separated asset pool (see 2.3)
   c) The issuer of the (general purpose) fixed income instrument is a financial institution with headquarter in an OECD country and compliant with the QS criteria for financial institutions (see 3.8).
2. For the index component (of which the performance is swapped):
   - The index composition methodology is QS compliant.
3. For the derivative component: a swap is considered a purely technical instrument and thus ESG neutral.

Note the general rule that the Towards Sustainability label is awarded for 1 year and then expires. Products with longer maturity that want to keep using the label after the first year need to reapply and will be reassessed for QS compliance.

## 2.7 Investments in underlying portfolios

A. Portfolios that (occasionally or structurally) invest more than 10% of their total AUM in underlying portfolios, must meet the following criteria:
   a) At least 60%[9] of underlying portfolios (measured by AUM) must be portfolios that have the Towards Sustainability label.
   b) A maximum of 40% of underlying portfolios (measured by AUM) can be portfolios (without the Towards Sustainability label) that promote ESG characteristics and consider principal adverse impacts on sustainability factors[10] or that have sustainable investment as an objective (i.e. SFDR Art. '8+' or Art. 9).
   c) A maximum of 30% of underlying portfolios (measured by AUM) can be sovereign bonds portfolios (without the Towards Sustainability label) that only invest in sovereign-issued instruments issued by States compliant with the criteria for high-income economies (see 2.1 c)).

   The manager of the portfolio shall have additional qualitative and/or quantitative measures or targets in place to ensure the ESG characteristics of the top-level portfolio (e.g. a letter of commitment, a % of SFDR sustainable investments, underlying to be SFDR Art. 9 or to have other ESG-labels, exclusionary criteria, etc. or a combination thereof).
   These measures or targets should be published.

B. For portfolios that invest less than 10% of their total AUM in underlying portfolios, these underlying portfolios should be any of the following:
   a) Portfolios that have the Towards Sustainability label
   b) Portfolios that promote ESG characteristics and consider principal adverse impacts on sustainability factors[2] or that have sustainable investment as an objective (i.e. SFDR Art. '8+' or Art. 9)
   c) Sovereign bond funds that comply with criteria for high-income economies (QS 2.1c)

The manager shall report to the CLA, the % of underlying portfolios that fall in cases a), b) and c).

The part of the (top-level) portfolio that is made up of underlying portfolios and that complies with the above criteria, is deemed to be QS compliant. The other, non-technical, part of the portfolio must meet all the relevant criteria of the QS.

Underlying money market funds are considered cash-equivalent and do not have to be evaluated if their only purpose is technical or for the hedging of risks (see 4.1).

---

[9] Percentages under A.a)-c) should be calculated with the AUM that is invested in underlying portfolios as the denominator, and not the total AUM of the (top-level) portfolio as the denominator.

[10] For the meaning of 'consider' in Article 7(1), point (a), SFDR, see ESMA Consolidated Q&A, section IV: https://www.esma.europa.eu/sites/default/files/2023-05/JC_2023_18_-_Consolidated_JC_SFDR_QAs.pdf

Investing in index-based products based on broad market indices for technical reasons (hedging) is considered ESG neutral to a maximum of 10% of the portfolio.

See also, QS-aligned portfolio asset allocation under 1.1 a).

### Master-Feeder structures

Feeder funds can rely on the compliance of their master fund for their own compliance with the label. They are considered replicating the portfolio and the sustainability strategies of the master. A master's compliance thus extends to its feeders.

# 3. Sector policies (Corporate-level criteria)

## 3.0 All sectors

The manager shall evaluate any investee company (from any sector) in the portfolio on eligibility and compliance with the manager's sustainable investment policies for that portfolio.

These investment policies shall be QS-compliant (see 1.1).

For companies involved in specific activities, the QS formulates specific eligibility requirements (see 3.2-3.8).

For companies not in scope of the QS's specific eligibility requirements, the general ESG due diligence expectations and mandatory ESG strategies apply (see 1.1 b)).

## 3.1 General approach regarding sections 3.2-3.7

### a) Companies in scope

- Companies involved in harmful activities that could lead to adverse impacts on sustainability factors, or companies providing dedicated products or services to enable these activities.
  - Value chain to be taken into account:
    - i. Companies with direct involvement (e.g., via revenue or investment) in the execution of harmful activities
    - ii. Assessed on a best effort basis, companies with more than 25% of their revenues derived from bespoke products, equipment or services dedicated to enabling the execution of harmful activities. Products/services aimed at mitigating or reducing negative effects of these activities should not be included.
      - The 'bespoke' refers to the fact that generic products, equipment or services should not be considered. The products, equipment or services in scope should be specialized and dedicated to making the harmful activity possible and not be just general-purpose or unspecialized. So not in scope are e.g. provision of cleaning services, office supplies, forklifts, regular PCs & monitors etc.
    - iii. On a best effort basis, companies with more than 50% of their revenues derived from companies in i. or ii.
  - Parent-Subsidiary relationships
    - i. The eligibility of a parent company takes into account eligibility of subsidiary companies. Parent company exclusion applies to companies that own more than 50% or have operational or financial control (determined on a best effort basis) of another excluded entity.
    - ii. The eligibility of subsidiary companies is not dependent on the eligibility of the parent company.
  - An investment holding company should not be invested in a company that is excluded by the QS. Exposure to companies excluded by the QS can be assessed by best effort based on available data (e.g. holding's investment strategy, other evidence).
  - Information about the value chain and ownership can be scarce or incomplete. The manager should be able to demonstrate to the Verifier that a best effort was made to gather the data, what is done to minimize negative ESG impact when data is lacking, and that its approach is consistent.
- Indicative sector/industry classifications (see Annex 1.) are provided for illustrative purposes and do no limit the scope of the QS criteria. It is not because a company is not classified in a specific sector that QS criteria regarding a harmful activity do not apply.
- Companies involved in multiple harmful activities will need to comply with all relevant QS requirements.

## b) Eligibility criteria for companies with direct involvement

### i. Governance

Companies shall have a strategy to reduce the adverse impact of their activities and to increase their contributing activities, if applicable.

### ii. Non-expansion of adverse impact

Companies shall not increase their involvement or capacity for harmful activities.

### iii. Transition of operations

Companies shall comply with a selection of quantitative criteria appropriate to their activities.

Indicators to measure avoidance of harm:

- Absolute production of harmful products or absolute capacity for harmful activities
- Revenue/turnover derived from harmful activities
- Capital expenditures (CapEx) dedicated to harmful activities
- Other sector-relevant indicators

Indicators to measure transition:

- Ambitious measurable & auditable commitments to reduce principle adverse impacts within strict timelines
- Capital expenditures (CapEx) dedicated to contributing activities (see Annex 2.)
- Other sector-relevant indicators

Indicators can be understood as annual average over the previous 3 years, if available.

When the QS allows for a choice between indicators, this choice can be made on a company-by-company basis.

Where information relating to any of the indicators is not readily available, see 1.1 a) Data availability.

## c) Eligibility criteria for companies in the value chain

Assessed on a best effort basis, companies in the value chain shall derive less than 25% of their revenues from bespoke products, equipment or services dedicated to enabling the execution of activities.

## d) Comply or explain

During the application process and annually, as part of the annual reporting to the CLA, the manager shall inform the CLA Verifier about exposures to companies listed on CLA watchlists and explain how these are compliant with the QS.

Watchlists currently used by the CLA are:

- Coal Exit List (Urgewald)
- Global Oil & Gas Exit List (Urgewald)

As part of the Ongoing Exposure Monitoring process (see 5.3 c)), the CLA Verifier shall monitor contingent exposures of labelled portfolios to companies listed on these watchlists and can request managers to explain how these are compliant with the QS.

## 3.2 Tobacco

### a) Activities in scope

- Production of tobacco, tobacco products or e-cigarettes
- Wholesale trading of tobacco products or e-cigarettes

Indicative sector/industry and activity classifications (See Annex 1.)

### b) Eligibility criteria for companies performing activities under a)

#### i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

#### ii. Transition of operations

- The company shall derive less than 5% of its revenues from activities under a).

### c) Eligibility criteria for companies enabling activities under a)

- Assessed on a best effort basis, the company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a).

### Comments

- Tobacco Free Portfolios: https://tobaccofreeportfolios.org/

## 3.3 Weapons

### a) Activities in scope

- Manufacture of weapons[11] or tailor-made components thereof
- Sale of weapons

Indicative sector/industry and activity classifications (See Annex 1.)

### b) Eligibility criteria for companies performing activities under a)

#### i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

#### ii. Transition of operations

- The company shall have no activity related to the use, possession, development, transfer, manufacture, and stockpiling of indiscriminate or disproportionate weapons, or essential components thereof, such as: anti-personnel mines, submunitions, biological, chemical or nuclear weapons.
- The company shall derive less than 5% of its revenues from activities under a).

### c) Eligibility criteria for companies enabling activities under a)

- Assessed on a best effort basis, the company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a).

## Additional details about the QS approach to investments in the defence sector and in the weapons industry

### 1) Limited scope of exclusions

As a principle, Towards Sustainability aims to limit the scope of exclusions by being granular and specific. Therefore, there is no blanket exclusion of the entire defence industry or its value chain.

Note that the limitations prescribed by the QS only apply to products that carry the Towards Sustainability label, and in no way limit the financing of the defence and weapons industry via non-labelled products or other financing instruments.

- **Definition of 'Armaments' vs. 'Weapons':**
  - 'Armaments' refers broadly to military equipment, including protective gear and support systems.
  - 'Weapons' are more specific tools designed primarily to cause damage or harm and kill human beings.

[11] In this context a weapon can tentatively be defined as any implement or device expressly designed for the purpose of causing material damage, inflicting physical or mental harm, or to kill, in the context of a (military) conflict.

The Towards Sustainability exclusions focus on 'weapons' and their essential, lethal components.

- **Specific exclusions:**
  - **Companies directly involved in the manufacture or sale of weapons** or essential components thereof, if their revenue from these activities exceeds **5%**[12]:
    - **'Weapons'** include equipment dedicated to combat and of a lethal nature, such as such as firearms, tanks, combat aircraft, explosives, missiles, bombs, combat vehicles, unmanned combat aerial vehicles (UCAV), and ammunition.
    - **'Essential elements and components'** directly related to the lethality of weapons, as long as they are designed or modified based on military specifications. E.g. Fire control systems, projectiles, devices and sensors for trajectory calculation, target tracking systems, or localization equipment that provide targeting information.

  - Companies directly involved in the use, possession, development, transfer, manufacture, and stockpiling of **indiscriminate or disproportionate weapons** or essential components thereof. (Revenue threshold of **0%**)
    - This at least includes weapons such as anti-personnel mines, cluster munitions, biological, chemical and nuclear weapons. These weapons are characterized by their indiscriminate effects, long-term harm, and potential for disproportionate and catastrophic humanitarian and environmental impact.
    - Note that some national legislations also consider additional weapons such as depleted uranium ammunition, blinding laser weapons, non-detectable fragments, and incendiary weapons (white phosphorus)[13].

  - Assessed on a best effort basis, companies providing **bespoke products/services dedicated to enabling the manufacture of weapons** if their revenue from these activities exceeds **25%**.
    - This addresses companies further down the value chain that provide products/services that are crucial for weapons production. However, companies involved in more general services related to

[12] Note that indicators can be understood as annual average over the previous 3 years, if available. (QS 3.1 b)

[13] E.g. the Belgian 'weapons law' prohibits financing of an undertaking governed by Belgian or foreign law whose activities consist of the manufacture, the use, repair, offering for sale, sale, distribution, import or export, storage or transport of anti-personnel mines, submunitions and/or inert munitions and armour containing depleted uranium or any other industrial uranium, with a view to their proliferation, except for investments that track an index.

weapons, such as maintenance, storage, repair, testing or transportation, are not in scope.

- **What is <u>not</u> subject to the weapons exclusion:**
  - Companies in the defence industry not significantly involved in weapons production e.g., focusing on non-critical equipment for combat, cybersecurity, surveillance, communication, dual-use goods, infrastructure, or services like maintenance, training, R&D not directly tied to weapons.
    - **Non-critical equipment for combat**: e.g. recovery vehicles, naval surveillance ships, training aircraft, engines or propulsion systems for combat aircraft, vehicles, or ships, flares or training munitions, non-lethal ammunition weapons, protection or training equipment, encrypted communication systems, jamming equipment, cybersecurity equipment, aerial reconnaissance cameras, night-vision devices, radars, and communication, control, intelligence, or simulation software.
    - Equipment that can have **both civilian and military uses ('dual use')** without specific modification. This takes into account the often-limited capacity to control the dissemination of the finished weapon product.
    - Unprocessed materials that do not have a dedicated character.
  - Investments in **financial institutions**, which may provide **loans** to the defence sector, including to weapons manufacturers.

2) Sovereign exposures to the defence sector and in the weapons industry

Direct financing of defence should ideally be done via public funding. For this reason, Towards Sustainability allows for investments in sovereign debt of eligible governments, which may indirectly support national defence.

The Quality Standard also considers as eligible defence-related use-of-proceeds instruments or special purpose vehicles like defence bonds or funds, issued or established by eligible governments.

3) The indispensable role of ESG due diligence

Central to any investment strategy, particularly within sustainable finance, is a robust ESG due diligence framework. This expectation includes the defence sector. Consequently, when considering investing in defence-related instruments or companies, the implementation of an appropriate, robust, and sector-specific ESG due diligence process is critical to safeguard the core "do no harm" principle of sustainable investment. This should consider, taking into account data availability:

- Governance and Ethics: Anti-corruption policies, responsible lobbying.
- Export Controls & Dissemination Risks: Adherence to arms trade treaties, destination country human rights records.
- Human Rights: Impact on civilian populations, complicity in conflicts.

- Environmental Management: Resource use, emissions, waste from production and use.

## 3.4 Coal

### a) Activities in scope

- Thermal coal prospecting or exploration
- Extraction/mining of thermal coal
- Processing of thermal coal
- Transportation of thermal coal

Indicative sector/industry and activity classifications (See Annex 1.).

### b) Eligibility criteria for companies performing activities under a)

#### i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

#### ii. Non-expansion of adverse impact

- The company shall currently not be involved in coal exploration and not be involved in the exploitation or development of new coal mines.
- The company's absolute coal production or capacity for activities under a) shall not be increasing.

#### iii. Transition of operations

- The company shall meet at least one of the following criteria:
    - Have a near-term or net-zero target validated by the SBTi, aligned with a 1.5°C trajectory.
    - Have an annual thermal coal production less than 10Mt and derive less than 5% of its revenues from activities under a). For transportation, assessed on a best effort basis, the revenue threshold is 10%.
    - Have less than 10% of CapEx dedicated to activities under a) and not with the objective of increasing revenue.
    - Have more than 50% of CapEx dedicated to contributing activities (See Annex 2.).

### c) Eligibility criteria for companies enabling activities under a)

- Assessed on a best effort basis, the company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a)

### d) Comply or explain

- See 3.1 d), esp. Global Coal Exit List (GCEL)

### Comments

- Transition Pathway Initiative Global Climate Transition Centre (TPI Centre) – Climate assessment Publicly listed equity: Coal: https://www.transitionpathwayinitiative.org/sectors/coal-mining

- Urgewald Global Coal Exit List (GCEL): https://www.coalexit.org/, includes information on expansion

## 3.5 Unconventional oil & gas

### a) Activities in scope

- Unconventional oil and gas prospecting or exploration
- Extraction of unconventional oil and gas

This includes tar sands oil, coalbed methane, extra heavy oil and Arctic oil & gas, as well as oil & gas from unconventional production methods such as fracking or ultra deep drilling.

Indicative sector/industry and activity classifications (See Annex 1.)

### b) Eligibility criteria for companies performing activities under a)

#### i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

#### ii. Non-expansion of adverse impact

- The company shall currently not be involved in exploration and not be involved in exploitation or development of new unconventional oil or gas fields.
- The company's absolute production of unconventional oil and gas or capacity for activities under a) shall not be increasing.

#### iii. Transition of operations

- The company shall meet at least one of the following criteria:
    - Have a near-term or net-zero target validated by the SBTi, aligned with a 1.5°C trajectory.
    - Derive less than 5% of its revenues from activities under a).
    - Unconventional oil and gas production is less than 5% of total oil and gas production.
    - Have more than 50% of CapEx dedicated to contributing activities (See Annex 2.).

### c) Eligibility criteria for companies enabling activities under a)

- Assessed on a best effort basis, the company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a)

### d) Comply or explain

- See 3.1 d), esp. Global Oil & Gas Exit List (GOGEL), companies having unconventional production > 5% or having any short-term unconventional expansion.

### Comments

- Urgewald Global Oil & Gas Exit List (GOGEL): https://gogel.org/ for information on unconventional production and short-term unconventional expansion.

## 3.6 Conventional oil & gas

### a) Activities in scope

- Oil or gas prospecting or exploration
- Extraction of oil or gas
- Processing or refining of oil or gas (except oil to chemicals or gas liquification)
- Transportation of oil (not distribution)

Indicative sector/industry and activity classifications (See Annex 1.)

### b) Eligibility criteria for companies performing activities under a)

#### i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

#### ii. Non-expansion of adverse impact

- The company shall currently not be involved in exploration and not be involved in exploitation or development of new oil or gas fields.

#### iii. Transition of operations

- The company shall meet at least one of the following criteria:
    - Have a near-term or net-zero target validated by the SBTi, aligned with a 1.5°C trajectory.
    - Have an emissions intensity aligned with 1.5°C benchmark for 2030 (e.g., TPI 46.76 gCO2e/MJ[14], or other science-based alignment assessment)
    - Derive less than 5% of its revenues from activities under a).
    - Have less than 15% of CapEx dedicated to activities under a) and not with the objective of increasing revenue
    - Have more than 15% of CapEx dedicated to contributing activities (See Annex 2.)

### c) Eligibility criteria for companies enabling activities under a)

- Assessed on a best effort basis, the company shall derive less than 25% of its revenues from bespoke products, equipment or services dedicated to enabling the execution of activities under a)

### d) Comply or explain

- See 3.1 d), esp. Global Oil & Gas Exit List (GOGEL), companies having any IEA NZE Expansion Overshoot or having any Exploration CapEx (3-year average).

### Comments

- Main principle: Conclusion of the International Energy Agency (IEA) that as of now no exploration, no exploitation and development of new oil and gas fields, and no new coal-fired power stations can be built if the world is to stay within safe limits

[14] https://www.transitionpathwayinitiative.org/corporates/oil-gas

of global heating and meet the goal of net zero emissions by 2050.
IEA, Net Zero by 2050 A Roadmap for the Global Energy Sector (October 2021): https://www.iea.org/reports/net-zero-by-2050

- SBTi Guidance for the oil and gas sector (under development): https://sciencebasedtargets.org/sectors/oil-and-gas
- Transition Pathway Initiative Global Climate Transition Centre (TPI Centre) – Climate assessment Publicly listed equity: Oil & Gas: https://www.transitionpathwayinitiative.org/sectors/oil-gas
- Urgewald Global Oil & Gas Exit List (GOGEL): https://gogel.org/ for information on IEA NZE Expansion Overshoot and Exploration CapEx (3-year average).
- Transportation of oil means transportation by trucks, ships and pipelines. Distribution of oil, which is not in scope, means the supply of oil to retail customers (through fuel stations or with trucks if used for heating). Transportation of gas is not in the scope.

## 3.7 Power generation

### a) Activities in scope

- Generation of power or heat from non-renewable energy sources

Indicative sector/industry and activity classifications (See Annex 1.)

### b) Eligibility criteria for companies performing activities under a)

#### i. Governance

- The company shall have a strategy to reduce the adverse impact of its activities and to increase its contributing activities, if applicable.

#### ii. Non-expansion of adverse impact

- The company shall currently not be involved in building new coal-fired power stations.
- The company's absolute production of or capacity for coal-based power shall not be structurally increasing and be less than 5 GW.

The non-expansion criteria can temporary be ignored in case of national legal obligations in the context of energy provision security.

#### iii. Transition of operations

- The company shall meet at least one of the following criteria:
    - Have a near-term or net-zero target validated by the SBTi, aligned with a 1.5°C trajectory.
    - Have a carbon intensity aligned with 1.5°C benchmark for 2030 (e.g., TPI 0.186 tCO2e/MWh[15], or other science-based alignment assessment)
    - Derive less than 5% of its revenues from activities under a)
    - Derive more than 50% of its revenues from contributing activities (See Annex 2.)
    - Have more than 50% of CapEx dedicated to contributing activities (See Annex 2.)

### c) Comply or explain

- See 3.1 d), esp. Global Coal Exit List (GCEL)

### Comments

- Conclusion of the International Energy Agency (IEA) that as of now no new coal-fired power stations can be built if the world is to stay within safe limits of global heating and meet the goal of net zero emissions by 2050.
- Transition Pathway Initiative Global Climate Transition Centre (TPI Centre) – Climate assessment Publicly listed equity: Electricity Utilities: https://www.transitionpathwayinitiative.org/sectors/electricity-utilities

[15] https://www.transitionpathwayinitiative.org/corporates/electricity-utilities

- SBTi Guidance for the power sector: https://sciencebasedtargets.org/sectors/power
- The Quality Standard does not have specific rules for nuclear energy or natural gas-based power, but both are in scope of this section. Companies involved in these activities should also meet at least 1 of the 5 possible transition criteria under b) iii.
  - The last 2 options (revenue from or Capex to contributing activities) cannot be fulfilled by nuclear energy or natural gas-based power activities as those are not considered contributing or 'green'. Here the QS is indeed stricter than the EU Taxonomy. (See Annex 2)
  - The first 2 options (SBTi-target or science-based 1.5°C alignment) will in many cases be the most suitable for electricity utilities.
- About nuclear energy
  - Nuclear energy is not excluded, nor is the expansion of nuclear-based power capacity
  - Nuclear energy is considered neutral, i.e. not harmful but also not 'contributing' from a sustainability/environmental point of view.
    - In this regard the Quality Standard does not fully align with the EU Taxonomy, that controversially classifies nuclear power as an activity that substantially contributes to climate objectives.
    - However, activity 4.26. *Pre-commercial stages of advanced technologies to produce energy from nuclear processes with minimal waste from the fuel cycle*, is considered as contributing.
    - This deviation from the EU has as only impact that nuclear power activities 4.27 (construction and operation) and 4.28 (electricity generation) cannot be used to fulfil the last two transition options under b) iii. (revenues or capex related to contributing activities).
- About natural gas
  - Natural gas-based power is not excluded, nor is natural gas-based power expansion
  - Natural gas-based power is considered neutral, i.e. not harmful but also not 'contributing' from a sustainability/environmental point of view.
    - In this regard the Quality Standard does not fully align with the EU Taxonomy, that controversially classifies natural gas-based power/heat as activities that substantially contribute to climate objectives.
    - This deviation from the EU has as only impact that natural gas-based power activities 4.29 (electricity generation) and 4.30-31 (heat/cool generation) cannot be used to fulfil the last two transition options under b) iii. (revenues or capex related to contributing activities).
  - Note that the criteria for natural gas extraction are much more restrictive (see 3.5 and 3.6) than for natural gas-based power.

## 3.8 Financial institutions

### a) Scope

- Financial institutions (FIs) when acting as
  - Issuer of a fixed income instrument that funds a QS compliant structured product (see 2.6 1 c)) and that is not a use-of-proceeds instrument (see 4.3).
  - Depository banks of sustainable saving deposits (see 2.4).
  - Towards Sustainability Signatory (see 3.9 b))

### b) Eligibility criteria

The financial institution shall meet a number of cumulative normative, comply or explain, and disclosure expectations based on:

1. External ESG ratings
2. Current operations
3. ESG due diligence process and financing policies
4. Strategies on ESG themes
5. Adherence to (international) frameworks and standards, involvement in sectoral initiatives
6. Disclosures and reporting

Note that many of the requirements overlap and will be fulfilled simultaneously.

Restrictive criteria
- ESG rating in top 50% (2 sources)
- No new loans/underwriting to coal sector > 2030 maturity

Comply or Explain (mandatory +500 empl.)
- UN PRB/PRI/PSI signatory
- OECD Guidelines financial sector
- TCFD recommendations
- NFRD Climate reporting

Strategy & Policies
- ESG risk & sector policies
- Climate alignment strategy

Disclosure & reporting
- Sustainable finance activities
- Share renewables in energy credit/loan portfolio
- Amount loans/underwriting to fossil fuel sector (except use of proceeds)
- Own GHG emissions (scope 1, 2, (3))
  - *Portfolio GHG intensity (credit/investment portfolio)*
- CSR report
- NFRD, SFDR and Taxonomy mandatory disclosures

#### 1. External ESG ratings

a. The overall ESG rating of the FI, as calculated by 2 rating agencies, recognized by the CLA, rank in the top 50th percentile of its sector. FI's without external ratings or with less than 500 employees can provide the CLA with an equivalent assessment.

b. The name of the rating agencies, the actual percentiles and the dates[16] of calculation shall be disclosed.

#### 2. Current operations

a. The FI shall report on its sustainable finance activities[17]:

[16] Max. 1 year old

[17] In million EUR + annual growth

- 'Environmental' finance: Financing[18] of activities contributing to the EU environmental objectives[19]. The FI shall disclose how and to what extent its activities are associated with economic activities that qualify as 'environmentally sustainable'[20]
- 'Social' finance: Financing of healthcare, education and other activities contributing to social objectives
- 'Sustainable' products (savings, investment, insurance) distributed + the share of these products in the total

b. The FI shall not grant (new) general unqualified corporate loans to companies and not underwrite (new) unqualified general bonds from companies in the 'coal sector'[21] that are not QS compliant (see 3.4), with a maturity later than 2030 for European and OECD countries and 2040 for non-OECD countries. Dedicated 'green' loans[22] and 'green' use-of-proceeds bonds are allowed.

c. The FI shall disclose the share of its total credit/loan portfolio that consists of general corporate loans to companies, and underwritten general bonds from companies in the 'fossil energy sector'[23].

d. The FI shall disclose the share of its total energy credit/loan portfolio financing renewable energy.

e. The FI shall disclose scope 1 and scope 2 greenhouse gas emissions of its operations. Disclosure of scope 3 greenhouse gas emissions on a best effort basis is encouraged.

3. ESG due diligence process and financing policies[24]

a. The FI shall implement the OECD Guidelines for Multinational Enterprises - Responsible business conduct in the financial sector[25], as far as applicable. Mandatory if +500 employees else, if not, the FI shall explain why.
    - Due Diligence for Responsible Corporate Lending and Securities Underwriting[26]
    - The Responsible Business Conduct for Institutional Investors[27]

---

[18] E.g., via loans (corporate and mortgages), bonds, project finance, insurance

[19] See Taxonomy Regulation art. 9: (a) climate change mitigation; (b) climate change adaptation; (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems.

[20] See Taxonomy Regulation art. 8 §1

[21] ISIC (Rev. 4)/NACE (Rev. 2) codes 05, 06, 09.1 and 19; GICS 1010 + Companies listed on the Global Coal Exit List (https://coalexit.org/).

[22] See LMA Green Loan Principles https://www.lma.eu.com/sustainable-lending

[23] See definition 'fossil fuel sectors' in SFDR RTS art 1 (2): sectors of the economy which produce, process, store or use fossil fuels as defined in Article 2(62) of Regulation (EU) 2018/1999 = 'fossil fuel' means non-renewable carbon-based energy sources such as solid fuels, natural gas and oil.

[24] See also SFDR RTS Annex I - Principal adverse sustainability impacts statement

[25] http://mneguidelines.oecd.org/rbc-financial-sector.htm

[26] http://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.htm

[27] http://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf

b. The FI shall formalise and publish policies on how it considers and monitors the following in its financing decisions:
   - Human rights
   - Labour rights
   - Biodiversity
   - Water
   - Waste
   - Corruption
   - Taxation
   - Diversity and equality (gender and other)
   - Fair and sustainable remuneration

c. The FI shall formalise and publish policies on financing companies active in the following sectors:
   - Weapons industry
   - Tobacco industry
   - Coal industry
   - Oil & gas energy industry
   - Power generation industry

d. The FI shall formalise and publish policies on how it considers the following in its own operations:
   - Diversity and equality (gender and other)
   - Fair and sustainable remuneration
   - Taxation

4. Strategies on ESG themes
   a. The FI shall formalise and publish a strategy about its role in tackling climate change. This strategy will include actions aimed at avoiding significant harm to as well as significantly contributing to the objectives of climate change mitigation and climate change adaptation.

5. Adherence to (international) frameworks and standards, involvement in sectoral initiatives
   a. The FI shall be a signatory of the UNEP FI Principles for Responsible Banking[28] (for banks), UNEP FI Principles for Sustainable Insurance[29] (for insurance companies) or UNEP FI Principles for Responsible Investing[30] (for asset managers), as far as applicable. Mandatory if +500 employees else, if not, the FI shall explain why.
   b. The FI shall list other initiatives it is involved in and standards it follows[31].

[28] https://www.unepfi.org/banking/bankingprinciples/
[29] https://www.unepfi.org/psi/
[30] https://www.unpri.org/
[31] E.g., Net-Zero-banking Alliance (NZBA), Principles for Responsible Banking (UN PRB), Climate Action 100+ (CA100+), Race to Zero, Equator Principles, IFC Performance standards, PACTA,

6. Disclosures and reporting
   a. The FI shall publish a CSR or integrated report, preferably using an accepted framework (e.g., GRI).
   b. The FI shall disclose if and to what degree it implements the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Mandatory if +500 employees else, if not, the FI shall explain why.
   c. The FI shall comply with the legal requirements of the Non-Financial Reporting Directive (2014/95/EU), as far as applicable.
   d. The FI shall report climate-related information in line the EC Communication C(2019) 4490: Guidelines on reporting climate-related information for implementing Non-Financial Reporting Directive (2014/95/EU), esp. Annex I: Further guidance for banks and insurance companies and the KPI's mentioned in section 5. If it does not yet, the FI shall explain why.
   e. The FI shall comply with the legal requirements of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ('Disclosure Regulation'), esp. the entity-level disclosures, as far as applicable.
   f. The FI shall comply with the legal requirements of Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment ('Taxonomy Regulation'), as far as applicable.

## Comments

- Transition Pathway Initiative Global Climate Transition Centre (TPI Centre) – Climate assessment banks: https://www.transitionpathwayinitiative.org/banks
- Report from the United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities - Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions (November 2022): https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

PCAF, Collective Commitment to Climate Action, Tobacco Free Portfolios, Tobacco-Free Finance Pledge, Wolfsberg Principles, Finance for Biodiversity Pledge, Febelfin Gender Diversity in Finance charter, etc.

## 3.9 Label holders

### a) Label holders

- Label holders shall publish a decarbonisation strategy or 1.5°C pathway at the entity level, if any.
- Label holders shall report:
  - Which net zero or 1.5°C alignment framework is used, if any
  - What % of holdings meet thresholds for being aligned or aligning, and what (interim) targets/milestones are set, if any (E.g., % with near-term or long-term SBTi 1.5°C targets, comparisons with TPI pathways, temperature scoring)
  - Whether the strategy and the targets, if any, are externally verified and if yes, by whom
  - What % of financed emissions is engaged with
- Label holders shall report to the CLA the proportion of labelled products
  - in the total of (investment) products they promote as 'ESG' (SFDR art. 8 or 9)
  - in the total of (investment) products they manage

### b) Signatories

'Towards Sustainability' Signatories shall comply with the criteria for financials (3.8), except for the ESG ratings criterium.

# 4. Clarifications

## 4.1 Cash or cash equivalents, crypto currencies, precious metals

Cash positions do not have to be evaluated if their only purpose is technical or for the hedging of risks.

If held as a source of return or in the case of technical cash positions beyond the 20% cap (see 1.1 a), the depository bank shall comply with the QS criteria for financial institutions (see 3.8). In this case, the cumulation of UNEP FI Net Zero Banking Alliance (NZBA) membership and the existence of science-based greenhouse gas (GHG) emission reduction targets by the financial issuers, can be used as a proxy for the 3.8 criterium regarding the thermal coal loan and underwriting policies.

Crypto currencies (or assets) are not allowed unless within a recognized regulatory framework. Also, given the huge energy use of Proof of Work mining (e.g., Bitcoin, Ethereum), this is considered incompatible with a sustainable portfolio.

Exposure to gold as a commodity (so not gold mining companies), e.g. via an ETC, can be considered a cash-like asset and can be included in the portfolio as a technical asset for diversification or hedging reasons. If exposure to gold and/or other precious metals is part of the investment strategy of a product (strategic allocation with the intention to generate additional returns) there should be a positive selection based on sustainability factors.

## 4.2 Derivatives

The use of derivatives cannot be at odds with the sustainable character of the portfolio. This means that the potential (indirect) negative impact on sustainability factors of using/investing in derivatives shall be taken into account.

The manager shall disclose if derivatives are used to attain the ESG characteristics or the sustainable investment objectives of the portfolio, and if yes, how.

Derivatives that are solely used as a technical tool in the context of efficient portfolio management or for hedging purposes with regard to currency risk, duration risk, market risk or/and sensitivity to changes in interest rate structures can be excluded from ESG evaluation.

If used as a source of return, the issuer of the underlying assets shall be evaluated. When the underlying of the derivative is an index, the index shall be QS compliant (see 4.7). However, derivatives on the portfolio's reference (sub)benchmark (or an equivalent broad market benchmark) are temporary allowed to a maximum of 10% of the portfolio.

Replacing a direct investment risk with a derivative investment in that risk does not take away the need for ESG due diligence of the direct investment. Derivates shall not be used to circumvent QS criteria applicable to direct exposures.

The manager is encouraged to perform ESG due diligence on the counterparties.

Derivatives on agricultural commodities for speculative reasons are not allowed.

The manager shall describe the nature of the derivatives used, the average proportion of the portfolio concerned, the ESG analysis made of the underlying and counterparties (when applicable), the strategy (market hedging, liquidity management, additional performance, etc.) and whether the derivative has an effect on the ESG performance of the portfolio.

To calculate the proportion of derivatives in a portfolio to determine ESG materiality and ensure a minimum proportion of direct investments subject to ESG screening, it is most appropriate to use the market or accounting values.

## 4.3 Use-of-Proceeds instruments

Use-of-proceeds instruments shall meet the following criteria:

a) Use-of-proceeds instruments shall comply with an appropriate framework (e.g., ICMA/CBI/EU GBS/LMA) and be subject to independent external review. For some specific issuers, supranational institutions and agencies, this might not be possible. In that case, elaborate on equivalence (see c.).
b) Issuers and beneficiaries of use-of-proceeds instruments shall be subject to the ESG due diligence process of the manager. The environmental, social and governance aspects of the financed programs/projects shall be taken into account when investing in use-of-proceeds instruments.
c) The evaluation of use-of-proceeds instruments issued by financial institutions, sovereigns and supra-nationals is left to the discretion of the manager.

Use-of-proceeds instruments issued by companies that fail the eligibility criteria in 3.4-3.7, can be eligible as long as the governance criterium (b) i) is met and particular attention is given in the ESG due diligence process to these companies' overall transition efforts.

Use-of-proceeds instruments issued by sovereigns that fail the criteria of 2.1 can be eligible.

While all types of bonds issued by QS compliant issuers are in any case eligible, if the manager promotes investments in use-of-proceeds bonds as a strategy, all use-of-proceeds instruments in the portfolio shall comply with the above criteria.

### Comments

- EU Green Bond Standard: https://eur-lex.europa.eu/eli/reg/2023/2631/oj/eng
- ESAs Joint Questions and answers (Q&A) on the SFDR Delegated Regulation (November 2022): https://www.esma.europa.eu/sites/default/files/library/jc_2022_62_jc_sfdr_qas.pdf , Question V.2 on taxonomy-alignment and PAI impacts from use-of-proceeds instruments on the project-level

## 4.4 Short selling

The QS, as a principle, does not a priory exclude the use of specific investment or portfolio management techniques, as long as the use of the technique is not contrary to the ESG characteristics or objectives of the portfolio and does not benefit unsustainable issuers.

- Short positions shall be used with the objective to trade on ESG concerns over e.g., corporate governance, environmental issues, or alleged human rights abuses, and aimed at exposing failings of issuers and bolstering market transparency for investors.
- Shorting cannot be used as a means to improve the ESG characteristics of a portfolio (e.g., offsetting carbon footprint).
- The decision to go short should also be driven by ESG considerations and not solely with the aim to generate additional performance.
- The manager shall be transparent about the objectives and motives of short selling and have in place a monitoring system to detect potential negative impacts of using this technique on the ESG quality of the portfolio.

The use of short selling will be indicated on the Sustainability ID.

## 4.5 Real Estate portfolios

Real estate portfolios shall have in place an appropriate ESG due diligence and evaluate their real estate investments using an appropriate framework that determines contribution to ESG objectives and avoidance of negative ESG impact.

This framework shall at least take into account:

- Energy efficiency
- Water use
- Material use, recycling, waste and circular economy
- Location e.g., mobility score

Real estate and infrastructure investments shall not be linked to the business activities of issuers that are not compliant with the QS.

Next to environmental factors, also social and governance factors should be taken into account where relevant. Such as:

- Asset health and safety
- Community engagement, local impact and development programs
- Role of highest governance body and executive-level responsibility for ESG topics

## 4.6 Index-based products

Index-based products (e.g., ETFs) are compliant with the QS if the underlying index is QS compliant, and if they meet the expectations on corporate engagement and shareholder action (see 1.1 f)).

Investing in index-based products based on broad market indices for technical reasons (hedging) is considered ESG neutral to a maximum of 10% of the portfolio.

## 4.7 Indices

To be considered QS compliant, the construction of the index shall comply with one of the following:

- The index construction rules integrate the QS requirements on sustainability strategies (see 1.1), except for corporate engagement (see 1.1 f)).
- The index is an EU Paris-Aligned Benchmark and compliant with 3.3 Weapons.

If rebalancing is required to have an index become compliant with the QS, the rebalancing shall at the latest be effective 3 months after the approval.

Applications for the labelling of indices shall be made by the index provider/manufacturer (and not only by the manager of a portfolio that uses the index). Applications for the approval of indices (without labelling at the index level) for use by a portfolio, can be requested by the manager.

## 4.8 Prospectus or equivalent

A product applying for the Towards Sustainability label must either be a product promoting environmental or social characteristics (in the sense of art. 8 of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 - SFDR) or a product with sustainable investment objectives (in the sense of SFDR art. 9), or analogous if the product is not in scope of the SFDR. This information will be mentioned on the Sustainability ID.

The description of the ESG characteristics and/or objectives of the portfolio in pre-contractual disclosures shall be compliant with the requirements of the SFDR, or analogous if the portfolio is not in scope of the SFDR.

The prospectus shall specify that all dimensions of ESG i.e., environmental, social and governance, are taken into account in the investment strategy.

Adapting official documents and approval by regulators can take considerable time. To apply for the label, the intention to modify these documents and a concrete timing can suffice.

A prospectus that is still in the process of regulatory approval is not considered a blocking issue for awarding the label. However, the final draft prospectus must be compliant and available for verification.

## 4.9 Disclosure of policies

### A. Mandatory issues

The manager or distributor shall publish on its website, preferably on a dedicated webpage:

a) A detailed description of the implementation of the sustainability strategies used by the portfolio (See 1.1)
b) A statement about how climate change and Paris alignment is taken into account and how the manager contributes to supporting the goal of net zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. (See also 3.9)
c) Policies about sectors for which the QS has specific requirements (See 3.2-3.7):
    1. Tobacco
    2. Weapons
    3. Coal
    4. Unconventional oil & gas
    5. Conventional oil & gas
    6. Power generation, incl. nuclear energy
d) Sovereign issuers policy (See 2.1)
e) Policies about other key ESG issues:
    1. Biodiversity (e.g., deforestation, palm oil)
       The policy shall explicitly address the issues of deforestation, land grabbing, overfishing, as far as relevant to the portfolio.
       Particular care should be taken with regard to the mining, agriculture, forestry, and fishing sectors, as far as relevant to the portfolio.
    2. Water use
    3. Pollution & waste (e.g., plastics)
       The policy shall explicitly address the issues of single-use plastics, as far as relevant to the portfolio.
    4. Gender & diversity
    5. Taxation
    6. Oppressive regimes (State and company level)
    7. Death penalty
    8. Forward contracts on agricultural commodities
f) When not already covered in a) to d), policies about other issues of principle adverse impact about which disclosure is required by the SFDR RTS (Annex I table 1)
g) Policies about other ESG issues that are material to the portfolio.

When issues under b), c), d) or e) are not relevant to a portfolio, this shall be formally stated and explained.

When the investment policy of a portfolio explicitly excludes investing in a sector listed in c), a policy on that sector is not required.

## B. Optional issues

The manager or distributor is invited to publish on its website, preferably on a dedicated webpage:

a) When not already covered, policies about other issues of principle adverse impact about which disclosure is encouraged by the SFDR RTS ((EU) 2022/1288, Annex I tables 2 & 3)

b) Policies about other issues commonly addressed in values-based investing:

9. Alcohol
10. Gambling
11. Adult entertainment
12. Cannabis
13. Animal testing
14. Genetically modified organisms (GMOs)
15. etc.

## C. Scope of policies

The policies shall at least be applicable to the labelled portfolio. The manager can also refer to policies applicable on the level of a range of products or on the level of the manager.

## D. Format of policies

The detail of the policies should be relative to the materiality of the issues for the portfolio.

Policies about issues for which the QS sets detailed requirements or expectations, shall clearly reflect these requirements or expectations. For other key ESG issues, a policy could range from a very restrictive approach to a statement that the issue is integrated in the ESG due diligence process.

A policy document shall describe the policy on the issue, and by which processes and criteria the issue is evaluated e.g.: a description of the metrics, thresholds, exemptions and the sources used in the evaluation. Reference can be made to the general ESG due diligence process, but a useful level of detail on the specific issue should be provided.

The different issues can be covered in separate policy documents or can be bundled in one or more documents.

Legally mandatory disclosures and reporting can be used to fulfil the disclosure requirements of the QS.

## 4.10 Disclosure of indicators

The manager shall provide to the CLA, on the portfolio level:

- GHG emissions (absolute GHG) [*SFDR PAI 1.1*]
- Carbon footprint (GHG per million EUR invested) [*SFDR PAI 1.2*]
- GHG intensity of investee companies (GHG per million EUR revenue) and of sovereigns (GHG per million EUR GDP) [*SFDR PAI 1.3 & 1.15*]
- Fossil fuel sector exposure, split in (fossil) energy sector exposure and (fossil) electricity utilities sector exposure [*SFDR PAI 1.4 + 1.5*]
- SFDR portfolio info: [*SFDR RTS Art. 15-16, 18-21*]
    - proportion of 'sustainable investments' as defined in Article 2, point (17) of the SFDR Regulation (EU) 2019/2088
    - proportion of the investments of the financial product used to attain the environmental or social characteristics promoted
    - remaining proportion of investments
- Taxonomy info: proportion invested in environmentally sustainable investments as defined in Article 2, point (1) of the Taxonomy Regulation (EU) 2020/852) [*SFDR RTS Art. 17*]
- % of underlying funds (by AUM) that does not have the Towards Sustainability label (see 2.7)

The CLA will integrate the indicators in the Sustainability ID.

# 5. Supervision

## 5.1 The Towards Sustainability Labelling Agency (CLA)

The Towards Sustainability label is managed by the Towards Sustainability Labelling Agency (officially, Central Labelling Agency of the Belgian SRI label, abbr. as CLA). The CLA is a not-for-profit association incorporated under Belgian law (0730.567.475 RPR Brussels). Its goal is to enlarge the impact and substance of sustainable saving and investing, and to substantially strengthen the qualitative approach to sustainable financial products.

The CLA bodies involved in the supervision of the label are:

1. The Board of Directors, which supervises the CLA, updates the Quality Standard, and awards the Towards Sustainability label.
2. The Eligibility Commission, which advises the Board of Directors on awarding the Towards Sustainability label to individual products based on the assessment reports received from the independent Verifier, and that develops and proposes technical changes to the Quality Standard.

In addition, the Board of Directors can set up Advisory Commissions to foster an open unbiased dialogue between experts, where technical views, practical experience and common sense inform the debate on sustainable savings and investments, and how this can inspire the evolution of the Quality Standard.

### a) Board of Directors

The CLA is governed by a Board of Directors consisting of members from outside the financial sector e.g., academia and civil society, and members from the financial sector. The number of Financial Sector Directors cannot exceed the number of Independent Directors. The chair is always an Independent Director.

The Board of Directors is responsible for all the tasks and duties conferred to it under the Code of Companies and Associations (the "CCA") and the articles of association. All board members should uphold the highest standards of integrity and probity. In addition, the Board of Directors has three main tasks:

#### Supervise the CLA

The Board of Directors supervises the operations of the CLA and the procedures governing the labelling process. It so ensures the proper functioning and credibility of the 'Towards Sustainability' label. The Board may initiate and decide upon any actions towards realising the aims of the CLA.

#### Update the Quality Standard

The Board of Directors ensures that the Quality Standard remains compatible with regulatory and market developments. The Board of Directors decides upon changes to the Quality Standard based on proposals by the Eligibility Commission.

#### Award the Towards Sustainability label

The Board of Directors decides on the awarding of the 'Towards Sustainability' label to individual products, based on the advice received from the Eligibility Commission. In its decision-making the Board of Directors will focus on safeguarding the internal coherence of the advice received from the Eligibility Commission and on the integrity of the awarding process.

### b) Eligibility Commission

The assessment of the products applying for the label will be performed by the Eligibility Commission. The commission consists of experts from the financial sector and from the non-financial sector e.g., academia and civil society. The number of Financial Sector Experts cannot exceed the number of Independent Experts. The chair is always an Independent Expert.

The Eligibility Commission will advise the Board of Directors on awarding the 'Towards Sustainability' label to individual products, based on the assessment reports received from the independent Verifier.

It also develops and proposes technical changes to the Quality Standard to the Board of Directors.

## 5.2 The Verifier

Independent expert verification is essential for the credibility of any label. The CLA has appointed a Verifier for this task. The Verifier is independent of the CLA. It is appointed by the CLA to perform the technical and in-depth verification and monitoring of the alignment of the products applying for the Towards Sustainability label.

The Verifier currently is a partnership of Forum Ethibel, ICHEC Brussels and the University of Antwerp and it checks whether all products meet the conditions of the Towards Sustainability Quality Standard.

FORUM ETHIBEL

Forum Ethibel is a non-profit organisation with 30 years of experience in ESG auditing and certification.

ICHEC BRUSSELS MANAGEMENT SCHOOL

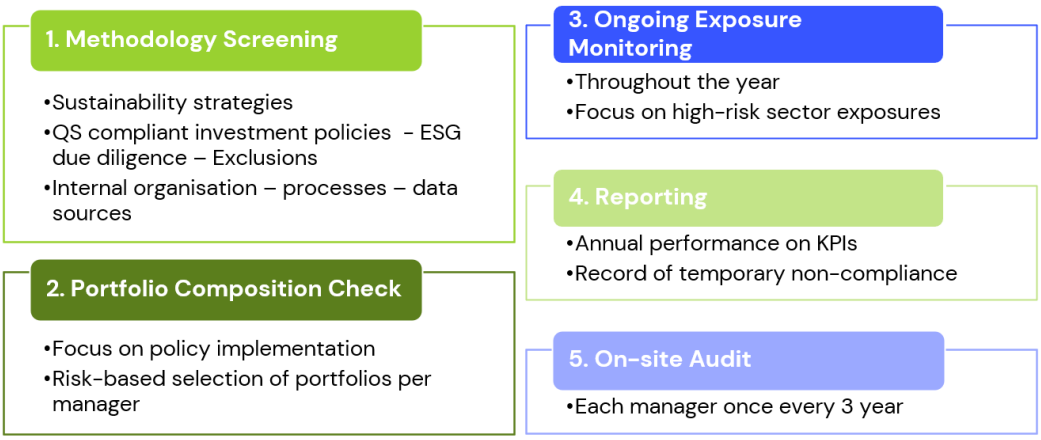
ICHEC Brussels Management School is a Brussels-based management school focussed on transversal research and developing transdisciplinary expertise such as sustainable business models and sustainable finance.

Universiteit Antwerpen

The Faculty of Business and Economics of the University of Antwerp provides high-quality academic education and scientific research in management and economics, with a focus on sustainability and internationalization.

## 5.3 Verification layers

The verification of portfolios on compliance with the Quality Standard by the Verifier is performed on multiple levels an on multiple moments.




### a) Methodology screening

As part of the initial label application and biennial renewal application, the Verifier will perform an in-depth analysis of the manager's ESG due diligence process and investment policies on compliance with the expectations of the Quality Standard. This analysis is based on the information provided by the manager in its application file, in additional questionnaires and in bilateral meetings with the Verifier. In between biennial methodology screenings, the Verifier will focus its analysis on those portfolios in which material changes have occurred since the last screening.

### b) Portfolio composition check

Simultaneous with the methodology screening, the Verifier will perform a portfolio composition check on 10% of the applications per manager. The selection of the portfolios is risk-based taking into account the nature of the product and its exposure to specific sectors or regions. The portfolio composition check examines the application of the mandatory and additional ESG strategies (see 1.1 b)) on each position in the portfolio. Moreover, the Verifier will assess whether and how the positions in the portfolio are compliant with selected do no harm criteria.

### c) Ongoing exposure monitoring

On an ongoing basis, the Verifier will regularly monitor all labelled portfolios for specific positions and exposures that could raise questions on how these can be reconciled with the criteria of the Quality Standard. For this exercise, the Verifier will make use of external ESG data providers and watchlists (see 3.1 d)) but is not limited to these. Exposures for which QS compliance cannot be credibly explained by the manager, need to be divested as soon as possible, minimizing potential negative financial impact for the investor but in any case, within 3 months.

### d) Annual reporting

Each year, as part of the label renewal or extension, the manager provides the Verifier with a record of cases of temporary non-compliance and of the corrective measures taken.

### e) On-site audit

Each manager is visited on-site by the Verifier team once every three years. During this on-site audit the Verifier assesses the manager's internal ESG organisation, the operation of its ESG screening procedures and processes, the data sources used, the practical organisation of its engagement and voting efforts, etc. The Verifier's observations are written down in a report that is shared with the CLA's Eligibility Commission. It is also shared with the manager as a guide for improvement.

## 5.4 Non-compliance

In case of changes to a portfolio at the initiative of the manager, which are significant to its socially responsible or sustainable character and can impair compliance with the Quality Standard, a period of 3 months is granted to ensure compliance with the Quality Standard.

In case of temporary non-compliance of specific assets in the portfolio beyond the control of the manager, the manager shall evaluate the source, the degree, the impact and the expected duration of the non-compliance. He shall have in place procedures with corrective measures aimed at re-establishing compliance as soon as reasonably possible. A temporary, non-structural non-compliance with certain provisions of the Quality Standard will not lead to a suspension or withdrawal of the label.

The manager shall keep a record of significant cases of non-compliance and of the corrective measures taken. This record shall be provided to the CLA annually.

# Annexes

## 1. Potentially harmful activities and related sectors/industries

Sector/industry classifications are provided for illustrative purposes and do no limit the scope of the QS criteria.

Potentially harmful industries and activities about which the QS requires specific sector policies (see 3.):

- Tobacco: GICS 30203010; ICB 451030; TRBC 54102030; NACE 01.15, 12, 46.35
- Aerospace & Defence / Weapons: GICS 201010; ICB 502010; TRBC 521010; NACE 25.4, 30.4
- Energy: GICS 101010, 101020; ICB 601010; TRBC 5010; NACE 06, 09.1, 19, 35.21
    - Coal: GICS 10102050; ICB 60101040; TRBC 501010; NACE 05, 19
    - Unconventional oil & gas: TRBC 5010202015, 5010301015
- Utilities (Power generation): GICS 551010, 551020, 551030, 55105010; ICB 651010; TRBC 5910101012, 5910101013, 5910102011, 5910102013, 59102010; NACE 35.1

This list does not limit other material harmful activities or activities with potential adverse impacts on sustainability factors, to be considered in the ESG due diligence and engagement process.

## 2. Contributing activities

- Economic activities included in the EU Taxonomy except for the following activities that were included by the Complementary Climate Delegated Act:
    - 4.27 Construction and safe operation of new nuclear power plants, for the generation of electricity or heat, including for hydrogen production, using best-available technologies
    - 4.28 Electricity generation from nuclear energy in existing installations
    - 4.29 Electricity generation from fossil gaseous fuels
    - 4.30 High-efficiency co-generation of heat/cool and power from fossil gaseous fuels
    - 4.31 Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system
- Other economic activities (not yet in the EU Taxonomy) that contribute to environmental or social objectives.
    - The activities shall clearly and concretely contribute to any of the EU environmental objectives or the Sustainable Development Goals (SDGs).
    - The product manager shall disclose the sectors/activities it considers as contributing and describe how these contribute to the selected objectives or goals.
- Contributing activities shall take into account the Do No Significant Harm criteria and the Minimum Safeguards of the EU Taxonomy Regulation, as far as not already implied by the QS.

## 3. Sectors with elevated risks of significant harm to sustainability factors

Sector/industry classifications are provided for illustrative purposes and do no limit the scope of the QS criteria.

a) High-impact sectors form a sustainability due diligence point of view:
   - Textiles manufacture and wholesale: GICS 252030; ICB 55101020; TRBC 532020; NACE 13
   - Agriculture/fishery and wholesale: GICS 15101030; GICS 20106015; GICS 30202010; GICS 30101020 ICB 45102010; TRBC 54102010; NACE 01; NACE 03
   - Mineral resources extraction, basic products manufacture and wholesale: GICS 151040; ICB 551020; ICB 551030 TRBC 5120; NACE 07

b) As far as not already included in a):
   - Sectors involved in activities subject to limitations (Weapons, Tobacco, Coal, Oil & Gas, Power generation) (See Annex 1.)
   - Other carbon-intensive & high-emitting sectors (e.g., cement, shipping, aviation):
     - GICS 15102010; GICS 203030; GICS 203010; GICS 203020
     - ICB 50101030; ICB 50206030; ICB 40501010
     - TRBC 5120201012; TRBC 52405020; TRBC 52406010
     - NACE 23.51; NACE 50.2; NACE 51