

LuxFLAG Microfinance Label

Eligibility Criteria

In order to obtain a LuxFLAG Microfinance Label, an Applicant Investment Fund must comply with the following Eligibility Criteria set by LuxFLAG.

Criteria 1 – Microfinance Portfolio: The Applicant Investment Fund must have a microfinance portfolio corresponding to at least 50% of the MIV's total assets¹.

Criteria 2 – Social Performance: The Applicant Investment Fund must determine its social performance objective and report accordingly. LuxFLAG reserves the right to independently assess and evaluate compliance with the above mentioned criteria.

Criteria 3 – External Validation: The Applicant Investment Fund must have at least 50% of its microfinance portfolio invested in MFIs rated by an independent microfinance rating agency recognized by LuxFLAG or regulated/supervised by competent local authorities.

Criteria 4 – Disclosure: The Applicant Investment Fund must comply ²with the disclosure requirements defined under Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

Criteria 5 – Exclusion: The respective Asset Manager of the applicant investment fund should develop exclusionary criteria.

Criteria 6 – Legal Requirements: The Applicant Investment Fund must comply with the following legal and governance criteria:

- Take the form of a distinct legal entity;
- Segregate the functions of custody and management of assets;
- Regularly report and publish audited financial and other information for investors (Minimum annual reporting);
- Apply the principle of risk diversification³.

¹ LuxFLAG's Board of Directors may permit allowance to be made in this calculation (a) under certain exceptional circumstances (including, but not limited to committed investments, market constraints, portfolio or capital reorganizations,...), for balances of cash or cash equivalents which are temporarily unusually high and (b) for central bank deposits required to be made by investee entities, whose ability to on lend the full amount invested by the applicant is thereby restricted. In both cases, the applicant must duly justify the application of the allowance to the calculation.

² LuxFLAG envisages a transition period for the full compliance during the course of 2021.

³ This criterion does not apply to entities specialized in risk capital

Fund Regulation: The Applicant Investment Fund must be authorized by an EU Member State or subject to supervision equivalent to that in EU Member States;

If the Applicant Investment Fund Manager itself is not authorized:

- a. the Applicant Investment Fund must have a custodian that must be subject to supervision equivalent to that in EU Member States;
- b. the Applicant Investment Fund Manager must be registered by a EU Member State or subject to supervision equivalent to that in EU Member States. Equivalence with non-European regulation will be checked with ESMA and the EU Commission

Criteria 7: Seek a return on investment.