BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

Sustainable Finance Disclosure Regulation: the old and the new

EXECUTIVE SUMMARY

What is the SFDR and what does it currently require?	The SFDR is a transparency requirement for investors about the sustainability risks that can affect the value of and return on their investments. It requires financial market participants and financial advisers to disclose how they integrate sustainability risks and principal adverse impacts in their processes at both entity and product levels. However, there are multiple shortcomings, which negative affect investors, their trust in sustainable and ESG products, as well as the overall sustainable finance capital flows, including but not limited to greenwashing and misselling.
Role of simple disclosures	BETTER FINANCE has been a strong advocate for clear and easy to understand precontractual templates and documentation. Unfortunately, the SFDR templates are unnecessarily long and can be very confusing. The purpose of the templates is to inform end-users of the products' key sustainability features, but the **emphasis should also be placed on the products sustainability in short/medium and long-term assessing its expected impact and contribution to emission reduction, transitioning to a greener business model and/or any other progression of social/climate indicators.**
What are Articles 6,8 and 9 under the current SFDR?	In broad terms, Articles 6, 8 and 9 correspond respectively to: • funds without a sustainability scope (for example investing in stocks currently excluded by ESG funds like tobacco); • funds that promote environmental or social characteristics, whereby companies into which the fund invests follow good ESG practices; • and funds that have sustainability investment as their exclusive objective and aim to make a positive impact. Since the SFDR is a disclosure related regulation aimed at increasing transparency and not a labelling requirement with set criteria, there are various ways in which funds may interpret the extent of promoting environmental and social characteristics, and retail investors are therefore left navigating those differences without much guidance.
New categories	The European Commission is considering two approaches for designation of categories: **Approach 1**: Splitting categories in a different way than according to existing concepts used in Articles 8 and 9, for example, focusing on the type of investment strategy of the product (promise of positive contribution to certain sustainability objectives, transition, etc.) based on criteria that do not necessarily relate to those existing concepts. **Approach 2**: Converting Articles 8 and 9 into formal product categories, and clarifying and adding criteria to underpin the existing concepts of environmental/social characteristics, sustainable investment, do no significant harm, etc. BETTER FINANCE supports the first approach (new categories). Introducing two broad categories like "Impact Target" and "Transition Target" can firstly better resonate with retail investors' expectations i.e seeking to invest with values and therefore to aim to have a positive impact in the short/medium and long term; or seeking to invest in companies that are not sustainable as of yet, but are on their way to (transition) become as such in the medium and long term. In a non-hierarchical categorisation of "Impact" and "Transition", investors can easily identify which assets align better with their preferences before investing in them.

Introduction

The Sustainable Finance Disclosures Regulation (SFDR) started applying in March 2021 and requires financial market participants and financial advisers to disclose at entity and product levels how they integrate sustainability risks and principal adverse impacts in their processes at both entity and product levels. It also introduces additional product disclosures for sustainable financial products making sustainability claims.

The main topics to covered in the questionnaire and BETTER FINANCE's summary include:

1. current requirements of the SFDR
2. interaction with other sustainable finance legislation
3. potential changes to the disclosure requirements for financial market participants
4. potential establishment of an explicit categorisation system for financial products instead of the "articles 6/8/9" existing one

Section 1. Current requirements of the SFDR

Despite the purpose of the SFDR, to improve transparency in the market for sustainable investment products and to prevent greenwashing practices, we are witnessing the regulation's use as a labelling exercise due to the fact that funds and asset managers have plenty of leeway to interpret ESG credentials in various ways and switch back and forth between Article 6, 8 and 9 of the SFDR.

The scope of what constitutes "characteristics" and "objective" is not easy to differentiate in the current system. This is challenging to interpret for more experienced retail investors, let alone others. With the pre-disclosure templates now exceeding 5 pages, the information disclosed can be disorienting and confusing for consumers and retail investors alike, especially when it comes to deciphering key concepts throughout, including but not limited to "sustainable investment" for example.

While helpful to some extent, the European Commission's and ESMA's efforts in clarifying key concepts was not sufficient and a complete Level 1 revision of the SFDR is urgently needed to address the ongoing issues with the disclosure requirements. On the one hand, the market does not have a uniform interpretation, which risks being to the detriment of retail investor understanding of the financial products they are investing in, while on the other there is little support for retail investors to enable them to properly distinguish between these two "categories" of financial products. Retail investors are de facto left alone in interpreting potential greenwashing practices, with limited guidance or redress measures in place.

Misinterpretation by companies accelerates greenwashing and dilutes sustainable finance flows from within capital markets in Europe.

Since the beginning of November 2022[1], multiple funds were reclassifying some of their Article 9 funds to the less demanding Article 8 ahead of 1 January 2023, when more stringent rules come into force. These shifts raised some red flags for retail investors as it suggested that the original classification was inappropriate in the first place; retail investors' trust may be increasingly dampened as a result. This reclassification also suggests that the fund would not have made any actual changes to the portfolios, but simply move them onto a less ambitious category which ultimately misleads investors. Worse, recent research on the 454 biggest article 8 and article 9 funds (mostly article 8) showed that 83% of them did not claim any ESG or G impact, and none of the other 27% could substantiate their impact claims in accordance with the UCPD guidance. In other terms, they have no impact whatsoever, although this is precisely what individual investors are excepting from ESG funds in several surveys[2] . Therefore the currently largely dominant article 8 category (about half of all investment funds assets) is the most prone to the risk of greenwashing, and the regulator should consider removing it.

The lack of trust from investors on ESG related information is further highlighted by DSW's[3] study which found that over 60% of investors surveyed did not take financial advisers advice for ESG, due to their scepticism of the advice and mismatch between their own expectations. BETTER FINANCE has been pointing out to the urgent need for clarity of definitions and addressing shortcoming of the SFDR, including but not limited to, lack of support in regards to a robust enough use of shareholder engagement as a means to support the transition and inefficiency in capturing investments in transition assets and relevant metrics like transition plans.[4]

Sustainable investing must not be confused with the use of exclusion criteria in the SFDR and as such, strong engagement for example could benefit retail investors and companies alike. A 2021 independent study[5] confirmed that the investment approach focused on exclusion –

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[1] Bloomberg, Reclassification of ESG ETFs on EU rules (November 2022), available at: https://www.bloomberg.com/news/articles/2022-11-11/blackrock-reclassifies-26-billion-of-esg-etfs-due-to-eu-rules?leadSource=uverify%20wall

[2] https://2degrees-investing.org/wp-content/uploads/2023/08/2DII_Market-review-of-environmental-impact-claims.pdf

[3] https://www.dsw-info.de/presse/archiv-pressemitteilungen/pressemitteilungen-2022/anlageberatung-zunachhaltigen-produkten-investoren-zurueckhaltend-wenig-klarheit-in-den-vorgaben/

[4] https://betterfinance.eu/wp-content/uploads/BETTER-FINANCE-position-on-SFDR-Article-8-9-December2022-.pdf

[5] https://betterfinance.eu/publication/shifting-the-trillions-why-will-private-investors-play-a-key-role/

encompassing negative selection or disengagement – as the least effective, while the most effective fund investment strategy derives from engagement. 2023 research by Yale University and Boston College showed that the exclusion approach (invest in already green firms and not in brown ones) may be even counterproductive (see note 11).

Funds must establish a measurable exercise/tool to assess this, which will enhance clarity and impact for retail investors and address reputational risk for funds. If we for instance consider the alternative, whereby European institutional investors disengage and increase their sell-off at bargain prices of fossil fuel related stocks to non-European investors who may or may not have the aim of reorienting cash flows of companies towards a green transition, it becomes clear that this poses a much greater risk for the environment in the long run. The lack of unified engagement mechanism and clear KPIs makes the current SFDR regime more prone to greenwashing which needs a timely legislative review without delays.

A revised SFDR can furthermore create common practices and evaluation of engagement, reduce greenwashing and enable timely phase-out of highly emitting sectors without risking to create stranded assets.[6]

Disclosures of principal adverse impacts (PAIs)

As representatives of financial services users, clarity and transparency are continually some of the most important tenets to retail investors' expectations. The current indicators listed in table 1 of the Delegated Regulation are the right ones to be considered material and we agree with previous proposal to require the disclosure of the share of information for the PAI indicators for which the FMP relies upon from investee companies. This would be informative as to the extent to which data comes directly from companies and the proposal could also extend to disclosing estimates so that the two can be properly compared and prevent information that can be misleading. Maintaining a core set of mandatory disclosures to be reported by all undertakings can significantly improve investor decision-making and provide the much-needed transparency for retail investors and others alike.

Regarding the Do no significant harm (DNSH) framework, it's application is not consistent and this creates barriers for retail investors and end-users as well as others alike. With unclear application and harmonisation of legislation, understandability and comparability of financial products becomes burdensome and may in fact contribute towards greenwashing practices and further its multiple associated risks that derive from such a practice. Mandatory

[6] https://betterfinance.eu/publication/transition-investing-key-challenges-and-opportunities

disclosures - with quantitative thresholds - with regard to the DNSH could be useful in the context of furthering comparability between financial products and therefore should be encouraged especially since this could result in greater transparency and stimulate competition in the market with offerings of products with stricter thresholds for example.

BETTER FINANCE is pleased to see ESAs integration of the distinction between product-level commitment to reduce emissions and a commitment to achieve a reduction in investees' emissions (via reallocations and active ownership respectively). However, we would have liked to see this integrated in general and not only in the context of information about emissions reduction targets. As we have shown previously, shareholder engagement concretely means to actively participate to general meetings of investee companies, vote there and initiate or support resolutions in favour of positively impacting the environment as well as other ESG issues. Additionally, such distinction will benefit from clearly defined indicators/metrics to measure and ensure appropriate level of the active ownership.

Data and estimates

In order to reach the EU climate objectives and targets set in the EU Green Deal, it is necessary to obtain robust data on environmental, climate, social/community impact and governance issues that companies are facing. Investors, including individual investors, do not only need more data on climate- or sustainability related risks and opportunities, they need better, more comparable, and comprehensible data to understand the risks and opportunities undertakings are exposed to. As public interest non-governmental organisation advocating and defending the interests of European citizens as financial services users, at the European level to lawmakers and the public in order to promote research, information and training on investments, savings and personal finances.

BETTER FINANCE conducts comprehensive research in various fields. However, the data we rely upon is only sourced from publicly available sources (annual reports of companies, external ESG score models, inhouse estimates etc.) and increasingly face difficulties in accessing data from providers basing information from investee companies. This is further exacerbated with the proliferation of ESG scores and various methodologies, which determine different results in terms of ratings and sustainability of the companies. For this reason, it is also important to have a common understanding and approach in the definition and evaluation of sustainability risks. It is necessary to align practices on the assessment of sustainability criteria.

Otherwise, divergent and contradicting ESG ratings/scores mislead financial services users in their investment choices. Any estimates in the SFDR must be reasonably assumed and only

used when no other information is available. This should also be accompanied with a brief reasoning behind such estimate and whether this estimate is expected to change in the short/medium and long-term. BETTER FINANCE is also a strong advocate of reporting and hopes that the revised SFDR framework will stimulate investee companies to report further on currently missing information.

Section 2. Interaction with other sustainable finance legislation

The SFDR mainly interacts with the following legislation and their related delegated and implementing acts:

- the Taxonomy Regulation
- the Benchmarks Regulation
- the Corporate Sustainability Reporting Directive (CSRD)
- the Markets in Financial Instruments Directive (MiFID 2) and the Insurance Distribution Directive (IDD)
- the Regulation on Packaged Retail Investment and Insurance Products (PRIIPs)

Section 3. Potential changes to disclosure requirements for financial market participants

BETTER FINANCE has been a strong advocate for clear and easy to understand precontractual templates and documentation. Unfortunately, the SFDR templates are unnecessarily long and can be very confusing and time consuming for retail investors, who are not by default full-time investors. The purpose of the templates is to inform end-users of the product's key sustainability features, but the emphasis should also be placed on the products sustainability in short/medium and long-term assessing its expected impact and contribution to emission reduction, transitioning to a greener business model and/or any other progression of social/climate indicators.

We are pleased to see the integration of dashboards at the top of the disclosure templates, in general this could shorten the templates and avoid the information overload for retail investors and others alike. A similar approach to dashboard/summaries should also be used under the PRIPPs KID to enhance consistency and improve understanding. Regarding the SFDR templates, we would like to reinforce some of our previous suggestions in order to serve better purpose in helping consumers and those retail investors who are less experienced in navigating and understanding the information they are given:

- include a separate column on the investment strategy (or combination thereof) whether engagement etc. with a link to associated stewardship policy for example. Since the dashboard would be the very first thing that would be seen, it would be very important for the investment strategy of the financial product in question to be displayed there (similar to AMF's proposal)[7]
- the dashboard should be clearly separated from the following information in the template and become one page dashboard if necessary in order to truly capture all of the minimum information that retail investors might need. Therefore the dashboard itself should have a title of "Summary" in order to be easily identified as such
- wherever the template asks questions of a qualitative nature, the retail investor would benefit from a layered approach on how this information is presented – as level of understanding varies. While information should be there, its access and presentation could be improved
- we encourage the use of graphs to stimulate and ease retail investor understanding. Multiple questions under the template could be turned into graphs/charts. This information should be clearly visible and not layered (as is the case under qualitative information)

Section 4. Potential new ESG categories for financial products

The European Commission is considering **two approaches** for designation of categories.

<u>**Approach 1**</u>: Splitting categories in a different way than according to existing concepts used in Articles 8 and 9, for example, focusing on the type of investment strategy of the product (promise of positive contribution to certain sustainability objectives, transition, etc.) based on criteria that do not necessarily relate to those existing concepts

<u>**Approach 2**</u>: Converting Articles 8 and 9 into formal product categories, and clarifying and adding criteria to underpin the existing concepts of environmental/social characteristics, sustainable investment, do no significant harm, etc.

In relation to Approach 1, the European Commission considers the quality of **four potential categories:**

A - Products investing in assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet, e.g. investments in

[7] https://www.amf-france.org/sites/institutionnel/files/private/2023-02/AMF%20SFDR%20minimum%20standards%20EN.pdf

firms generating and distributing renewable energy, or in companies building social housing or regenerating urban areas.

B - Products aiming to meet credible sustainability standards or adhering to a specific sustainability related theme, e.g. investments in companies with evidence of solid waste and water management, or strong representation of women in decision making.

C - Products that exclude investees involved in activities with negative effects on

D - Products with a transition focus aiming to bring measurable improvements to the sustainability profile of the assets they invest in, e.g. investments in economic activities becoming taxonomy aligned or in transitional economic activities that are taxonomy aligned, investments in companies, economic activities or portfolios with credible targets and/or plans to decarbonise, improve workers' rights, reduce environmental impacts.

As an independent financial expertise centre to the direct benefit of European financial services users, BETTER FINANCE through its member organisations is the European level dedicated representative organisation of the millions of individual investors in Europe and thereby a key beneficiary of a revised SFDR categorisation system for financial products. We are cognisant that companies face a growing need to report in detail and comprehensively on their material, non-financial sustainability information. The requirements on sustainability reporting are manifold too (ESRS, CSRD, Taxonomy, MiFID sustainability preferences etc), but given the interest investors show towards sustainability products, a clear regime of simplified categories is urgently needed to address the shortcomings of the current SFDR framework.

Sustainable finance has great potential in redirecting capital to green and climate-related activities and markets around the world, including in Europe. It carries the potential to be a part of the global solution to transitioning to climate neutrality. Prompted by governments, regulators, businesses, investors and customers, the recent evolution in sustainable investing is informed by the view that the achievement of positive societal outcomes via sustainable finance is consistent with long-term value creation. In other words, investors can achieve, at minimum, market-based financial results while also having a positive impact on society and the environment, whereby funds with inclusive environmental, social and governance (ESG) features are not only cheaper but perform better in comparison to non-ESG funds.[8]

[8] ESMA, The drivers of the costs and performance of ESG funds (May 2022), available at: https://www.esma.europa.eu/sites/default/files/library/esma_50-165-2146_drivers_of_costs_and_performance_of_esg_funds.pdf

While Europe accounted for 34% of global sustainable assets in 2020[9], a slight decline in more recent years could be due to the regulatory changes in the EU, including reshuffling and reclassification of funds (Article 8 and 9), investor distrust[10] and growing concerns of retail and professional investors over greenwashing and uncertainty behind sustainable finance definitions and practices. This is why sustainability categories can provide the much needed clarification (regulated at EU level) and facilitate not only retail investor understanding but also that of professional investors, by combating greenwashing and misleading via clear disclosure requirements, which are easy to understand and compare across financial products.

With already too many sustainability labels across EU Member States ("retail" investor is not a full-time job) and beyond Europe, sustainability product categories regulated by the EU are necessary to avoid fragmented capital markets, as well as synchronise rules on how to better stimulate capital flows in sustainable activities and match investors' sustainable preferences. A continued use of the current Article 8 and 9 products, remaining extremely hard to differentiate, can have numerous unintended consequences, including but not limited to, further disincentivising sustainable investments and the EU's Green Deal and net-zero goals.

BETTER FINANCE supports the first approach (new categories). Hence, a new system based on the type of the investment strategy can address the various challenges under the current SFDR framework. Introducing two broad categories like "Impact Target" and "Transition Target" can firstly better resonate with retail investors' expectations i.e seeking to invest with values and therefore to aim to have a positive impact in the short/medium and long term; or seeking to invest in companies that are not sustainable as of yet, but are on their way to (transition) become as such in the medium and long term. In a non-hierarchical categorisation of "Impact" and "Transition", investors can easily identify which assets align better with their preferences before investing in them.

Consider excluding exclusion (or put a warning)

BETTER FINANCE also believes, based on already referenced clear findings of independent research, that the "exclusion" sustainability approach (Category C) should be avoided, or at least marked with a clear bold warning that it usually has no E, S or G impact and may be counterproductive to the improvement of sustainability and the achievement of COP21 goals.

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[9] https://betterfinance.eu/wp-content/uploads/CMU-Assessment-Report-2019-2022-final.pdf
[10] https://www.dsw-info.de/presse/archiv-pressemitteilungen/pressemitteilungen-2022/anlageberatung-zunachhaltigen-produkten-investoren-zurueckhaltend-wenig-klarheit-in-den-vorgab

BETTER FINANCE urges the European Commission to revise the current SFDR framework in a way that is easy to understand for both retail and professional investors, and ultimately avoid misleading and greenwashing, while simultaneously contributing towards the achievement of environmental and climate goals. With these **two broad categories**, **all products who claim to be sustainability driven, using investment strategies like best-in-class (including consideration of "brown companies"), thematic selection, and impact investing, can report under "Impact" category, while those products that target transition and aim to bring measurable improvement to baseline profile of assets they invest in from medium/long term report under the "Transition Target" category.**

Prevent proliferation of multiple categories

Since both Category A and B as proposed by the European Commission, include assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet, e.g. investments in firms generating and distributing renewable energy, or in companies building social housing or regenerating urban areas, this is directly sought after from Category B's investments in companies with evidence of solid waste and water management, or strong representation of women in decision-making for example. Both Categories seek to adhere to a specific sustainability-related theme or a standard (which is presented as a measurable solution in either of the cases), therefore introducing two separate Categories with the same aims and objectives becomes redundant. Instead the two categories should be merged and only introduce a specific criteria as to when a product can be considered as adhering to direct contribution towards sustainability or socially related problems, a standard or a combination of the two.

Having only 2 broad product categories will ensure that retail investors have a clearer understanding of how their investments are contributing towards the "greening" of capital flows and by extension reduce greenwashing and misleading practices. Introducing two broad categories like "Impact Target" and "Transition Target" can firstly better resonate with retail investors' expectations i.e seeking to invest with values and therefore to have a positive impact in the short/medium and long term; or seeking to invest in companies that are not sustainable as of yet, but are on their way to (transition) become as such in the medium and long term. BETTER FINANCE is of the view that – for example - existing investments in fossil fuel companies can positively impact the environment, provided they are engaged ones, i.e. that they are accompanied with active share ownership aiming in particular at increasing the focus of the corporate investment plans and business model of the fossil fuel company towards a low carbon pathway and accelerate utilisation of energy transition plans.

Shareholder engagement concretely means to actively participate to general meetings of investee companies, vote there and initiate or support resolutions in favour of positively impacting the environment and/or other ESG issues, as a result strong engagement could benefit retail investors, companies and the environment alike.[11] Introducing a mandate for a unified engagement mechanism, which would ensure common practices and evaluation of engagement, reduce greenwashing and enable timely phase-out of highly emitting sectors without risking to create stranded assets, or merely shifting them at a low price to non-European buyers by simple exclusion and divestment.[12] In a non-hierarchical categorisation of "Impact" and "Transition", investors can easily identify which assets align better with their preferences before investing in them. The two broad categories could also be better linked with MiFID suitability requirements and enable financial advisers to use clear terms like “transition” product vs “green” product.

Importance of transition category

The proposed Category D by the European Commission - products with a transition focus aiming to bring measurable improvements to the sustainability profile of the assets they invest in, e.g. investments in economic activities becoming taxonomy-aligned or in transitional economic activities that are taxonomy aligned, investments in companies, economic activities or portfolios with credible targets and/or plans to decarbonise, improve workers’ rights, reduce environmental impacts - should encompass as a minimum criteria the period of time in which the product and/or its assets are expected to the meet the standard. Including short and medium-term targets for improvements (commensurate with the investment horizon of the product); including transition plans and metrics as well as clearly defined engagement KPIs which would ensure common practices and evaluation of engagement, reduce greenwashing and enable timely phaseout of highly emitting sectors without risking to create stranded assets, or merely shifting them at a low price to non-European buyers by simple exclusion and divestment.

Research conducted by Yale University, found that "If a 'brown' company changes its polluting emissions by just 1%, that would be much more meaningful for the environment than an already existing green company, which changes its emissions by 100%."[13] In other words, it is much more effective to green the brown than green the green. The recent Recommendation

[11] https://betterfinance.eu/wp-content/uploads/BETTER-FINANCE-position-on-SFDR-Article-8-9-December2022-.pdf
[12] https://betterfinance.eu/wp-content/uploads/Transition-investing-thought-leadership-BETTER-FINANCE. pdf
[13] Shue, K. (2022) ‘Counterproductive sustainable investing: the impact elasticity of brown and green firms’, Yale University.

by the European Commission rightly acknowledges that, while formulating transition targets and constructing approaches for transition investing within portfolios and investment or lending strategies, financial intermediaries can encourage guidance and engagement as integral components of their transition finance strategy.

While engagement effectively instigates changes within companies and enhances impact, particularly in scenarios necessitating substantial transition investing, the European Commission could potentially introduce a mandate for a unified engagement mechanism. Such mechanisms might encompass aspects like evaluating material sustainability effects, addressing climate and environmental impacts and risks, determining timeframes for lending or investments, outlining the underlying transition pathways, and ensuring that lending or investment strategies align with transition objectives, while broadly assessing the risk of stranded assets. Companies should also be required to set out an escalation plan to be able to take action (divest) when transitional assets are not providing sufficient progress of their KPIs.

Furthermore, BETTER FINANCE is aware that the revision of the SFDR will naturally be a timely exercise (especially with the new mandates for European Parliament and Commission in 2024) and wishes to highlight that any measures for embedding changes via introducing transitional periods on top of already time-consuming exercise, should be avoided.

Consequences of the establishment of a sustainability products categorisation system

We understand that the Commission, as part of its Retail Investment Package is considering a legislative review of the PRIIPs regulation and we encourage harmonisation between PRIIPs KID to that of renewed SFDR. Critical sustainability information about financial products for retail investors should be integrated in a standardised manner in their Key Information Document (KID).This could be done via the inclusion of a new point in Article 8(3) of the PRIIPs Regulation along the lines of "information on whether the product has sustainable investment as its objective or it promotes environmental or social characteristics under a section titled 'Does this product have a sustainable investment objective?'" (or in lines resonating changes to the SFDR framework, whether Approach 1 or 2).

We have assessed what sustainability information is currently available at product level, or will be available in the near future, as per EU disclosure legislation. It should be made transparent in the KID if a given product is sustainable and why, but also if a given product does not take sustainability factors into account. While taxonomy disclosure is still a new issue for retail investors, it can be assumed that its will gradually become the 'new normal' of EU sustainability

disclosures at corporate, portfolio and product levels. It should therefore be included in the KID.[14]

Marketing communications and product names

BETTER FINANCE is of the view that a fund's name is often the first and even too many times the only piece of information retail investors see, far ahead of standardised documents such as Key Investor Information Documents (KIIDs) and that can have a significant impact on their investment decisions. Studies already show that investors are increasingly more cautious on investment advice for sustainable products and lose some trust. A retail investor may not be able to understand what the exact difference is between ESG/impact related terms and those of sustainability related terms, since ESG includes sustainability linked words in any case.[15] If a fund has an ESG/sustainability/transition related term in its name and does not allocate certain amount within these topics/ does not disclose in pre-contractual templates, then this would indeed lead to greenwashing. With the rapid development of sustainably denominated financial products, it is becoming increasingly important to assess the impact they have on making the real economy more sustainable.

Currently there is no specific regulatory guidance governing the content of environmental impact claims in the finance sector, despite some existing definitions and therefore the same rule should apply for impact related fund names as it does to ESG/sustainability/transition for example. An assessment of ESG-related language in both fund names and documents cannot proceed without establishing a common reference point for assessing funds. According to ESMA's studies more and more funds include ESG terms in their names and, of the ESG terms included, funds prefer to include less-specific words (i.e. broad ESG words rather than more specific 'E' or 'S' words). In addition, since mid 2017, numerous investment funds have changed their name to add ESG words. Therefore any rules on naming and marketing should be comprehensive for those who have to comply with them in order to avoid any misleading and greenwashing for the end-user i.e retail investors and others alike.

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[14] https://betterfinance.eu/publication/sustainability-recommendations-from-ngos-for-the-priips-revision/
[15] https://betterfinance.eu/wp-content/uploads/ESMA-Consultation-on-Guidelines-for-the-use-of-ESG-orsustainability-related-terms-in-funds%E2%80%99-names.pdf