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# ESMA Consultation on Fund Names Using ESG or Sustainability-related Terms

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The European Securities and Markets Authority (“**ESMA**”) has issued a **consultation** on draft guidelines (“**Guidelines**”) on the use in funds’ names of ESG or sustainability-related terms.

The consultation is published in the context of sharp growth in investor demand for investment funds that incorporate ESG factors, which is expected to continue in the future. ESMA notes that this increasing demand with the effective application of existing criteria for sustainability such as the EU Taxonomy has led to concerns in ESMA, particularly in relation to the risk of greenwashing.

ESMA is of the view that funds’ names should be supported in a material way by evidence of sustainability characteristics or objectives that are reflected fairly and consistently in the funds’ investment objectives and policy. In its **supervisory briefing** issued in May 2022, ESMA provided some principles-based guidance for funds’ names with ESG and sustainability-related terms. This consultation goes further and the Guidelines are intended to complement the guidance already published. ESMA notes similar initiatives to those proposed in the Guidelines have been proposed in the US and the UK.

ESMA is now seeking stakeholders’ view on the introduction of quantitative thresholds for the minimum proportion of investments sufficient to support the ESG or sustainability-related terms in funds’ names. ESMA has proposed:

- a quantitative threshold of 80% for the use of ESG related words;
- an additional threshold of 50% for the use of “sustainable” or any sustainability-related term, as part of the 80% threshold;
- the application of minimum safeguards to all investments for funds using such terms (exclusion criteria based on the exclusion criteria applicable to Paris-aligned Benchmarks in the Level 2 measures adopted under the Benchmark Regulation); and
- additional considerations for specific types of funds (index and impact funds). ESMA suggests that funds using the word “impact” or “impact investing” or any other impact-related term in their name should meet the proposed thresholds and additionally make investments with the intention to generate positive and measurable social and environmental impact alongside a financial return.

The consultation paper notes that the SFDR does not contain any specific instruction for how derivatives are to be treated in disclosing the minimum proportion of investments used to meet the environmental or social characteristics or sustainable investment objectives in the Annexes. ESMA is seeking views as to whether derivatives should have a specific calculation method for the purpose of calculating the naming thresholds indicated in the Guidelines.

The guidelines would apply from three months after the publication of their translations on the ESMA website. A transitional period of six months is proposed for those funds launched prior to the application date. The deadline for responses is **20 February 2023**. The final guidelines are expected to be issued by Q2 / Q3 2023.



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