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| 18 November 2022 |

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| Reply form for the Consultation Paper on Guidelines for the use of ESG or sustainability-related terms in funds’ names |
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| Date: 18 November 2022 |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the Consultation Paper on Guidelines for the use of ESG or sustainability-related terms in funds’ names published on the ESMA website.

*Instructions*

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

* use this form and send your responses in Word format (pdf documents will not be considered);
* do not remove the tags of type <ESMA\_QUESTION\_FUNA\_0> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
* if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

* if they respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

**Naming protocol**

In order to facilitate the handling of stakeholders’ responses please save your document using the following format:

ESMA\_CP\_FUNA\_NAMEOFCOMPANY\_REPLYFORM.

e.g. if the respondent were ABCD, the name of the reply form would be:

ESMA\_CP\_FUNA\_ABCD\_REPLYFORM

***Deadline***

Responses must reach us by 20 February 2022.

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings ‘Legal notice’ and ‘Data protection’.

# General information about respondent

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| --- | --- |
| Name of the company / organisation | Principles for Responsible Investment (PRI) |
| Activity | Investment Services |
| Are you representing an association? |  |
| Country/Region | UK |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_QUESTION\_FUNA\_0>

The PRI is supportive of ESMA’s efforts to ensure that funds’ names reflect their investments’ characteristics and objectives. The proposed guidance should help to address growing demands from investors and national regulators to define minimum expectations for financial products making ESG or sustainability-related claims.

The proposals could be made more relevant to different investment strategies and accurately reflect the tools investors have to create change.

* While quantitative thresholds may to some extent help increase national harmonisation and investor protection, they will arguably be of limited effectiveness in addressing greenwashing in the absence of clarity surrounding terms like “use of environmental or social characteristics” and “sustainable investment”. We encourage ESMA to work closely with the European Commission and the new EU Sustainable Finance Platform in the coming months to clarify how these concepts (particularly sustainable investment[[1]](#footnote-2)) should be applied in practice, before setting quantitative thresholds.
* We agree with the need for minimum safeguards for funds making unqualified ESG or sustainability-related claims in their names. However, we would recommend adjusting the proposed safeguards to allow for different responsible investment approaches, particularly those based on credible stewardship strategies.
* Guidance for impact-related funds’ names must also account for the *investor* actions (including stewardship) that contribute to the stated sustainability objectives (and how these relate to global sustainability goals).
* Finally, given the recent regulatory developments on this topic globally, we encourage ESMA to ensure the consistency and interoperability of its proposals, as much as possible, with regulatory efforts in other jurisdictions. Engaging with IOSCO will be important to promote global principles for rules addressing greenwashing in fund names and disclosures.

<ESMA\_QUESTION\_FUNA\_0>

1. : Do you agree with the need to introduce quantitative thresholds to assess funds’ names?

<ESMA\_QUESTION\_FUNA\_1>

Yes. The PRI is supportive of ESMA’s efforts to ensure that funds’ names reflect their investments characteristics and objectives.

Efforts by National Competent Authorities (NCAs) to interpret investor obligations under SFDR can cause market fragmentation and add compliance costs for investors operating across EU member states. This may also lead to financial products relocating to EU jurisdictions with less stringent standards. The introduction of EU-level quantitative thresholds for funds with ESG and sustainability-related names should therefore help address these risks and ensure a degree of investor protection against greenwashing.

However, the effectiveness of these thresholds may be limited in the absence of clarity surrounding underlying concepts under SFDR like “use of environmental or social characteristics” and “sustainable investment”.

* The term “use of environmental or social characteristics” could refer to : (i) the product’s investment process (e.g. ESG integration, normative screening, proxy voting), (ii) the underlying ESG characteristics of the investee companies (e.g. higher than average ESG rating, net-zero target) or (iii) simply exposure to certain sectors (e.g. renewable energy, healthcare). In addition, it is not entirely clear whether the integration of ESG factors must be binding to the investment process.
* Similarly, the concept of sustainable investment under SFDR Article 2.17 may be interpreted and applied in different ways by investors, with limited comparability[[2]](#footnote-3). See our response to question 3 for more detail.

**We therefore recommend clarifying the application of these concepts (particularly the definition and calculation of sustainable investments under SFDR Article 2.17) before setting quantitative thresholds**. ESMA should continue to work closely with the European Commission, NCAs and the new EU Platform on Sustainable Finance to ensure that these key underlying concepts are interpreted and applied consistently to ensure investor protection and improve the comparability of SFDR disclosures. Qualitative guidance based on clearer definitions will be necessary for an effective implementation of the proposed quantitative thresholds.

More broadly, we recommend clarifying and aligning minimum expectations (beyond disclosure requirements and fund name rules) for financial products classified under Articles 8 and 9 of SFDR[[3]](#footnote-4). Policy reforms and guidance in this area should seek to accurately reflect the tools investors have to create change. This must entail a move away from the assumption that the impact of an investment strategy is the same as the characteristics of the underlying portfolio, and instead support and develop the full range of tools investors have available to influence real-economy outcomes beyond capital allocation - notably by implementing credible stewardship strategies.

Additionally, further guidance and examples explaining how to classify or differentiate certain terms according to whether they are ESG or sustainability-related (e.g. green, transition) will be helpful to ensure a consistent application of the rules by investors and national regulators.

<ESMA\_QUESTION\_FUNA\_1>

1. : Do you agree with the proposed threshold of 80% of the minimum proportion of investments for the use of any ESG-, or impact-related words in the name of a fund? If not, please explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_2>

Yes. As mentioned in the response to question 1 there is above all a need to better define what is meant by “used to meet environmental or social characteristics”. It will be particularly important to clarify that the environmental or social characteristics and/or sustainability objectives promoted can be met either via capital allocation or via a credible stewardship strategy.

ESMA should also confirm in its guidance that the use of environmental or social characteristics should be binding to the financial product’s investment process. This would be consistent with previous ESMA guidance[[4]](#footnote-5) and the SEC recent proposal[[5]](#footnote-6) on ESG-related names.

The PRI welcomes the consultation paper’s acknowledgment of recent proposals for ESG and sustainability-related fund name rules in the US and the UK. We encourage ESMA to ensure the consistency and interoperability[[6]](#footnote-7) of its proposals, as much as possible, with regulatory efforts in other jurisdictions (including by engaging with IOSCO) to address greenwashing in fund names and disclosures.

* The proposed 80% threshold is broadly aligned with the SEC proposal to expand its requirement to adopt an 80% investment policy to cover names (including terms such as “ESG”) that reflect certain qualitative characteristics of the investments.
* Under the FCA’s proposed Sustainable Disclosure Requirements proposal, the “Sustainable focus” label requires at least 70% of the product’s assets to “meet a credible standard of environmental and/or social sustainability or align with a specified environmental and/or social sustainability theme”[[7]](#footnote-8). ESMA may want to consider aligning with this threshold given the significant number of products that are marketed both in the UK and the EU.
* In its own recent rules[[8]](#footnote-9) on fund names, the Monetary Authority of Singapore (MAS) has proposed that two-thirds of its investments should reflect the ESG strategy.

ESMA could also consider (subject to an impact assessment) applying a relative approach whereby a financial product with an ESG or sustainability-related name would need to outperform its benchmark or investment universe on specific KPIs (which could be linked to the PAI indicators).

<ESMA\_QUESTION\_FUNA\_2>

1. : Do you agree to include an additional threshold of at least 50% of minimum proportion of sustainable investments for the use of the word “sustainable” or any other sustainability-related term in the name of the fund? If not, please explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_3>

No. It will be important to clarify the definition and calculation of the sustainable investment concept under SFDR before setting a minimum threshold related to sustainable investments. ESMA should work with the European Commission to clarify this as soon as possible to ensure the underlying concept is applied consistently.

Recent market studies[[9]](#footnote-10) estimate that only 27% of Article 8 funds with "sustainable" in their names would meet the proposed threshold. The proposed 50% threshold for the use of the term “sustainable”, combined with the Commission’s clarification[[10]](#footnote-11) that Article 9 products must invest almost exclusively in sustainable investments, may therefore incentivise a looser interpretation of the sustainable investment definition under Article 2(17) of SFDR.

It will therefore be important to clarify expectations for the assessment of sustainable investments to ensure comparability and consistency of the proposed threshold and associated disclosures, specifically:

* The underlying sustainability objectives pursued and how these relate to global sustainability goals (e.g. Paris Agreement, Sustainable Development Goals, UN Guiding Principles for Business and Human Rights).
* How the investor and/or the investee companies aim to contribute to the sustainability objective. Early disclosures under SFDR suggest that most existing Article 9 products rely on Principal Adverse Impact (PAI) indicators to assess the investments’ positive contribution to the sustainability objective, whilst these indicators are intended to assess whether the investments significantly harm other environmental or social objectives[[11]](#footnote-12).
* The do no significant harm (DNSH) assessment using the PAI indicators, and how this relates to global goals and standards (with reference to the taxonomy DNSH criteria for environmental goals). As highlighted in the EU Platform’s recent data and usability report[[12]](#footnote-13), the current environmental PAIs are sector-agnostic, non-risk based and provide no guidance as to what a recommendable performance for different sectors, company sizes and/or geographies should be.
* How the share of sustainable investments is accounted for. Investors can make a binary assessment of an investee’s company’s sustainability or count the specific share of its sustainable revenues/activities. Existing disclosures suggest most products are using a binary approach[[13]](#footnote-14)[[14]](#footnote-15).
* How good governance should be assessed and how it relates to minimum social safeguards under the EU taxonomy (e.g. compliance with the OECD MNE and UNGP guidelines).

The introduction of a threshold for sustainable investments could also inadvertently undermine the use of the EU taxonomy as the common benchmark to demonstrate the (environmental) sustainability of investments. Under new rules for the integration of client sustainability preferences into financial advice, clients can choose products based on their sustainable investment or taxonomy alignment percentages. Given the current low levels of taxonomy alignment of financial products, this may create a disincentive for clients or distributors to use the EU taxonomy as a key environmental performance benchmark, in favour of the less robust and comparable “sustainable investment” framework. Whilst acknowledging current challenges with the reliability of taxonomy alignment data, it will be important to encourage investor efforts to use and report against the taxonomy as corporate alignment data becomes increasingly available and verified[[15]](#footnote-16).

We would encourage ESMA to consider the European Commission’s expected clarification[[16]](#footnote-17) on the definition for sustainable investment before setting a specific threshold. It will also be important for ESMA to work closely with the Commission, NCAs and the new EU Platform on Sustainable Finance to develop guidance and best practice examples to encourage a consistent interpretation and application of the sustainable investment concept. This should help ensure investor protection and improve the comparability of SFDR disclosures.

<ESMA\_QUESTION\_FUNA\_3>

1. : Do you think that there are alternative ways to construct the threshold mechanism? If yes, please explain your alternative proposal.

<ESMA\_QUESTION\_FUNA\_4>

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<ESMA\_QUESTION\_FUNA\_4>

1. : Do you think that there are other ways than the proposed thresholds to achieve the supervisory aim of ensuring that ESG or sustainability-related names of funds are aligned with their investment characteristics and objectives? If yes, please explain your alternative proposal. If yes, please explain your alternative proposal.

<ESMA\_QUESTION\_FUNA\_5>

As mentioned above, though we support the proposed thresholds, clarifying the underlying concepts under SFDR will arguably be the most effective way of ensuring that ESG/sustainability-related fund names are aligned with their investment characteristics and objectives.

We would also encourage ESMA to explore how the proposed guidance can be linked and made more consistent with the suitability assessments under MiFIDII/IDD[[17]](#footnote-18) (or vice versa). The current proposals make little or no mention of the EU taxonomy or the PAI Indicators despite these being two of the three options to assess clients’ sustainability preferences in the EU. Assessing client preferences on the PAIs for example could provide an additional, more targeted basis for applying minimum safeguards. This could be particularly adapted to retail investors not wishing to invest in certain harmful activities.

Whilst not specifically related to fund names, ESMA should also consider recommendations made by the EU Platform on Sustainable Finance in their recent data and usability report[[18]](#footnote-19) to improve consistency between the EU Taxonomy, SFDR and the Benchmarks Regulation (particularly with regards to the EU Climate Benchmarks exclusion criteria, SFDR PAI indicators, and EU Taxonomy DNSH criteria). For example, the Platform recommends considering the use of PAIs as the tool to set minimum criteria for Article 8 products – by setting very low maximum tolerance thresholds for “always principle adverse” indicators. Other PAIs could be used to measure good practice and/or progress over time. It will be important to consider the Platform’s proposals within the context of this guidance as they could have implications for the proposed application of minimum safeguards linked to the Paris Aligned Benchmarks (see our response to question 6 for more detail on this recommendation).

<ESMA\_QUESTION\_FUNA\_5>

1. : Do you agree with the need for minimum safeguards for investment funds with an ESG- or sustainability-related term in their name? Should such safeguards be based on the exclusion criteria such as Commission Delegated Regulation (EU) 2020/1818 Article 12(1)-(2)? If not, explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_6>

Yes, we generally agree with the need for minimum safeguards for the avoidance of certain harmful activities in funds making unqualified ESG or sustainability-related claims in their names. We would however recommend making the following adjustments to ensure that these safeguards are adapted to different responsible investment strategies and approaches, particularly those based on stewardship.

The Paris Aligned Benchmark (PAB) exclusion criteria combine different types of responsible investment considerations:

* Ethical considerations (e.g. companies involved in tobacco or controversial weapons);
* Social and governance considerations based on international norms (companies violating UN Global Compact principles or OECD RBC guidelines for MNE);
* Environmental considerations (companies with revenues derived from certain fossil fuels, emission-intensive electricity generation, and those that are considered to harm other environmental objectives).

The criteria of the PAB (specifically the thresholds related to environmental considerations) were designed for a decarbonisation pathway aligned with the Intergovernmental Panel on Climate Change’s (IPCC) 1.5-degree scenario[[19]](#footnote-20). Applying these criteria to all funds and investments with ESG-related names may constrain certain approaches and strategies, particularly those aiming to influence companies to mitigate harmful activities via stewardship[[20]](#footnote-21).

We therefore recommend that financial products that can demonstrate a credible stewardship strategy to bring such investments in line with the minimum safeguards within a reasonable timeframe should be exempt from applying the criteria related to environmental considerations. The product’s stewardship strategy, combined with other market developments, should be strong enough for the fund manager to reasonably expect that the assets will meet the minimum safeguards within a set period of time[[21]](#footnote-22). This strategy, along with investor actions taken and investee company progress, should be substantiated within the SFDR pre-contractual and periodic disclosure templates for Article 8 and 9 using the Principal Adverse Impact indicators[[22]](#footnote-23). The use of ESG and sustainability related terms in such products’ names should be clearly qualified with terms such as “stewardship” or “engagement” to highlight that the product is pursuing future sustainability performance.

Such a framework could take inspiration from the FCA’s Sustainable Improver product label under the proposed Sustainable Disclosures Requirements (SDR)[[23]](#footnote-24). This product label recognises assets that have the potential to deliver measurable improvements in their environmental and/or social sustainability performance over time. Importantly, it acknowledges the role of stewardship as an effective tool for investors to influence investees to mitigate their adverse impacts and align their activities with sustainability goals.

Those products with credible stewardship strategies could apply the minimum exclusion criteria linked to the EU Climate Transition Benchmark to ensure they meet minimum ethical and social safeguards[[24]](#footnote-25). However, ESMA would need to clarify how to apply the “do no significant harm” requirement under Article 12.2. of [Commission Delegated Regulation (EU) 2020/1818](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1818&rid=1) in this context. Applying the EU taxonomy’s DNSH criteria to assess portfolio companies at entity-level would be challenging given separate DNSH assessments are already required for taxonomy-aligned activities and for sustainable investments (based on the PAI indicators).

It will also be important to ensure that the social/norms-based criteria (referring to the UN Global Compact and OECD MNE guidelines) are consistent with the EU Taxonomy’s minimum social safeguards (based on the UN Guiding Principles for Business and Human Rights and OECD MNE guidelines), in line with recommendations by the EU Platform on Sustainable Finance[[25]](#footnote-26). Consistency with existing requirements in the EU sustainable finance framework must be ensured before adding new ones.

As an alternative to or beyond these specific proposals, we would encourage ESMA to work with the European Commission and the new EU Platform on Sustainable Finance to explore whether and how a list of “always significantly harmful activities” could be used as a basis for minimum standards for Articles 8 and 9 products under SFDR. The EU Platform’s [report on an extended environmental taxonomy](https://finance.ec.europa.eu/system/files/2021-07/sustainable-finance-platform-report-taxonomy-extension-july2021_en.pdf) recognises there are activities for which no technological possibility of improving their environmental performance to avoid significant harm exists across all objectives. These activities should be distinguished from those that have a potential to transition out of significant harm.

Investee companies with (or spending capital expenditure on) always significantly harmful activities could be subject to exclusions or prioritised for investment/engagement as part of a decommissioning plan. This would help investors assess the risk of stranded assets within their products/portfolios and would complement the PAIs. The quality and comparability of disclosures could be improved by expanding disclosure of significant harm data at entity level (particularly with regards to capex in activities that do not meet the DNSH criteria[[26]](#footnote-27)), under the draft European Sustainability Reporting Standards (ESRS) and the upcoming review of the Taxonomy Disclosures Delegated Act (Article 8).

Additionally, the guidance should explain whether, and if so how, asset classes other than listed equities (sovereign bonds, private equity/debt, real assets, etc) should apply the minimum criteria, given these were designed for indices and refer to companies or economic activities. The development of a list of "always significantly harmful activities" would allow for screening investments in other asset classes beyond equity and corporate debt.

We would also encourage ESMA to consider the following points on the social, governance, and ethical exclusion criteria:

* We would recommend referencing the UNGPs to align with the minimum social safeguards under the Taxonomy Regulation. ESMA may also want to consider the use of a different term than “minimum safeguards” as this may be confused with the EU taxonomy’s minimum social safeguards. We encourage ESMA to work with the European Commission and the new EU Platform on Sustainable Finance to ensure consistent application of these standards, drawing on the EU Platform’s [Final Report on Minimum Safeguards](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf) (page 37 onwards).
* On what basis certain ethical considerations have been included as part of the PAB criteria (particularly companies involved in the cultivation and production of tobacco) and not others.

<ESMA\_QUESTION\_FUNA\_6>

1. : Do you think that, for the purpose of these Guidelines, derivatives should be subject to specific provisions for calculating thresholds?

<ESMA\_QUESTION\_FUNA\_7>

More details and guidance would be needed on the way to apply the provisions to derivatives and monetary assets, for these to be included in the scope. This guidance should be developed with the European Commission in consultation with industry given the issue on treatment of derivatives covers a span of regulations in Europe, including SFDR and the Taxonomy.

<ESMA\_QUESTION\_FUNA\_7>

1. Would you suggest the use of the notional value or the market value for the purpose of the calculation of the minimum proportion of investment?

<ESMA\_QUESTION\_FUNA\_1>

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<ESMA\_QUESTION\_FUNA\_1>

1. Are there any other measures you would recommend for derivatives for the calculation of the minimum proportion of investments?

<ESMA\_QUESTION\_FUNA\_2>

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<ESMA\_QUESTION\_FUNA\_2>

1. : Do you agree that funds designating an index as a reference benchmark should also consider the same requirements for funds’ names as any other fund? If not, explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_8>

Yes. We are supportive of applying consistency between active and index funds, to the extent practicable, to ensure all funds are marketed to retail investors using a similar naming convention in the EU. However we encourage ESMA to provide more details as to how the provisions would apply to products tracking an index (EU Climate Benchmark or other).

<ESMA\_QUESTION\_FUNA\_8>

1. : Would you make a distinction between physical and synthetic replication, for example in relation to the collateral held, of an index?

<ESMA\_QUESTION\_FUNA\_9>

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<ESMA\_QUESTION\_FUNA\_9>

1. : Do you agree of having specific provisions for “impact” or impact-related names in these Guidelines?

<ESMA\_QUESTION\_FUNA\_10>

Yes. However, the definition and assessment of “impact” and how it relates to the concept of “sustainable investment” needs to be clarified prior to the finalisation of these guidelines.

In our view the guidance for impact-related names should also account for the *investor actions* (including stewardship) to contribute to the stated sustainability objectives. The impact-related guidance and the example 5 in the consultation paper suggests that the distinction between investor and investee company impact is not captured in the proposed guidelines – which may be misleading to end-investors.

The guidance could be clarified as follows: “Funds using the word “impact” or “impact investing” or any other impact-related term in their name should meet the proposed thresholds (i.e. 80% of investments must be used to meet environmental/social characteristics) and additionally have clearly stated objectives to generate positive and *assessable[[27]](#footnote-28)* social or environmental impact alongside a financial return, *and have an investment policy and strategy setting out the actions the investor will take to contribute to those impact objectives”*.

The 2021 A [Legal Framework for Impact](https://dwtyzx6upklss.cloudfront.net/Uploads/h/q/d/pri_fca_sdr_consultation_response_jan_2023_564291.pdf) report, authored by law firm Freshfields Bruckhaus Deringer and commissioned by the PRI, the Generation Foundation and UNEP-FI, shows that, across jurisdictions, investors are generally permitted, and at times required, to consider pursuing sustainability impact goals where doing so would support their financial objectives. However, the policy and regulatory landscape does not always provide investors with adequate clarity, guidance or tools to support them in shaping sustainability outcomes. As a result, many investors still do not systematically consider their ability and responsibilities to do so.

A number of studies and surveys have shown considerable investor (especially retail/consumer) demand for impact-oriented financial products[[28]](#footnote-29). Given the inherent complexity in measuring and demonstrating the additionality of investor impact, we encourage ESMA to work with the European Commission and the new EU Platform on Sustainable Finance to explore ways to clarify investor duties for impact (as per the PRI recommendations[[29]](#footnote-30) set out for the EU) and develop practical guidance around minimum expectations for investor impact claims (beyond fund names). This will be especially valuable at product-level as this is where many clients will express their sustainability preferences.

<ESMA\_QUESTION\_FUNA\_10>

1. : Should there be specific provisions for “transition” or transition-related names in these Guidelines? If yes, what should they be?

<ESMA\_QUESTION\_FUNA\_11>

No – while specific provisions for “transition”-related terms would be helpful to better account for stewardship-focused approaches within the guidelines (see response to question 6), it is more appropriate for ESMA to wait until a coherent EU framework that enables financing the transition is in place.

Provisions under such a framework should build on the European Commission’s [Strategy for Financing the Transition to a Sustainable Economy](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0390), the EU Platform on Sustainable Finance’s work on [transition finance](https://finance.ec.europa.eu/system/files/2021-03/210319-eu-platform-transition-finance-report_en.pdf) and [extending the EU Taxonomy](https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf), and seek operability with global voluntary standards such as Task Force for Climate-Related Financial Disclosures (TCFD) and the Glasgow Financial Alliance for Net Zero (GFANZ).

Specific provisions at the financial product-level could also be inspired by:

* The FCA’s proposed “Sustainable Improvers” category under its SDR proposal.
* Belgium’s Towards Sustainability product label and quality standard[[30]](#footnote-31).
* Recommendations by the EU Platform on Sustainable Finance for an extended environmental (or transitional) taxonomy – specifically the [proposed framework](https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf) for encouraging investments away from harmful activities towards intermediate (amber) or sustainable (green) levels of environmental performance.

. <ESMA\_QUESTION\_FUNA\_11>

1. : The proposals in this consultation paper relates to investment funds’ names in light of specific sectoral concerns. However, considering the SFDR disclosures apply also to other sectors, do you think that these proposals may have implications for other sectors and, if so, would you see merit in having similar guidance for other financial products?

<ESMA\_QUESTION\_FUNA\_12>

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<ESMA\_QUESTION\_FUNA\_12>

1. : Do you agree with having a transitional period of 6 months from the date of the application of the Guidelines for existing funds? If not, please explain why and provide an alternative proposal.

<ESMA\_QUESTION\_FUNA\_13>

ESMA should consider a 12-month transitional period to allow sufficient time to adapt fund names and/or investment portfolios accordingly.

<ESMA\_QUESTION\_FUNA\_13>

1. : Should the naming-related provisions be extended to closed-ended funds which have terminated their subscription period before the application date of the Guidelines? If not, please explain your answer.

<ESMA\_QUESTION\_FUNA\_14>

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<ESMA\_QUESTION\_FUNA\_14>

1. : What is the anticipated impact from the introduction of the proposed Guidelines?

<ESMA\_QUESTION\_FUNA\_15>

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<ESMA\_QUESTION\_FUNA\_15>

1. : What additional costs and benefits would compliance with the proposed Guidelines bring to the stakeholder(s) you represent? Please provide quantitative figures, where available.

<ESMA\_QUESTION\_FUNA\_16>

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<ESMA\_QUESTION\_FUNA\_16>

1. We acknowledge and welcome the ESA’s formal request to the European Commission to clarify the definition of “sustainable investments” under SFDR Article 2.17. [↑](#footnote-ref-2)
2. We acknowledge and welcome the ESA’s [formal request](https://www.esma.europa.eu/sites/default/files/library/jc_2022_47_-_union_law_interpretation_questions_under_sfdr.pdf) to the European Commission to clarify the definition of “sustainable investments” under SFDR Article 2.17. [↑](#footnote-ref-3)
3. In its [Strategy for financing the transition to a sustainable economy](https://ec.europa.eu/info/publications/210706-sustainable-finance-strategy_en), the European Commission proposes to develop “*minimum sustainability criteria, or a combination of criteria for financial products that fall under Art. 8 of the SFDR, in order to guarantee minimum sustainability performance of such products to further strengthen a harmonised application of the Regulation and incentivise transitional efforts”.*  [↑](#footnote-ref-4)
4. [ESMA – Supervisory Briefing on Sustainability Risks and Disclosures](https://www.esma.europa.eu/sites/default/files/library/esma34-45-1427_supervisory_briefing_on_sustainability_risks_and_disclosures.pdf) (2022). Paragraph 21 page 6. [↑](#footnote-ref-5)
5. See the [PRI’s consultation response to SEC File No. S7-16-22: Investment Company Names (2022)](https://dwtyzx6upklss.cloudfront.net/Uploads/b/o/x/fundnamesrule_pri_secfileno.s71622_766843.pdf) [↑](#footnote-ref-6)
6. Interoperability—"allowing companies to collect and report in a manner that effectively serves both local and global requirements— helps meet the needs of global capital markets, including investors who allocate capital internationally, companies who operate and raise capital across national borders, and the accounting profession that serves all consumers of corporate reporting”. From The Principles for Responsible Investment, The World Bank and Chronos (June 2022) Implementation Guide for Sustainable Investment Policy and Regulation Tools - Taxonomies of Sustainable Activities (p.6) [↑](#footnote-ref-7)
7. [FCA – CP22/20: Sustainability Disclosure Requirements (SDR) and investment labels](https://www.fca.org.uk/publication/consultation/cp22-20.pdf) (2022). Paragraph 4.30 page 32. [↑](#footnote-ref-8)
8. [Monetary Authority of Singapore (MAS) – Circular No. CFC 02/2022](https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Securities-Futures-and-Fund-Management/Regulations-Guidance-and-Licensing/Circulars/CFC-02-2022-Disclosure-and-Reporting-Guidelines-for-Retail-ESG-Funds.pdf) [↑](#footnote-ref-9)
9. [Morningstar – SFDR Article 8 and 9 Funds: Q4 2022 in Review](https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt9e8b3e059cf2a28d/63dbd1dd8c69354d3e055101/SFDR_Article_8_and_Article_9_Funds_Q4_2022.pdf) [↑](#footnote-ref-10)
10. [European Commission Q&A on sustainability-related disclosures (2021)](https://www.esma.europa.eu/document/ec-qa-sustainability-related-disclosures) [↑](#footnote-ref-11)
11. [Novethic – SFDR Article 9 Funds: a market off to a rough start (2022)](https://www.novethic.fr/fileadmin/user_upload/tx_ausynovethicetudes/pdf_complets/Etude_SFDR_Novethic___Ademe_Artcile_9_EN.pdf) [↑](#footnote-ref-12)
12. [EU Platform on Sustainable Finance – Platform recommendations on data and usability (2022)](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf). Page 141. [↑](#footnote-ref-13)
13. [Morningstar – SFDR Article 8 and 9 Funds: Q4 2022 in Review](https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt9e8b3e059cf2a28d/63dbd1dd8c69354d3e055101/SFDR_Article_8_and_Article_9_Funds_Q4_2022.pdf). Page 22. [↑](#footnote-ref-14)
14. In their recent [report on data and usability](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf) of the EU taxonomy, the EU Platform on Sustainable Finance recommends the European Commission clarify that only the actual sustainable investment share (e.g., 20%) in an investee company can be disclosed as SI and not the whole entity (i.e., 100%) even if the whole entity needs to meet the DNSH and good governance requirements indicated in Article 2 (17) of SFDR. See page 137. [↑](#footnote-ref-15)
15. [Recent assessments](https://clarity.ai/research-and-insights/only-14-of-article-9-funds-with-an-eu-taxonomy-objective-report-on-eu-taxonomy-alignment/?utm_source=clarityai&utm_medium=email&utm_campaign=weekly-newsletter) suggest that only 14% of funds with an environmental objective covered by the EU taxonomy are reporting on the fund’s alignment with the EU taxonomy. [↑](#footnote-ref-16)
16. See [ESMA – List of additional SFDR queries requiring the interpretation of Union law](https://www.esma.europa.eu/sites/default/files/library/jc_2022_47_-_union_law_interpretation_questions_under_sfdr.pdf) (2022) [↑](#footnote-ref-17)
17. [Commission Delegated Regulation (EU) 2021/2616](https://ec.europa.eu/finance/docs/level-2-measures/mifid-2-delegated-act-2021-2616_en.pdf) amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms. [↑](#footnote-ref-18)
18. [EU Platform on Sustainable Finance Report on Data and Usability](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf) (2022). See Appendix F (page 217) for a comparison of PAB criteria with PAI indicators. [↑](#footnote-ref-19)
19. [Commission Delegated Regulation (EU) 2020/1818](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1818&rid=1) – Paragraph (15). [↑](#footnote-ref-20)
20. Stewardship is defined by the PRI as the use of influence by institutional investors to maximise overall long-term value, including the value of common economic, social, and environmental assets, on which returns, and client and beneficiary interests depend. See [PRI Reporting Framework glossary](https://www.unpri.org/reporting-and-assessment/reporting-framework-glossary/6937.article). [↑](#footnote-ref-21)
21. [PRI – Discussing divestment: developing an approach when pursuing sustainability outcomes in listed equities](https://www.unpri.org/stewardship/discussing-divestment-developing-an-approach-when-pursuing-sustainability-outcomes-in-listed-equities/9594.article) (2022) [↑](#footnote-ref-22)
22. It could be useful to explore how the PAI indicators could include more forward-looking indicators to capture companies’ efforts to transition away from harmful activities (e.g. capex spending on fossil-fuel related activities). See EU Platform on Sustainable Finance’s [report on data and usability](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf). [↑](#footnote-ref-23)
23. See the [PRI’s response to the FCA’s consultation](https://dwtyzx6upklss.cloudfront.net/Uploads/h/q/d/pri_fca_sdr_consultation_response_jan_2023_564291.pdf) and its feedback on the Sustainable Improvers category pages 12-13 and 17-19. [↑](#footnote-ref-24)
24. [Commission Delegated Regulation (EU) 2020/1818](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1818&rid=1) – Article 11. [↑](#footnote-ref-25)
25. [EU Platform on Sustainable Finance – Final report on minimum safeguards](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf) (2022) [↑](#footnote-ref-26)
26. As proposed in the [Platform on Sustainable Finance data and usability report](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf), page 142 [↑](#footnote-ref-27)
27. Use of the term “assessable” allows for more flexibility with certain impacts (particularly social) that cannot easily be quantified whilst ensuring that the methodology used by investors is consistent and comparable. For human rights this could include qualitative information to explain why and/or how the company is addressing potential breaches of the UNGPs, which investors would use to implement their stewardship requirements. [↑](#footnote-ref-28)
28. 2 Degrees Investing – [Fighting greenwashing…what do we really need](https://2degrees-investing.org/wp-content/uploads/2022/07/Fighting-greenwashing-...-what-do-we-really-need.pdf) (2022). Page 7. [↑](#footnote-ref-29)
29. [A Legal Framework for Impact – Empowering Investors to Pursue Sustainability Goals](https://www.unpri.org/a-legal-framework-for-impact/european-union-empowering-investors-to-pursue-sustainability-goals/9843.article) (PRI, 2022) [↑](#footnote-ref-30)
30. See [Revised Towards Sustainability Quality Standard Final criteria](https://towardssustainability.be/public/RevisedQS_Technical_20220928.pdf) (2022). [↑](#footnote-ref-31)