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The European Securities and Markets Authority (ESMA) has clarified the conditions under which certain terms relating to sustainability can be used in fund names, and the information that management companies that call themselves sustainable must disclose in their conditions, prospectuses, websites and annual reports.

The ESMA guideline is intended to enhance supervisory convergence over sustainable investment funds, and to give supervisory authorities directions about how to combat greenwashing. The guideline is aimed at supervision authorities, but fund managers can use it for self-assessment to see whether their current activities comply with the ESMA principles.

The EMSA principle is that the name of sustainable funds must not be misleading. Terms such as “ESG”, “green”, “sustainable”, ”social”, “ethical”, “impact” or any other ESG-related terms should only be used accurately and with caution. A fund may only use such terms in its name if it has material support from evidence of sustainability characteristics, themes or objectives that are reflected fairly and consistently in the fund’s investment objectives and policy and its strategy. What a fund discloses to its investors and its actual investments must be aligned.

ESMA also highlights in its guidance what financial supervisors should check in the information disclosed in the annual reports and on the websites of fund managers, and how they should do so. The information given to investors so they can evaluate the proposed funds must be accurate, fair, clear, not misleading, simple and concise, both in the annual report and on the website. Sustainable goals and characteristics must be clearly marked. The fund’s investment objectives and policy and its strategy and the publicly disclosed information must all be aligned and may not be misleading to investors.

The ESMA guidelines

Inform me if the content changes