

# ESBG response to the ESMA consultation about the use of ESG terms in funds' names

Executive summary

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**The European Securities and Markets Authority (ESMA) invited stakeholders to respond to specific questions listed in the Consultation Paper on Guidelines for the use of ESG or sustainability-related terms in funds' names.**

## ESBG'S POSITION

**The need to establish, first and foremost, a clear and uniform methodology for “sustainable investments”.**

First of all, ESBG welcomes ESMA's objective to tackle greenwashing when it comes to funds' names. As a prerequisite to any action in this regard, there must be a clear and scientifically comprehensible uniform legal definition of “sustainability” to be able to present sustainability features in investment products. This harmonization would benefit not only the financial sector but also customers and supervisors. EU sustainability-related initiatives, such as the SFDR and the EU Taxonomy Regulation, are already aiming at creating a harmonised cross-border framework for offering sustainable products in the EU. Hence, ESBG believes more clarity regarding Article 8 and 9 of the SFDR would be needed before designing a threshold mechanism.

**ESBG does not believe that introducing ESMA's suggested quantitative thresholds to assess funds' names would be the best solution.**

Therefore, ESBG assesses that an additional regime with thresholds only for the fund market may create eventually confusion for product providers, distributors and investors. It is too early to set thresholds until a harmonized methodology for “sustainable investments” is provided. In this regard, instead of implementing a naming rule that would end up defining what an ESG or sustainable product is, ESBG would rather prefer defining clearly what an ESG or sustainable product should be with a clear and unified methodology in the first place.

More specifically, ESBG believes that the proposed threshold of 80% for investments with sustainable and social objectives is too high. There is notably a surprising gap between this threshold and the ones already existing in other EU countries such as Germany or Luxembourg (minimum threshold of 50% for various fund names). ESBG is also not in favour of the inclusion of an additional threshold of at least 50% of minimum proportion of sustainable investments for the use of the word “sustainable” in funds' names for now. This is notably because the definition of “sustainable investments” currently poses great challenges for asset managers. This last threshold should be firstly reviewed and tested for its market suitability before being implemented.

**Instead of introducing the suggested thresholds, ESBG would like to call for a better implementation of the already existing requirements.**

ESBG believes that sustainable finance regulations should incentivise asset manager and product manufacturers to increase the taxonomy level of ESG financial instruments. This has not been sufficiently the case so far. This should be done before introducing similar guidance for other financial products. If ESMA should still hold on introducing a transitional period regarding the date of the application of these guidelines, ESBG would propose a period between 12 and 18 months to ensure flexibility.