



# ESMA's work on Sustainable Finance and on combatting greenwashing

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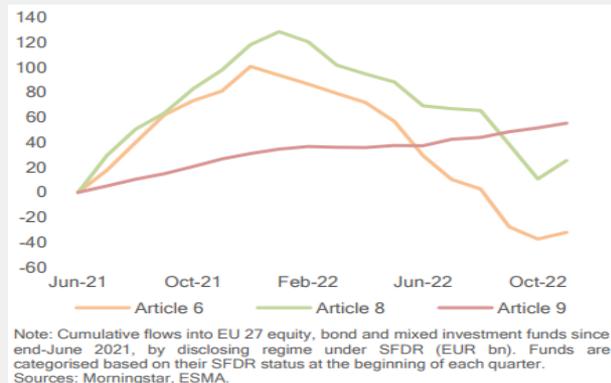
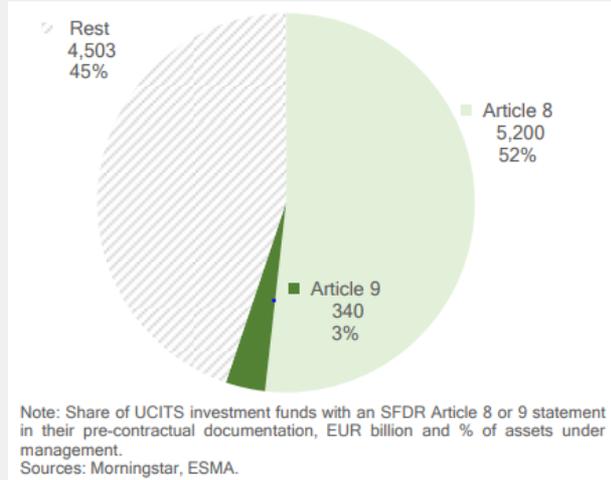
ESMA REGULAR USE

1. **A few numbers**
2. ESMA's role and strategy
3. EU regulatory framework
4. Greenwashing and its supervision

# ESMA Report on Risk, Trends and Vulnerabilities –ESG funds

According to the February 2023 ESMA Report on Risk, Trends and Vulnerabilities:

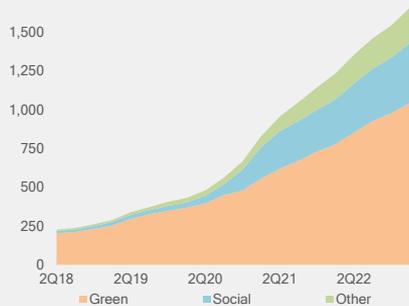
Share of SFDR Art.8 and 9 funds assets



- Sustainable investing in Europe is still growing strongly. Taken together, funds promoting environmental or social characteristics (SFDR Article 8) and funds with a sustainable investment objective (Article 9) managed **55%** of the total assets of funds available for sale at the end of 2022.
- In the absence of an EU-wide labelling regime for ESG funds, some managers have used Articles 8 and 9 as proxy labels for communication purposes.
- The misuse of SFDR as a marketing tool creates potential risks to investors as demand for sustainable products remains strong.
- Net flows into SFDR Art.9 funds in particular have proved remarkably resilient to broader market developments.

# ESMA Report on Risk, Trends and Vulnerabilities –ESG debt markets

Value of EU ESG bonds outstanding



Note: Total amount of ESG bonds outstanding issued by EEA30-domiciled issuers, EUR bn.  
Sources: Refinitiv EIKON, ESMA.

SLB step-ups uncorrelated with coupon rate



Note: Coupon rate and step-up penalty of sustainability-linked bonds issued by EEA-domiciled corporates, in %.  
Sources: Refinitiv EIKON, ESMA.

- ESG-related instruments are experiencing a similar boom. The market for **ESG bonds** has grown six-fold, from €200 billion in 2018 to **€1.7 trillion** today.
- **Green bonds** are the dominant form of sustainable debt instruments, supported by robust corporate issuance. However, other types of ESG have experienced remarkable growth over the last two years.
- There has been particularly strong growth in the market for sustainability-linked bonds (SLBs). However, these instruments have come under investor and media scrutiny due to the **limited impact of their penalty mechanism** and concerns regarding the ambitions of the key-performance-indicator targets.

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# ESMA's role



- **2019: ESA review leads to a formal SF role for ESMA**

“The Authority shall act in the field of activities of financial market participants in relation to issues not directly covered by the legislative acts referred to in paragraph 2, including matters of corporate governance, auditing and financial reporting, **taking into account sustainable business models and the integration of environmental, social and governance related factors**, provided that such actions are necessary to ensure the effective and consistent application of those acts. The Authority shall also take appropriate action in the context of take-over bids, clearing and settlement and derivative issues.” *Amended ESMA Regulation, Article 1(3)*

- **2019: Establishment of ESMA's Coordination Network on Sustainability (CNS)**

- **2020: Adoption of ESMA's first Strategy on Sustainable Finance**

The Strategy presents ESMA's approach to taking account of sustainable business models and integrating ESG related factors across its four main activity areas of single rulebook, supervisory convergence, direct supervision and risk assessment

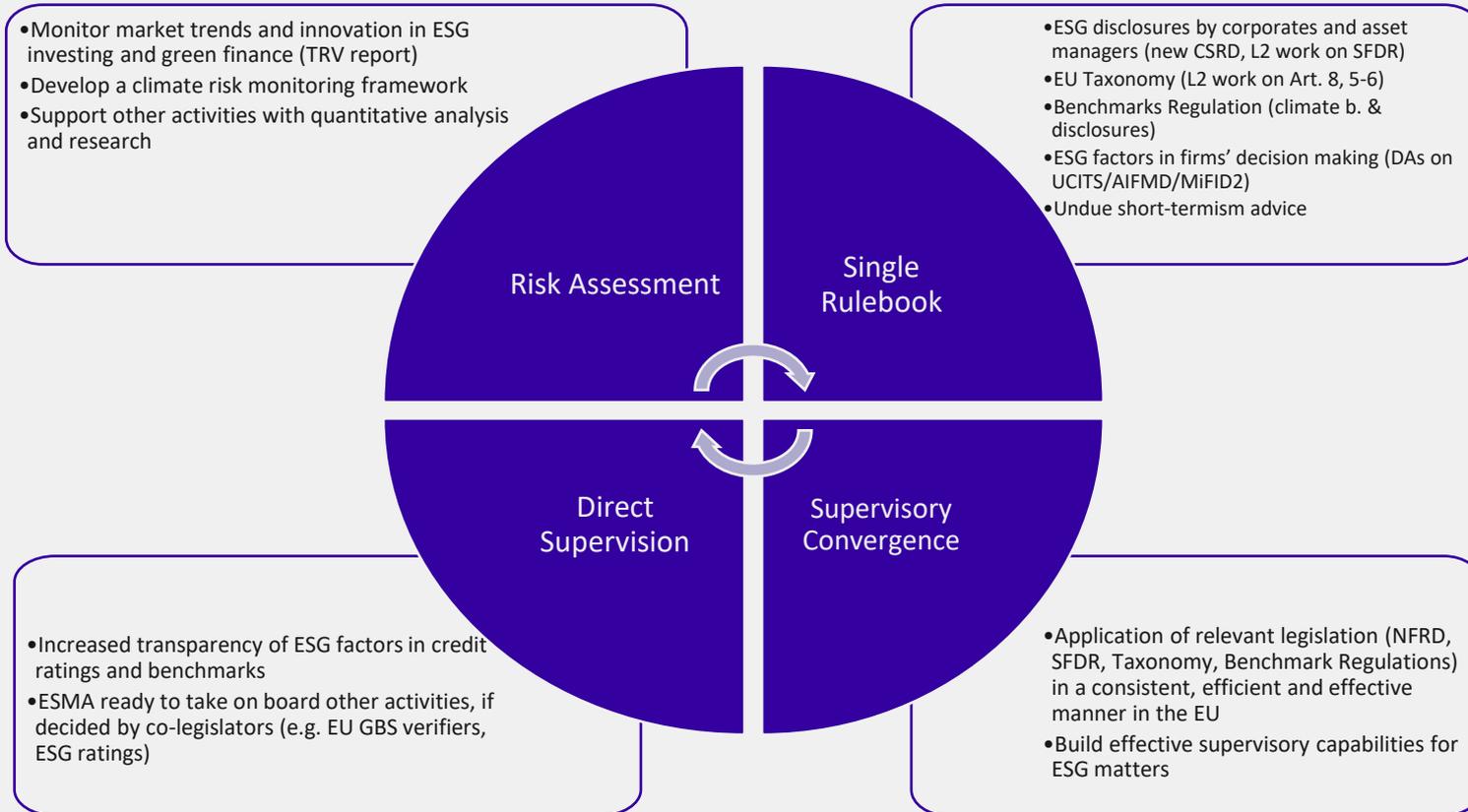
- **2022: ESMA launches its SF Roadmap for the period from 2022 to 2024**

The Roadmap sets out three priorities for the period 2022-24, namely tackling greenwashing and enhancing transparency, building capacities, monitoring and assessing ESG markets and risks.

- **2022: ESMA Strategy 2023-2028**

- Sustainable finance as a thematic driver

# ESMA's 2020 Strategy on Sustainable Finance: objectives by areas of activities



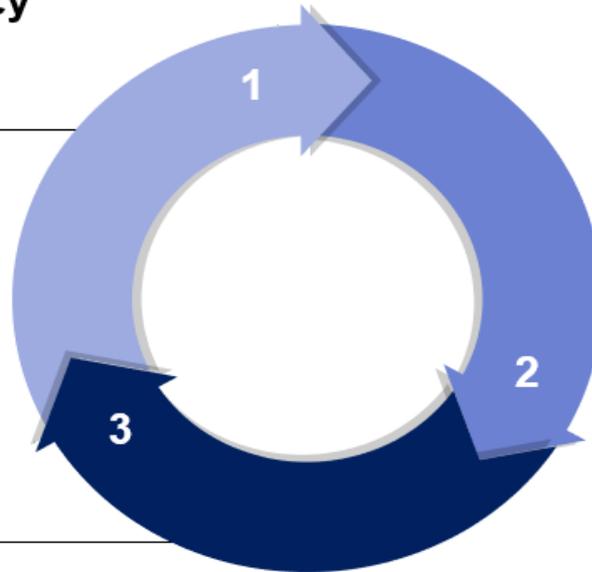
# Roadmap for Sustainable Finance 2022-2024 – Three priorities

## Tackling greenwashing & promoting transparency

ESMA and NCAs looking into features of greenwashing, ultimately to ensure investor protection and stable markets. Looking into features of greenwashing and appropriate supervisory response

## Monitoring and assessing markets and risks

ESMA to leverage on its data-analysis capabilities to support its, and NCAs', supervisory work and to promote convergence.



## Building NCA and ESMA capacity

Multi-year training programme and facilitation of experience sharing between ESMA and NCAs. Will contribute to effective and consistent supervision.

## Roadmap for Sustainable Finance 2022-2024



The Roadmap sets out ESMA's deliverables on sustainable finance and how they will be implemented over the next three years



It serves as a practical tool to ensure that ESMA delivers on the wide array of sustainable finance tasks across several sectors in a coordinated way

# Roadmap for Sustainable Finance 2022-2024

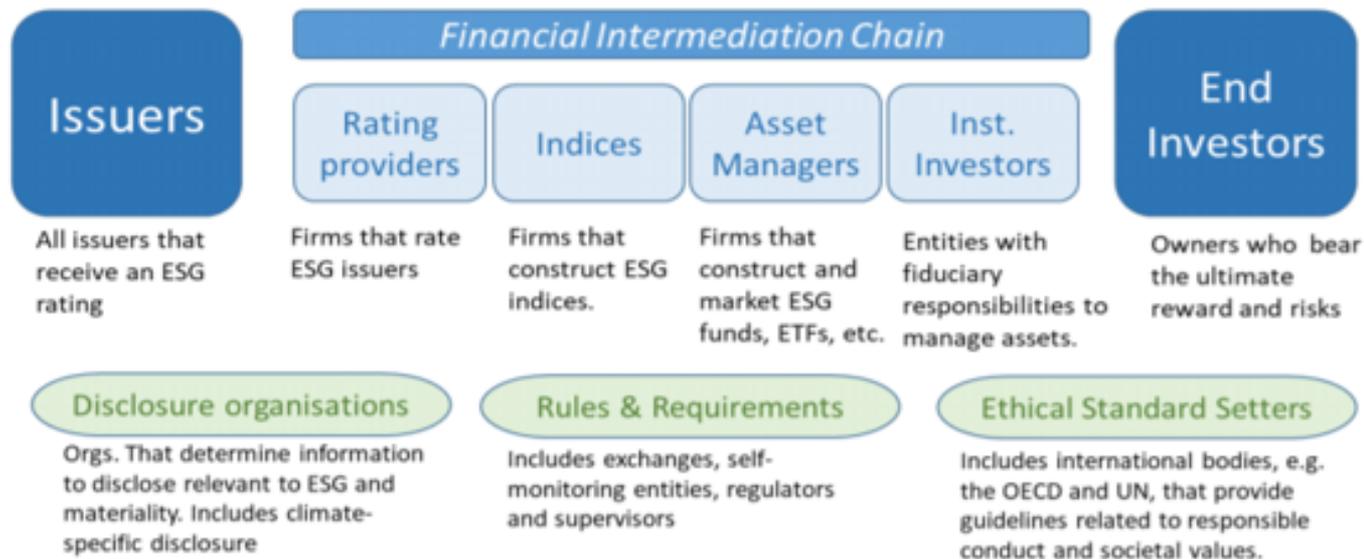
- Objective: define which SF actions ESMA should prioritise over the coming 2-3 years
- Covered activities : Single Rulebook, Supervisory Convergence, Risk Assessment and Direct Supervision
- Actions detailed by sectors :



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# EU regulatory framework sustainable investment value chain (SIVC)

Figure 4. ESG financial ecosystem

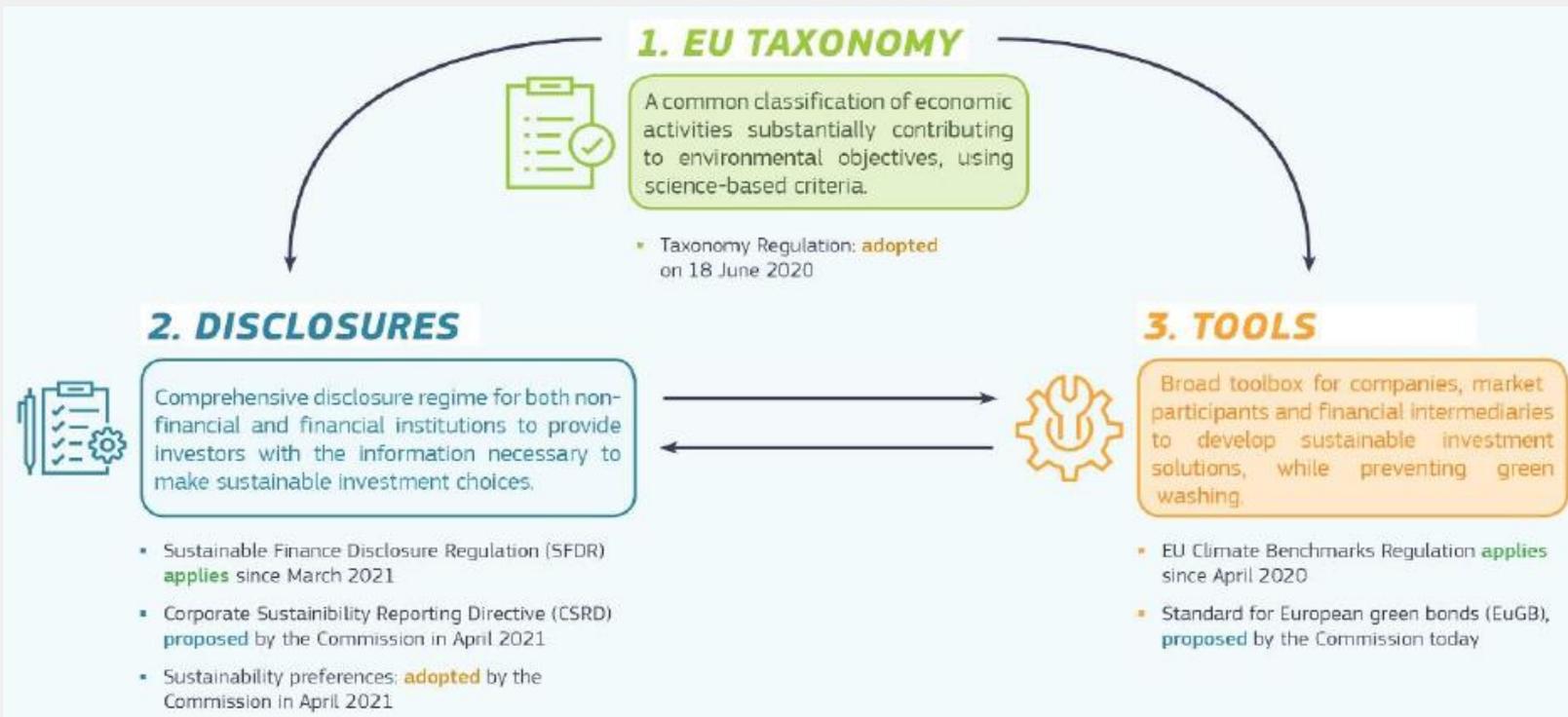


Source: Boffo, R., and R. Patalano (2020), "ESG Investing: Practices, Progress and Challenges", OECD Paris<sup>1</sup>

- Taxonomy Regulation
- Sustainable Finance Disclosure Regulation (SFDR)
- Benchmarks Regulation
- MiFID II (suitability assessment, product governance rules)
- UCITS Directive/ AIFMD (integration of sustainability risks and sustainability factors)
- Corporate Sustainability Reporting Directive (CSRD)
- (in finalisation) Green Bond Regulation
- (in negotiation) Corporate Sustainability Due Diligence Directive (CSDDD)

# EU regulatory framework interlinkages

The SF legislations presented **are all interlinked** - each plays an important part in the transmission of all relevant entity and product-level ESG information from one **Sustainable Investment Value chain (SIVC) node to another**.



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# Tackling Greenwashing and promoting transparency & the EC Greenwashing mandate



- In May 2022, ESMA and the other ESAs, received a request for input from the EC to look into greenwashing risks in relation to sustainability claims and the supervision of SF policies covering three areas:
  - understanding and defining the **greenwashing phenomenon**, progressively building an effective **monitoring framework**;
  - taking stock of the implementation of relevant **SF legislation** within our remit and identifying **early market and supervisory challenges**; and
  - characterising the **supervisory and enforcement response** and assessing its adequacy.
- ❑ The ESAs have **two years to deliver on this mandate** and are expected to issue recommendations, including potentially on level 1 legislation. The first milestone is a **progress report due in May 2023**.
- ❑ To deliver on this mandate, ESMA is building on the work program it already kicked-off under the SF Roadmap and will make progress on how various segments of the sustainable investment value chain are affected and how greenwashing can spread from one segment to another.
- ❑ ESMA along with the other ESAs published a **Call for Evidence (CfE) on greenwashing on November 15 2022 which closed on January 10 2023**.

# The Progress report (PR) is a preliminary response to May 2022 EC's request for input on greenwashing



- **The objective of this PR is to:**
  - support a better understanding of greenwashing and its potentially negative impacts on EU financial markets and investors;
  - assess which areas of the sustainable investment value chain (SIVC) are more prone to greenwashing risks and occurrences;
  - And identify the underlying drivers.
- **Current mismatch between high investors' demand for sustainable investment opportunities and the limited pool of assets that are sustainable is conducive to greenwashing risks**
  - Securities markets regulators face expectations from stakeholders to step up in ensuring investor protection and market integrity and maintain a trusted environment for sustainable investments
  - Greenwashing allegations have grown in numbers; market players and retail investors are sharing concern that GW risks increased
  - Market participants across the SIVC have a role to communicate sustainability information in a balanced manner, through fair, clear and not misleading claims that are fully substantiated
- **The scope of the PR covers the full ESG spectrum (sustainability-related claims), focuses on most relevant sectors under ESMA's remit (issuers, investment managers, benchmark administrators, financial services providers) and adopts a double-materiality approach**

# Characterising greenwashing along key dimensions

Dimensions	Detailed parameters used to analyse greenwashing risks under each dimension		
Roles	Trigger of the claims	Spreader of the claims	Receiver of the claims
Sustainability topics (and sub-topics) about which a claim is communicated	<b>Governance and resources</b> <ul style="list-style-type: none"> <li>Board and senior management role</li> <li>ESG resources and expertise</li> </ul>	<b>ESG sustainability strategy</b> <ul style="list-style-type: none"> <li>ESG strategy, objective, characteristics</li> <li>Sustainability management policies</li> <li>ESG qualifications, labels, certificates</li> <li>Engagement with stakeholders</li> </ul>	<b>Sustainability metrics and targets</b> <ul style="list-style-type: none"> <li>ESG performance to date</li> <li>Pledges about future ESG performance</li> </ul>
Qualities through which the claim is misleading investors or consumers	<div style="display: flex; justify-content: space-between;"> <div style="border: 1px dashed black; padding: 5px; width: 48%;"> <b>Misleading through provision of information</b> <ul style="list-style-type: none"> <li>Empty claims (exaggeration and/or failure to deliver on claims)</li> <li>Inconsistency</li> <li>Outright lie (false)</li> <li>Suggestive non-textual imagery and sounds</li> <li>Irrelevance</li> <li>Suggestive use of ESG-related terminology</li> </ul> </div> <div style="border: 1px dashed black; padding: 5px; width: 48%;"> <b>Misleading through omission of information</b> <ul style="list-style-type: none"> <li>Selective disclosure / cherry-picking</li> <li>Omission or lack of disclosure</li> <li>Vagueness or ambiguity or lack of clarity</li> <li>Lack of fair and meaningful comparisons, thresholds and/or underlying assumptions</li> <li>No proof, unsubstantiated claims</li> <li>Outdated information</li> </ul> </div> </div>		
Channels through which the claims are communicated	Regulatory information (e.g. Prospectuses, Financial statements, Mandatory sustainability disclosures, etc.)	Marketing materials (including website, social media, presentations to investors)	Product information (including internal classifications)
	ESG credentials (e.g. ESG ratings, Benchmarks, labels, certifications, etc.)	Intermediary/advice information	Voluntary reporting, falling outside previous categories

# First insights into supervision

- The final report due in May 2024 will provide a stocktake of the supervisory response to greenwashing by NCAs and of convergence activities initiated by ESMA

