ESG & Financial Services Briefing Special Edition

Guidelines on ESG or Sustainability-related Fund Names

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A. Introduction

1. The European Securities and Markets Authority (ESMA) has issued guidelines on funds' names using ESG or sustainability-related terms. These guidelines seek to enhance investors' protection against greenwashing by establishing the minimum criteria for a fund to use ESG or sustainability - related terms in its name. The name constitutes a communication instrument and marketing tool for funds; therefore unfair, unclear or misleading terms in funds' names should be prevented.

B. Scope

1. The guidelines apply to:

a. Undertakings for Collective Investment in Transferable Securities's (**UCITS**) management companies, including any UCITS which has not designated a UCITS management company;
b. Alternative Investment Fund Managers (**AIF**M) including internally managed AIFs, European Venture Capital Funds (EuVECA), European Social Entrepreneurship Funds (EuSEF), European Long-Term Investment Funds (ELTIF), Money Market Funds (MMFs) managers and
c. the competent authorities, e.g., Hellenic Capital Market Commission (**HCMC**).

C. Transition

1. The guidelines took effect on 21 November 2024.
2. Managers of new funds established after the application date are required to immediately apply the guidelines.
3. Managers of funds existing prior to the application date shall comply with the guidelines by 21 May 2025.
4. Funds have to comply with the guidelines throughout their life. A temporary deviation from the thresholds and the exclusions shall be treated as a passive breach and corrected in the best interest of the investors, provided that the deviation is not due to a deliberate choice by the fund manager.

D. Reporting Requirements

1. Competent authorities within the scope are required to report compliance or non-compliance. Additionally, if they report non-compliance, they must also state their intention to comply or not by 21 October 2024. The HCMC has included a link to these guidelines on their website.
2. Financial market participants are not required to report compliance or non-compliance.

E. Guidelines of Fund's Names

1. The guidelines distinguish three categories of terms in funds' names:
   a. transition-, social and governance-related terms,
   b. environmental or impact-related terms,
   c. sustainability-related terms.
2. Specific criteria are assigned to each of the above categories which must be met for a fund to use the corresponding terms in its name.
3. Funds using transition-, social- and governance-related terms should cumulatively:
   a. allocate at least 80% of their investments to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of their investment strategy and disclose them accordingly; and
   b. apply Climate Transition Benchmark (CTB) exclusions.
4. Funds using environmental- or impact-related terms should cumulatively:
   a. allocate 80% of their investments to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of their investment strategy and disclose them accordingly; and
   b. apply Paris- Aligned Benchmark (PAB) exclusions.
5. Funds using sustainability-related terms should:
   a. allocate 80% of their investments to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of their

investment strategy and disclose them accordingly;

b. apply PAB exclusions; and

c. commit to invest meaningfully in sustainable investments[1].

6. Funds using transition or impact-related terms in their names should also ensure that investments used to meet the relevant thresholds are on a clear and measurable path to social or environmental transition or are made with the objective to generate a positive and measurable social or environmental impact alongside a financial return.



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[1] According to Article 2 par. 17 of the SFRD (Regulation (EU) 2019/2088) 'sustainable investment' means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.