

MEMO# 34964

February 21, 2023

ICI Global Responds to ESMA on Funds' Names Using ESG or Sustainability-Related Terms

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TO: ICI Members

ICI Global Members

ESG Advisory Group

ESG Task Force

Global Regulated Funds Committee SUBJECTS: ESG

International/Global RE: ICI Global Responds to ESMA on Funds' Names Using ESG or Sustainability-related Terms

ICI Global submitted the attached response to the ESMA Consultation Paper on Guidelines on Funds' Names Using ESG or Sustainability-related Terms.[\[1\]](#)

ESMA's proposed guidelines would introduce quantitative thresholds for funds using names with ESG- or sustainability-related terminology. If a fund uses ESG-related terms in its name, the investment manager would be required to report that at least 80% of holdings are used to meet its ESG characteristics or sustainable investing objectives in pre-contractual and periodic disclosures. If a fund uses sustainability-related terms in its name, it would also need to demonstrate that 50% of the portfolio is invested in "sustainable investments" as defined by Article 2(17) of SFDR. These guidelines would not extend to marketing materials.

In our response, we note that we do not support quantitative thresholds at this time. A key missing piece in this discussion is a clear definition of "sustainable investment," which the European Commission is expected to address soon. Until the Commission clarifies that definition, it is difficult to provide an informed view on the implications of the ESMA-proposed thresholds.

We caution ESMA from taking a one-size-fits-all approach to minimum safeguards (i.e., a predetermined set of exclusions). Rather, ESMA should ensure fund managers have discretion to apply minimum safeguards and revenue thresholds aligned with the investment strategy, including a proprietary exclusion strategy comprised of core exclusions tailored to the ESG or sustainability-related characteristics of the product.

We encourage ESMA to support interoperability between EU rules and other major jurisdictions which are considering their own regulations relating to fund names. Impending regulatory fragmentation related to ESG fund names and marketing is a growing concern among global asset managers.

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Notes

[1] The ESMA Consultation Paper is available at https://www.esma.europa.eu/sites/default/files/library/esma34-472-373_guidelines_on_funds_names.pdf. See also, ICI Global memo [34510], available at <https://www.ici.org/memo34510>.

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