CONSOB
Commissione Nazionale per le Società e la Borsa

IOSCO World Investor Week

GLOBAL WEBINAR ON SUSTAINABLE FINANCE IN THE CONTEXT OF INVESTOR EDUCATION AND INVESTOR PROTECTION

2 October 2023 - 13:00 CET

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Good morning/ afternoon or evening depending on where you are.

I am delighted to join this webinar and to participate at the IOSCO World Investor Week.

I would like to thank the Chairman of the Standing Committee on Retail Investors, Mr. Pasquale Munafò, for inviting me to discuss the subject of sustainable finance within the context of investor protection and education.

The title of this webinar encompasses fundamental concepts that lie at the heart of the global regulatory agenda. Today, I wish to encapsulate the concepts of "sustainable finance," "investor education" and "investor protection" under a single term: "greenwashing."

Addressing greenwashing is imperative if we intend to develop sustainable finance while safeguarding investors and enhancing their education. Understanding this phenomenon is of paramount importance for today's discussion.

As we are all aware, the transition towards a greener and sustainable economy is a global priority. Policy makers and regulators are working to ensure that financial markets support the transition and channel investments towards sustainable and zero-carbon activities.

At the same time, investors demand for sustainable investments is growing and, in response, the industry is offering investment products marketed as 'green' or "sustainable" or "ESG".

Concurrently, there is a growing demand from investors for sustainable investments, leading the industry to offer investment products marketed as 'green', 'sustainable' or 'ESG' (Environmental, Social and Governance).

At the end of 2022, the share of sustainable EU UCITS fund accounted 55% of the total EU UCITS fund market. This percentage – 55% - comprises both funds promoting environmental or social characteristics (light green funds) and funds with sustainable investments as their objective (dark green funds). The EU ESG bond market experienced similar trends: EUR 1.5 trillion in 2022, from EUR 500 billion in 2020[1].

The embedded risk is that claims about ESG credentials of a product or entity may be

[1] ESMA TRV Risk monitor n 1/2023

exaggerated. This can occur due to the difficulty in accurately conveying the extent to which sustainability goals are really pursued and achieved.

A recent example of greenwashing is the SEC's decision, few days ago, to sanction an investment advisor for misrepresentations.
It appears that the entity failed to implement certain provisions of its ESG integration policy, which had been previously disclosed.

Regulators are actively addressing greenwashing and enhancing supervision. However, several challenges can hinder these tasks:
- the novelty of sustainability topics,
- an incomplete regulatory framework,
- the lack of standardized and accurate ESG data,
- potential mismatches between investor expectations and sustainability characteristics of investments,
- regulators themselves are still in the process of developing expertise in sustainable finance and risks.

Over the past year, the European Supervisory Authorities (ESAs), with the help of NCAs (Consob included) have studied market practices to develop a **common understanding of greenwashing**.

In their progress report on greenwashing[2] published in May, ESAs define greenwashing as "***practice where sustainability-related statements,*** *declarations, actions, or communications* ***do not clearly and fairly reflect the underlying sustainability profile*** *of an entity, a financial product*, or financial service".

One significant finding from the progress report is that **greenwashing can materialize across all the sustainability investment value chain**. Reference is made to all the possible channels to spread misleading information: prospectus, financial reports, marketing materials, ESG ratings, product information, intermediary advice, voluntary information, as well as – of course – sustainable reporting.

In facing the complexity of greenwashing, three main key lines of action against greenwashing are possible (and needed):

- **First line of action: Education. Investor education is a prerequisite for investor protection. We need to close the ESG literacy gap.**

OECD Recommendation on Financial Literacy[3] highlights that **knowledge of sustainable finance** impacts on individuals' financial well-being and recommends eco-financial

[2] ESAs Progress Report on Greenwashing. Response to the European Commission's request for input on "greenwashing risks and the supervision of sustainable finance policies". 31 May 2023

[3] The Recommendation on Financial Literacy was adopted by the OECD Council at Ministerial Level on 29 October 2020.

education as strategic priority for policy action.

A recent survey conducted by Consob revealed that the number of investors interested in sustainable investments is growing and the sustainability profiles of a product are becoming more prominent than financial profiles: 62 per cent of the investors interviewed considered sustainability goals more relevant than others. At the same time, more than 50 per cent of them did not know the meaning of concepts such as "ESG" or "green bond".

Consob is actively promoting various educational initiatives: I can mention the online course whose title translated in English is: 'Sustainable finance: be aware of risks!' It also joined a financial education programme on sustainability aimed at training the trainers, addressed to high school teachers and university administrative staff and it is planning to launch a new edutainment format (it means education + entertainment) named 'A few words on sustainability', designed for both adult and young persons.

Education is a prerequisite for investor protection, but it is not sufficient. As regulators we cannot leave all the burden to investors. Instead, all market participants in the sustainability value chain have all a responsibility to communicate sustainability information in a clear and balanced manner.

So:

- **Second line of action: Improving ESG Disclosure**

Accuracy, comprehensibility, reliability and comparability of ESG information is crucial.

Consob welcome the European Commission consultation to consider revision of the Sustainable Finance Disclosure Regulation (SFDR)[4] since there is a clear need to simplify the information on sustainable characteristics of funds.

We also welcome the EU Commission proposal for a regulation of ESG ratings, aimed at bringing transparency on the methodologies of ESG rating providers. This initiative acknowledges their relevance for sustainable investments.

Additionally, the recently approved Directive on Corporate Sustainability Reporting[5] is expected to significantly impact the completeness and comparability of ESG disclosures.

On the supervisory side, NCAs are focusing on disclosure both at product level and entity level (looking at offering documents, prospectus and periodic reports).

[4] This consultation was published on 15th of September aiming at gathering information from a wide range of stakeholders, on their experiences with the implementation of the SFDR. The consultation seeks to understand how the SFDR has been implemented and any potential shortcomings, including its interaction with the other parts of the European framework for sustainable finance, and to explore possible options to improve the framework.

[5] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

- **Third line of actions. Rules of conduct.**

As we all know, intermediaries have a pivotal role in assisting investors.

MiFID II rules have been amended[6] to require investment advisers to obtain retail clients' "sustainability preferences" which reflect the clients' views on how they want their capital to be used to influence ESG related issues. Easy to say, difficult to achieve!

Without getting into technical issues, the investors are asked whether they prefer investments that pursue, fully or in part:

(1) sustainable investments in economic activities that qualify as environmentally sustainable under Taxonomy Regulation;

(2) sustainable investments as defined in SFDR; or

(3) financial instruments that consider principal adverse impacts (PAI) on sustainability factors.

That is a new tripartite concept that investors should be familiar with.

According to ESMA guidelines on suitability[7], intermediaries should explain this new concept to investors. Information for each client and product offered, should be mapped and matched, including investor sustainability preferences, before proposing them a certain investment.

It seems that financial **advice is becoming even more personalized than in the past.**

To this regard, Consob has undertaken a fact-finding exercise to understand how intermediaries are implementing these new provisions ([8]).

At the policy level, the recent "Retail Investment Strategy" emphasizes that investment advisors should have adequate knowledge and competence to explain to investors the concept of sustainable preferences and the sustainable characteristics of the products offered.

The attention of the regulators is also focused on the use of ESG or sustainability-related terms in fund names, given their role as effective marketing tools. Consob is collaborating with ESMA to provide guidelines on fund names, advocating that names with reference to

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[6] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms.

[7] ESMA Revised Guidelines on certain aspects of the MiFID II suitability requirements, 23 September 2022

[8] Along the same line, ESMA has launched in June a Call for evidence On "the integration of sustainability preferences in the suitability assessment and product governance arrangements" to better understand the evolution of the market and how firms are applying the new legal requirements

sustainable goals should align with the fund's investment objectives and strategy, as outlined in fund documents.

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To conclude, it is clear – I hope – from this short speech that initiatives to enhance investor education in the world of sustainable finance are needed, and hopefully several initiatives are on-going worldwide, while the topic is constantly evolving.

Just as it is clear that further work is needed in the areas of ESG disclosure and rules of conduct, as a key element for investor protection.

Disclosure requirements, rules of conduct and investor education are key pillars for well-functioning financial markets and are unquestionable pillars for sustainable finance.