ESMA
European Securities and Markets Authority

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Thematic notes on clear, fair & not misleading sustainability-related claims

Addressing greenwashing risks in support of sustainable investments

First Note on ESG credentials

I. General expectations

These thematic notes are prepared for the attention of market participants with an educational objective and build on observed market practices. Building on four principles, the first note focuses on ESG credentials. Other thematic notes will follow, as judged necessary. When combined, the notes should be read as a thematic study.

Why do sustainability claims matter?

1. Sustainability information remains increasingly important to the choices of investors. Market participants have a responsibility to communicate sustainability information in line with the principle of "fair, clear, and not-misleading information". Sustainability claims are related to key aspects of the sustainability profile of an entity or a product[1].

2. Sustainability claims are made by market participants across the Sustainable Investment Value Chain (SIVC), notably by issuers, fund managers, benchmark administrators and investment service providers. Due to the complex nature of sustainability information, market participants making sustainability claims may risk that these claims are misinterpreted and that investors are misled, regardless of whether or not this is the market participant's intention.

3. In line with the work carried out by ESMA on greenwashing in which good and bad practices have been observed, this section aims to explain and clarify ESMA's expectations towards market participants when making sustainability claims, leveraging off the European Supervisory Authorities (ESAs)' common high-level understanding and the core characteristics[2] of greenwashing as stated in the ESMA Progress Report[3].

4. Market participants should acquaint themselves with the below four principles for making sustainability claims to ensure that all claims are clear, fair, and not misleading and thereby avoid the risk of greenwashing. Misleading claims can in particular take the form of cherry-picking, exaggeration, omission, vagueness, inconsistency, lack of meaningful comparisons or thresholds, misleading imagery or sounds, etc.

Four principles to follow

5. ESMA's starting point in designing these principles is the ESA's Progress Reports on Greenwashing that recognised misleading sustainability claims being a concern from an investor protection perspective, whether they are specifically covered by the EU sustainable finance rulebook or not. Certain EU legal

[1] The terms "products" is meant to cover financial products and services.
[2] (1) has a misleading component, (2) can occur at product/service level or at entity level, (3) can occur and spread intentionally or unintentionally, (4) can occur at different stages of the product lifecycle, (5) can occur in or out of the current regulatory framework, (6) the source can be the entity in question or a third party, (7) undermines trust in undertakings/markets and (8) may or may not result in immediate damage to consumers or investors.
[3] ESMA30-1668416927-2498 Progress Report on Greenwashing

texts go further in defining the meaning of 'clear, fair and not misleading information'[4]. The four principles are in line with those set out by the 2024 EIOPA Opinion and by the EBA Final report on greenwashing[5].

6. The principles do not create new disclosure requirements but aim to remind market participants about their responsibility to make claims only to the extent that they are clear, fair and not misleading. These principles and the following guidance included in these notes apply to non-regulatory oral and written communications, referred to as 'communications'. For the purpose of these thematic notes, regulatory information is understood as that required by specific disclosure standards (e.g. fund or bond prospectuses, management reports, funds' KIDs, benchmark statements), while non-regulatory information covers all other types of communications such as marketing materials and voluntary reporting. Communications aimed at retail investors may vary in length and may need to rely on the use of layering which is further explained below[6].

FIGURE 1: FOUR PRINCIPLES TO FOLLOW

1) Accurate

- Sustainability claims should fairly and **accurately** represent the entity's sustainability profile, and/or that of its financial products. This should be done without exaggeration and **consistently** across all communications while avoiding falsehoods.
- Claims should be precise and be based on all relevant positive and negative aspects. **Omission and cherry-picking** should be avoided. Claims should steer clear of **vagueness** and excessive references to irrelevant or non-binding information.
- Market participants should make sure that the **ESG terminology and non-textual imagery or sounds** used are **consistent** with the sustainability profile of the entity or product and do not overshadow the other contents.

2) Accessible

- Sustainability claims should be based on information that is **easy to access** and easy to browse through by readers[7] and at an appropriate level of detail so they are understandable. Moreover, claims should not be **oversimplistic** but should be easy to understand.
- Sometimes more explanation is desirable beyond the space provided, or when the aim is not to overwhelm the reader with information. This is particularly important in the case of short marketing materials aimed at retail investors. Further substantiation can then be presented to the reader in **layers** in the case of documents distributed in electronic format, ensuring substantiation is easy to find.

3) Substantiated

- Sustainability claims should be substantiated with **clear and credible** reasoning, facts and processes.
- Substantiation should be based on **methodologies** (including **comparisons, thresholds or underlying assumptions**) that are fair, proportionate and meaningful. Limitations of information, data and metrics used in a claim should be made available. Comparisons should make clear what is being compared, how the comparison is made and, if possible, compare "like with like".

4) Up to date

- Sustainability claims should be based on information that is **up to date** with any material change to be disclosed in a timely manner.
- The clear indication of the analysis' date and perimeter could be useful for this purpose.

[4] For further details, see Annex 2 of the ESMA36-287652198-2699 Final Report on Greenwashing.
[5] EIOPA-BoS-24-160- Opinion on sustainability claims and greenwashing & Report on greenwashing monitoring and supervision.pdf The principles match the other ESA's principles with which they share a common trait: while each principle targets different aspects, the principles can overlap due to their complementary nature.
[6] More information on the importance of layering is present in the ESMA Opinion on the sustainable finance framework.
[7] Such as retail investors, institutional investors, supervisory authorities and other market participants.

II. Sustainability claims on ESG Credentials

Reasoning

1. References to ESG credentials are among the most prominently used claims in retail-investor focused communications. These include references to qualifications, labels, ratings[8], certificates (henceforth referred to as "ESG credentials") and can be misleading in several ways. For instance, by overstating the significance of having a given label, of receiving an ESG award, of being signatory to a voluntary framework, etc.

2. Notably, these claims are of relevance for the following parties: fund managers (claims about funds'[9] and asset managers' credentials), benchmark administrators (benchmarks' credentials), investment service providers (claims at entity and/or product level) and issuers (entity-level claims).

3. The ESG credential claim types below are considered in particular:

   a) **Industry initiatives**: actual significance of market participants' involvement in net zero alliances, in voluntary ESG initiatives, including doing voluntary ESG reporting under specific international frameworks. Sometimes, being a signatory to some of these initiatives leads to receiving an external ESG rating/assessment from the third party, which may be based on self-reported ESG information.

   b) **Labels and awards**: actual significance of having a given credential like a national or regional label or perceived labels or of having won any type of ESG award (such as sustainability reporting awards for issuers); and

   c) **Comparisons to peers:** actual significance of ESG credentials that are based on comparing ESG characteristics of a product or an entity (including ESG metrics like carbon footprint, ESG ratings, etc.) to competitors, peer groups, etc. Very often, it is not clear whether a credential is absolute or whether it is based on a comparison to peers.

[8] Claims about ESG credentials can reference a variety of metrics including internal or external ESG ratings. Typically, such claims reference external ratings reliant on a comparison to peers.
[9] Or other products under the scope of SFDR, or products with similar characteristics.

Claims about all forms of ESG credentials:

Do's

- Clarify how the criteria for the ESG credential are met (how they are measured and monitored), and how they are material for the ESG profile of the product/entity.
- If linked to third-party assessments, explain 1) what the credential means, 2) what it is based on (e.g. underlying assumptions), 3) on what scale the credential moves, 4) by whom it was issued and 5) when.
- Provide details of the entity offering the credential and clarify if it monitors the implementation of related targets periodically (some entities do not include ex-post controls checking for compliance with the criteria over time).
- When you lack space and to avoid overwhelming the reader, present the relevant information about the credential in layers or provide links to web pages where detailed information is available.

Don'ts

- Don't reference ESG credentials for products that do not take sustainability into account (for instance, funds disclosing under Art.6 SFDR for which external ratings might be available from third parties, or benchmarks that do not take into account ESG factors).
- Don't exaggerate the meaning of a credential (like belonging to an industry initiative or getting an ESG award).
- Don't use outdated credentials or credentials that are not representative of the current sustainability profile of the entity or product.
- When you have several sources for a given credential (e.g. external ESG ratings based on comparisons to different peer groups) don't cherry-pick these on a case-by-case basis or from one period to another.

Example 1
Good practices

A market participant has published a visual overview on its website encompassing all ESG credentials relevant to the organization.

- ✓ Each credential is accompanied by the year of issuance, the scale on which it is based, and a concise explanation of its scope and significance.
- ✓ A direct link is provided, enabling readers to access detailed information about each credential with ease.

One such credential belongs to a biodiversity and circular economy alliance. The participant clarifies that:

- ✓ The alliance does not conduct ex-post controls ensuring compliance with its commitments over time.
- ✓ These are checked internally by the market participant's compliance department.

The market participant lists the ESG awards it received or for which it was nominated based on its voluntary corporate sustainability reporting:

- ✓ Providing a link with information on its possible conflicts of interest with the entities granting these awards.
- ✓ Mentioning that in the case of the award received in category X, information on the sample size or potential pool of nominees, when such information is available.

Example 2
Poor practices

A bank communicates in its marketing material (e.g. social media posts) about its green initiatives, such as claiming to be "the most sustainable bank in the world".

- ✗ Without any corroboration or details about the comparison's underlying assumptions, peer group used, etc.

The same bank, on the website of its asset management business, gives prominence to its green bond expertise by claiming one of its green bond funds was rated "Gold" in the ESG Bond category of an external third party.

- ✗ No information is provided about the methodology used by the third party, the date of the assessment, etc.
- ✗ This information is not updated once the fund in question had a notable change in investment strategy allowing it to invest in non-ESG bonds or when the fund is liquidated.

Claims about industry initiatives

Do's

- Clarify what belonging to the initiative means (e.g. process, extra reporting whether self-reported or verified), and if it requires delivering on any targets (specific commitments may be requested upon joining the initiative).
- For industry initiatives resulting in external ratings based on self-reported information, make sure to give all the relevant information for the investor to understand the meaning of that rating. If possible, provide a link to (or make publicly available) the self-reporting that led to that rating.

Don'ts

- Don't continue referencing the initiative once your entity/product has left it.
- Don't cherry-pick information provided on what it means to be a signatory:
  - If a rating is awarded based on self-reported ESG information but the rating is not favourable, be transparent about the rating anyway. Do mention the rating when referencing being a signatory of that initiative.
  - Don't emphasize older favourable ratings received as part of that initiative if newer less favourable ones exist.
- Don't use claims about entity-level commitments (e.g., asset managers, benchmark administrators) in product-level information without also explaining how the commitment is relevant at product-level.

Example 3
Good practices

A market participant claims to be part of an industry net zero initiative.

✓ On its website it explains what this initiative entails, what actions it will take as a result of joining the initiative, and it provides updates on what actions it has undertaken.

✓ It provides links to the website of the initiative so that readers can learn more about it in detail.

Example 4
Poor practices

A firm that provides investment advice to retail clients gains membership in a net zero alliance. This alliance requires reaching certain decarbonisation-related commitments. The firm does not make any effort or make any change in its practices to attain the decarbonisation improvements required by the net zero alliance.

× Despite the absence of changes in its practices, the firm openly commits to these decarbonisation improvements and organises a prominent marketing campaign around its membership.

× On its website it hints that its membership in the alliance is an indication of its superior ESG profile and its superior ability to generate sustainability outcomes for its clients.

Example 5
Poor practices

An asset manager claims it is one of the founding signatories to Initiative ABC. In year N, it references its ABC ratings (e.g. for its listed equity funds B+, for bond funds A-, firmwide it earned an A rating) across its fund marketing materials. In year N+1, the ratings deteriorate.

× In year N, the manager only explains what the various ratings mean relative to other signatories (e.g. top 60% of all signatories, top 80% relative to other listed equity funds) for those funds whose ratings are favourable.

× In year N+1, the manager further cherry-picks by deleting the references to ABC ratings in certain factsheets (where ratings are below B), while keeping the prominent claims about being a signatory across all its marketing materials.

× It fails to update its website regarding its new ABC reporting and most recent ratings received, with all factsheets containing links to the outdated news item about the good ratings from year N.

Claims about labels and awards

Do's

- Clarify if the labels' underlying criteria are focused solely on having in place processes, and/ or if they also require delivering on specific positive sustainability outcomes.
- Be transparent about the governance around the process of the awarding body, the eligibility criteria, the date of the different versions or updates and clarify if the label/award consists of subcategories.
- When using a credential attributed by entities that may also sell paid services, do clarify any potential conflict of interest and payment of fees to the attributing entities (e.g. if your entity was a sponsor of the ESG award).
- Mention for which period the ESG award was given and when it was received.

Don'ts

- Don't use regulatory disclosures such as SFDR product-level disclosures as labels. For instance, when mentioning a product's disclosures under the SFDR, don't give the impression that SFDR designations are credentials or that they have been assigned by a third party (e.g. via colourful logos).
- If a communication has been approved by a national competent authority (NCA) according to existing national requirements, don't display the flag/logo of the NCA implying this is an obtained label.
- When a product is not subject to certain regulatory disclosures, don't say that this product or instrument is compliant with those disclosures (e.g. don't say that a benchmark is "Art.8/ Art.9 SFDR-compliant").

Example 6
Good practices

Asset manager and benchmark administrator B was awarded the "best ESG index provider" award. In its ESG benchmarks' marketing materials it references this award and states that:

✓ It did not pay a fee to be considered for this award. Winners were selected by X, based on a selection process (clarified via layering).
✓ This award was announced in month X and based on the time period Z.
✓ Each potential conflict of interest was identified and addressed.

Whenever it refers to a label or award received by one of its funds or benchmarks, B includes the following:

✓ "The fact that the fund/benchmark has obtained this reward/rating/label does not mean that it meets your own sustainability goals".
✓ "The award is not indicative of the ESG fund's/ benchmark's future performance".

Example 7
Poor practices

A benchmark takes into account ESG factors. Across its documents, it:

× Communicates about the fact that its holdings are "SFDR compliant".
× Includes at the bottom of each page of its factsheet a green leaf symbol containing the words "Art. 8 SFDR" next to the EU flag which is portrayed as a logo.

Example 8
Poor practices

A ManCo mentions in its sustainable report that its fund received an external ESG label and provides details about the dates ("in month X, the fund was granted ESG label Z for its internal ESG rating strategy and the ESG characteristics included in its management objective. The label was renewed in month Y"):

× The detailed information about the dates is not matched by any other information regarding the label e.g. it does not explain or clarify the criteria at all.
× It also doesn't indicate if the company paid a fee to the label issuer.

Claims about comparisons to peers

Do's

- When comparing your entity/product to competitors, clarify the basis of the statement, the group of comparable peers on which the comparison is made and the reasons why that group was selected for comparison, etc. and try to ensure that the peers' selection is fair and meaningful.
- Provide the name of the peer group, and for funds and benchmarks, the coverage ratio of the credential (i.e. % of coverage of the fund holdings by the third-party provider), the date of the portfolio holdings on which the rating is based and the date of the assessment.
- For products: reference these only when they promote ESG characteristics or have a sustainable objective.

Example 9
Good practices

An asset manager uses the fund platform M to generate its fund factsheets, in which it includes the M globes sustainability-rating using M fund categories (e.g. a fund gets 4 globes out of 5 if it beats x% of the M peer group based on a combination of ESG metrics). The factsheets also include a peer rating from another database L.

✓ For its funds that have a peer list that is too small to allow meaningful comparisons or for which the comparison is not relevant, the manager does not reference these credentials (e.g. for its global bond fund X it clarifies that this fund's financial or sustainability performance cannot be assessed properly against any peer group since the fund has an absolute return strategy. Thus, the M peer group "Other bond" should not be used for any comparisons)

✓ For all references to peer credentials, it provides a short explanation on how these should be understood. For example, for its emerging markets equity fund, it explains its sustainability A+ rating provided by L means that it is "8th/100 rank in entire fund universe, and top 70% of its comparable peers".

Don'ts

- Don't compare your entity/product to others without disclosing the sources of information and key assumptions used, especially when making claims such as: "We pay above-average attention to social issues"; "Our firm has become the reference in the market of sustainable investments".
- When the sustainability fund rating calculated by online platforms is based on a comparison to a peer group that is either too small or not very relevant, don't reference these credentials or clarify their limitations.
- Don't create internal ESG classifications without ensuring these are in line with the sustainability profile of the products in question.

Example 10
Poor practices

An investment firm has its own internal classifications of ESG-flavoured products that are used when providing investment advice to retail clients. Such categories include "ethical funds" and "ethical EMTNs", the latter being dependent on benchmarks considered "ethical" or "ESG". An EMTN tracking a benchmark that holds government bonds is classified as an "ethical" EMTN and sold as such to a retail client with a preference for ethical products:

✗ However, no ESG or "ethical" claims are made by the benchmark administrator (the benchmark does not claim to take into account factors or consider ethical criteria) or the market participant offering the EMTN.

✗ No analysis of the ethical practices of the governments issuing the bonds was actually conducted and disclosed by the firm.

Example 11
Poor practices

An asset manager uses platform L's peer-relative ratings in its funds' factsheets, brochures and other marketing materials.

✗ It does this for all funds, including those disclosing under Art.6 SFDR.

✗ For certain funds for which L ratings are very poor on given month, the asset manager replaces these either with an internally computed ESG rating or with a more favourable external rating from platform M.

✗ The manager omits to explain that its L peer-relative credential is based on the fund's portfolio holdings dating back from 18 months ago (rendering the comparison of its portfolio to peers' holdings irrelevant).