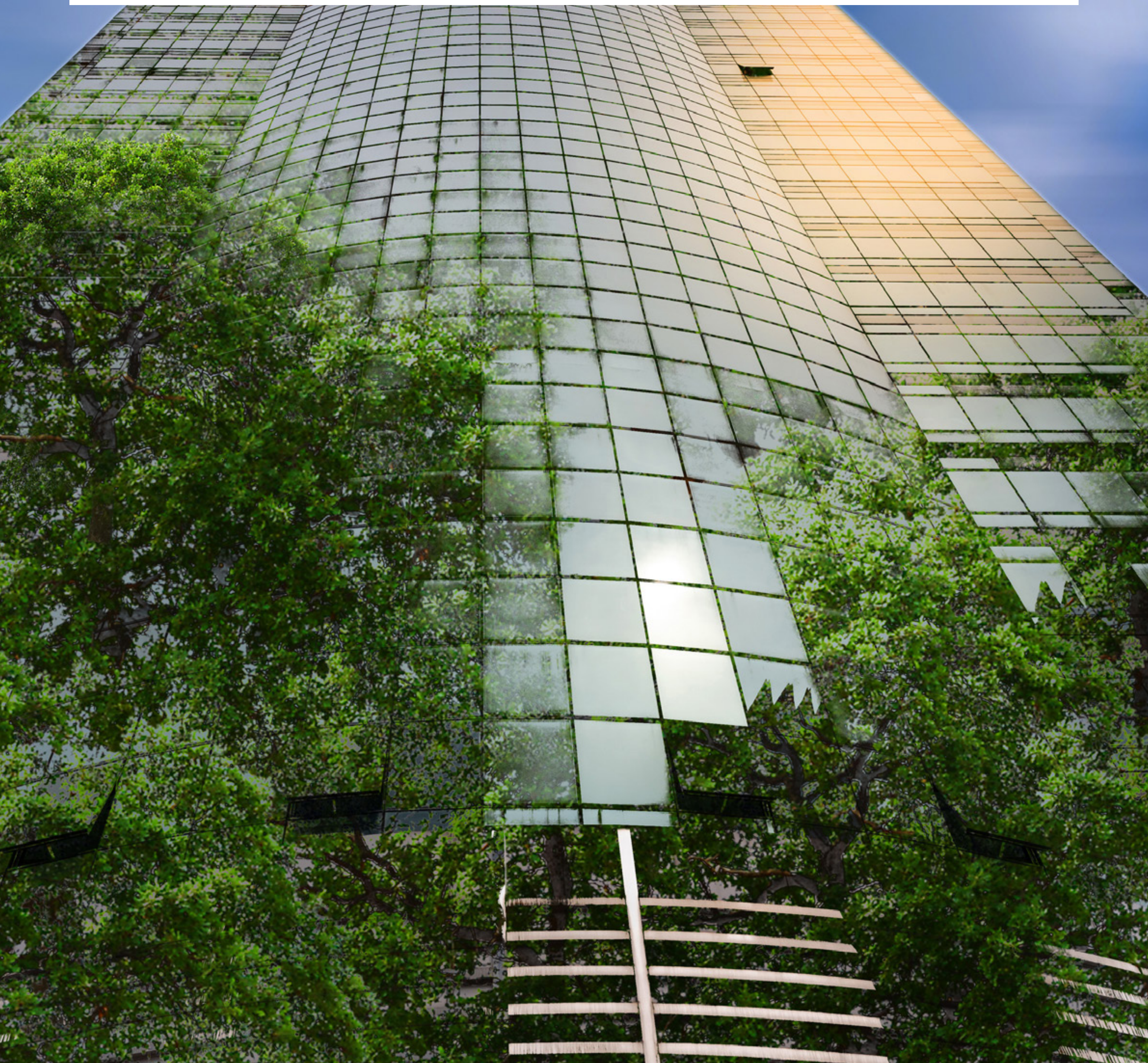
ICMA

International Capital Market Association

A time for change in the sustainable fund market – Reflections and recommendations in a new regulatory environment

March 2025



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Executive summary

The sustainable fund market has experienced significant growth and now represents AUM of near USD3.3 trillion. It remains, however, predominantly based in Europe which accounts for 84% of the ESG open-ended and exchange-traded fund universe[1]. Furthermore, near 60% of euro-denominated public fund assets are currently invested in Article 8 and Article 9 funds[2]. Since 2022, momentum around sustainable funds seems to have slowed down due to factors such as macroeconomic context, high rates, ESG pushback, as well as greenwashing concerns and regulation.

In their main European market, a majority of sustainable funds face the choice of rebranding or opting out of the segment following regulation in both the UK with the FCA's Sustainability Disclosure Requirements (SDR) and investment labels, and in the EU following ESMA's Guidelines on funds' names using ESG or sustainability-related terms. This follows an earlier widespread structuring of sustainable funds since 2019 into Article 8 and 9 categories based on the EU's Sustainable Finance Disclosure Regulation (SFDR) even though these fund disclosures were not intended as investor facing labels. Prior to this and in parallel, both the official sector and the market have also promoted explicit sustainable fund labels designed to support integrity and provide clarity to investors.

The rationale for regulatory initiatives on fund naming, categorisation, and labelling initiatives is based on greenwashing concerns. The available data does not evidence that these risks crystalised at significant scale in the market although prior regulatory action and disclosures may have also acted as early mitigants. It is important to note that the scope of ESMA's Guidelines, notably following industry dialogue led by ICMA, was adjusted to avoid unwarranted disruption of the sustainable bond market.

In practice, European regulation now requires sustainable funds to be categorised in broad categories on either sustainability, impact, or transition themes. Our research illustrates the existence of best practices that mirror this implied categorisation to some degree, but such practices remain insufficiently standardised (see Annex 1). We also note that some asset managers consider that alternatives exist to named or labelled sustainability, impact and transition funds such as funds pursuing selective forms of investing which serve underlying sustainability themes.

Further legislative and regulatory action, notably under the upcoming EU SFDR review, may lead to regulated sustainable fund categories accompanied by broader naming restrictions over and above the ESMA's Guidelines. We argue that the SFDR review should remain consistent with measures to date to prevent market disruption and possible unwarranted contraction while allowing for targeted enhancements.

We also identify the risk of a potentially reductionist approach proposed by European Supervisory Agencies (ESAs) to define sustainable investments, notably under SFDR, only in terms of alignment with the EU Taxonomy. This could dramatically and unjustifiably narrow the investable universe because of the recognised usability challenges and EU-centricity of the Taxonomy[3].

Our research shows that current market practice for the assessment of sustainable investments is much more diverse (Annex 1). There are several tools that are equally important and/or complementary with dedicated instruments such as other official and recognised market taxonomies, sustainable bonds, ESG ratings, sustainability-related revenue and CapEx threshold methodologies, Net Zero and/or GHG reduction targets, and other transition trajectory assessments. It is critical that the industry convey to EU legislators and regulators the risks of an unjustifiably restrictive approach to defining sustainable investments.

1 Global Sustainable Fund Flows: Q3 2024 in Review
2 See Morningstar's "SFDR Article 8 and Article 9 Funds: Q3 2024 Review".
3 See our reports "Ensuring the usability of the EU Taxonomy" (February 2022) and more recent "Commentary and Recommendations on the simplification of EU Sustainable Finance legislation" (February 2025).

Our research evidences the relative lack of fund offerings marketed under an explicit transition theme compared with a sustainability one. We underline the terminology and substantive challenge arising from investments in the transition space as transition occurs over a spectrum from economy-wide, via climate, to fossil fuel & hard-to-abate transition[4]. We also highlight the need for regulators to adapt their perception of greenwashing risks to accommodate transition investments that may lead to intermediate rather than sustainable outcomes.

We propose that transition-themed funds resulting from European regulation could focus notably on investments in transition trajectories based on KPIs from sustainability reporting and the execution of transition plans, as well as in transition-themed sustainable bonds, while also especially promoting fossil fuel & hard-to-abate transition. We otherwise refer to the necessity of wider policy support for transition.

Based on the above, we have the following recommendations:

- Future regulation, notably from the SFDR review, should be consistent to avoid disruption and/or discouragement of the sustainable fund market which will have substantially rebranded and reorganised because of recent initiatives. Enhancements can however be considered such as a uniform disclosure relating to the exposure of funds to investees implementing transition plans where climate transition risks are material[5].
- To prevent a dramatic narrowing of the investable universe in sustainability, EU regulators should not restrict the assessment of sustainable investments solely to the EU Taxonomy and remain open to other official and leading market taxonomies as well as established assessment tools and approaches.
- To grow transition-themed funds resulting from European regulation, terminology and investment strategies need to identify more specifically transition investments that cannot necessarily be accommodated by other sustainable fund categories, such as in the fossil and hard-to-abate sectors, while regulators may need to adapt their greenwashing prevention efforts to avoid deterring such investments.

4 See ICMA's report "Transition finance in the debt capital market" (February 2024).
5 See the box on p15 *A uniform transition plan disclosure under a revised SFDR.*

Introduction

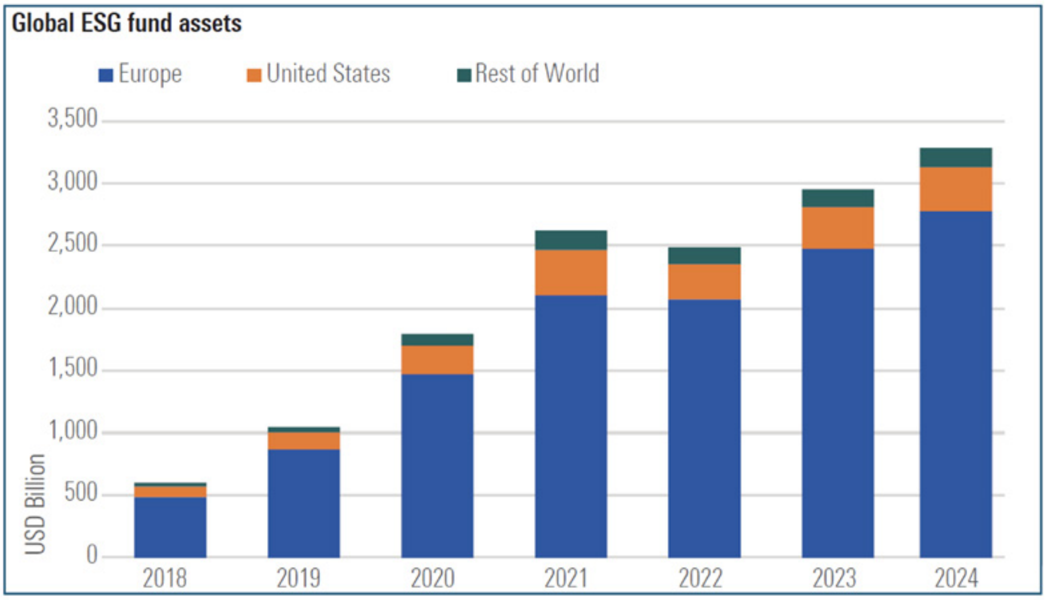
The growth and success of the sustainable fund market has led in parallel to concerns about integrity and greenwashing risks from regulators. Recent regulatory initiatives in the UK and the EU around fund categorisation, labelling, and naming will significantly impact a largely European industry that already reorganised in response to EU's SFDR in 2019.

In this paper, we identify the implications of these regulations for the sustainable fund market while looking at current market practices based on the results of targeted research. We also build on our previous publications "Commentary and recommendations for the simplification of the EU Sustainable Finance legislation" (February 2025), "Market integrity and greenwashing risks in sustainable finance" (October 2023) and "Transition finance in debt capital market" (February 2024). We conclude by proposing priorities for a common roadmap for regulators and the market, while also making several recommendations.

1/ The sustainable fund market: a largely European phenomenon

The sustainable fund market[6] has experienced significant growth currently representing over USD3.3 trillion of total AUM. The market remains, however, predominantly European as it accounts for 84% of the ESG open-ended and exchange-traded fund universe. Furthermore, near 60% of euro-denominated public fund assets are currently invested in Article 8 and Article 9 funds[7].

Figure 1



Source: Six Sustainable Investing Trends to Watch in 2025, Morningstar, data as of September 2024.

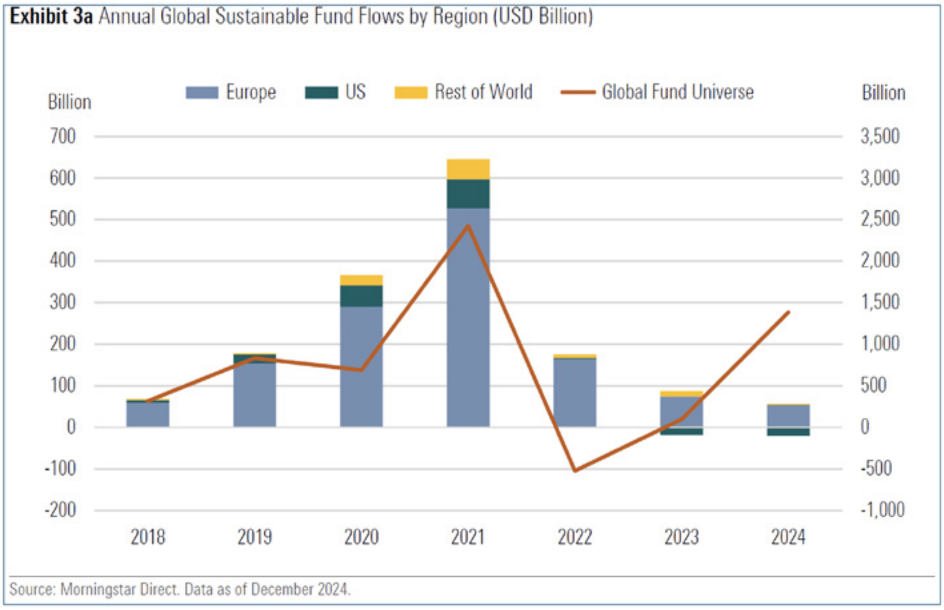
ESMA's report on "ESG names and claims in the EU fund industry" (October 2023) looked at historical data for equity, mixed, and bond funds representing almost 30 000 funds and over EUR10 trillion AUM. It found that funds with ESG-related names increased from less than 3% in 2013 to roughly 14% in early 2023. The number of funds adding ESG words to their names since 2018, including during high inflows in late 2020 and early 2021, were 1356 which represents 4.6% of actively managed equity, mixed, and bond funds.

Since 2022, sustainable fund inflows have slowed down or even experienced outflows in the US. This may be due to several factors: macro-economic developments and high rates environment notably affecting clean energy investments and firms, the ESG pushback in the US, issues around greenwashing, reputational fears, and tightening ESG regulation.

6 Morningstar's report "Global Sustainable Fund Flows: Q2 2024 in Review" defines "sustainable funds" on the basis of intentionality rather than holdings and rely on a combination of fund names (as a strong indication of intentionality) and information in fund documents. The fund's documents should contain enough details to leave no doubt that ESG concerns figure prominently in the security-selection and portfolio construction process. "ESG integrated funds" or those that apply limited exclusionary screens (e.g. controversial weapons, tobacco, coal) are not included in the definition while ESG-screened passive funds are as the exclusions are the sole purpose of the strategy.

7 See Morningstar's "SFDR Article 8 and Article 9 Funds: Q3 2024 Review".

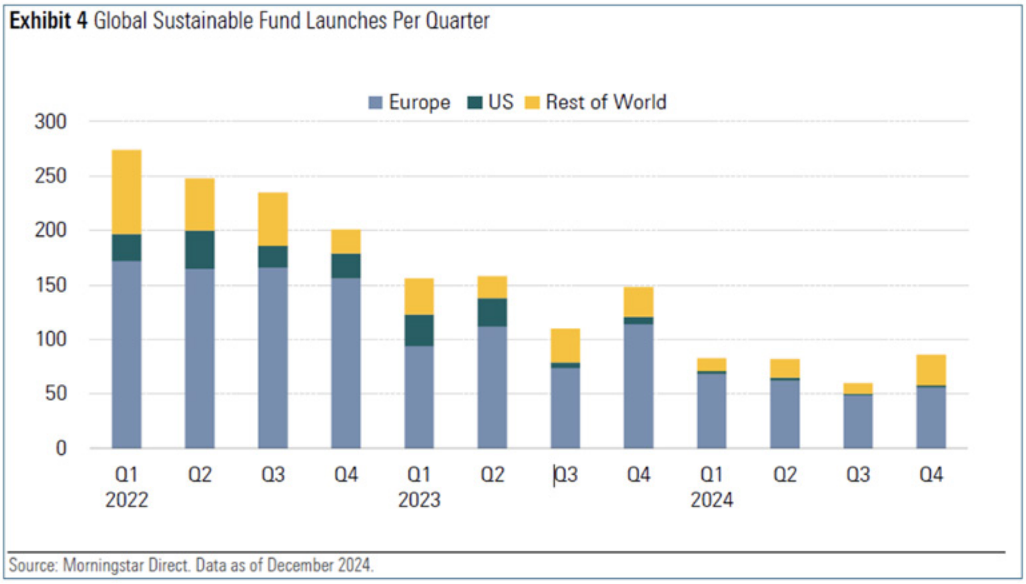
Figure 2



Source: [Global Sustainable Fund Flows: Q4 2024 in Review](), Morningstar

New fund launches have also slowed down recently to 311 in 2024 compared with 573 launched in 2023. This may however be an indication of a maturing market coupled with a "wait and see approach" given the EU and UK regulatory developments on fund naming and labelling, which are further explored in this paper.

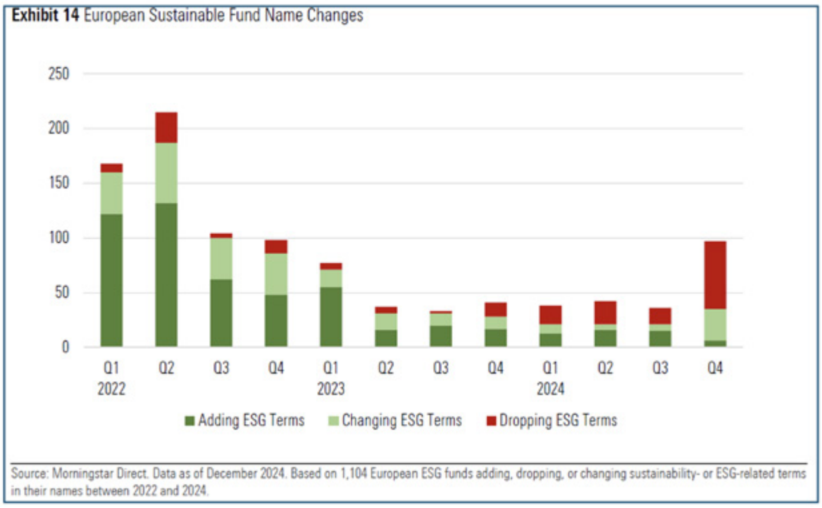
Figure 3



Source: [Global Sustainable Fund Flows: Q4 2024 in Review](), Morningstar

For Europe, Morningstar reports that 351 sustainable funds have seen closures in 2024, representing almost 40% increase over 2023. Moreover, a record of 62 funds removed their ESG-related names in Q4 2024. This trend is expected to amplify once ESMA's Guidelines on ESG-related fund names become applicable on 21 May 2025 for several existing funds (see below). Generally, Morningstar expects that between 30-50% of EU funds with ESG-related names could change their names by mid-2025 as a result while noting an upwards trend for transition fund appetite.

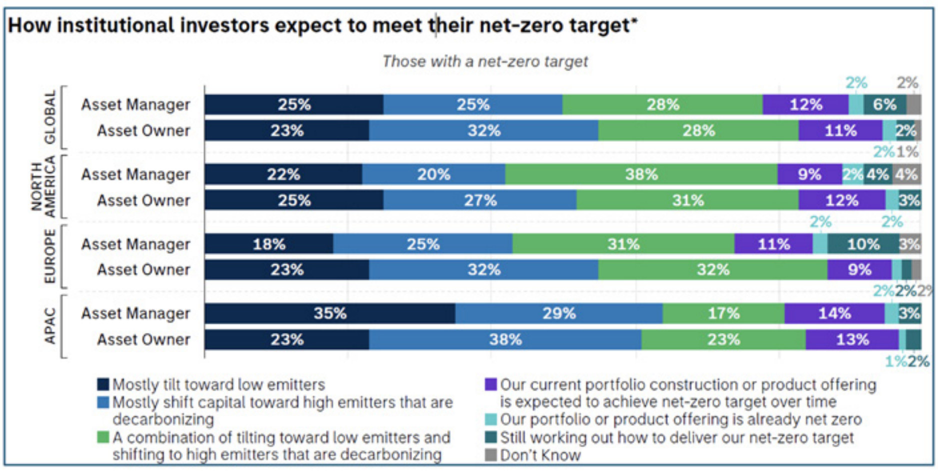
Figure 4



Source: Global Sustainable Fund Flows: Q4 2024 in Review, Morningstar

On a more positive note, Morgan Stanley's survey "Sustainable Signals – Institutional Investors" (December 2024) reported that over 78% of 295 asset owners and 606 asset managers expect assets in sustainable funds grow in the next two years as a result of new mandates and higher allocations. Over 80% of asset owners globally say they require asset managers to have a sustainable investing policy or strategy in place. Conversely, data availability and consistency, fluctuating regulatory guidance on sustainable fund disclosures and classifications, greenwashing risks, and uncertain political environment constitute the top challenges. Lastly, 65% of asset owners and 57% of asset managers have set a net-zero target and have plans to deliver. Nonetheless, this will require new portfolio construction, strategies as future capital shifts towards low emitters and decarbonisation are anticipated.

Figure 5



Source: Sustainable Signals – Institutional Investors (December 2024), Morgan Stanley

2/ Integrity and greenwashing risks for sustainable funds

The success of sustainable funds in attracting significant capital inflows has also led to concerns among regulators about integrity and greenwashing risks which were summarised by IOSCO in 2021. ICMA also considered these risks and the data in a report released in October 2023 while also producing a related podcast series.

Progress on identifying the risks

In 2021, IOSCO published its Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management categorising greenwashing risks at the fund products-level as follows: (i) lack of alignment between the product's sustainability-related name and its investment objectives and/or strategies; (ii) marketing that does not accurately reflect the product's investment objectives and/or strategies; (iii) failure of product to follow its sustainability-related investment objectives and/or strategies; (iv) misleading claims about the product's sustainability-related performance and results; and, (v) lack of disclosure.

Relatedly, IOSCO recommended that policymakers provide parameters on fund naming to ensure that the name of the product accurately reflects the nature and extent of the product's sustainability focus, including promoting consistency with the product's name and its investment objectives, characteristics and/or strategies, as well as parameters for the consistent and correct use of labels and classification systems.

In our report on "Market integrity and greenwashing risks in sustainable finance" (October 2023), we categorised the concerns in the fund industry as "vague or ambiguous responsible investment methodologies", "unclear or misleading fund labelling and naming", and "actual deception". We indicated that several factors may have contributed to greenwashing risks, including (i) an underestimation of the difficulties involved in developing and implementing a sustainable investment methodology, (ii) premature marketing in a competitive environment, and (iii) an immature regulatory framework.

Participants in our 2023 podcast "Greenwashing risks and sustainable funds" agreed that greenwashing risks in the funds space are an issue. They especially raised concerns about references to sustainability in fund names which can be the biggest indicator of intentionality and can mislead investors if they unduly carry ESG-related words in them.

The data remains inconclusive

Data on greenwashing is however limited and shows a mixed picture, especially on the extent to which greenwashing is occurring at any significant scale. In the EU for example, ESMA's Final Report on Greenwashing (June 2024), which builds on the Progress Report of May 2023, did not find evidence of widespread greenwashing. In total, only four NCAs surveyed have either taken enforcement action or were in the process of doing so, with none having submitted cases to law enforcement authorities. Nonetheless, the report underlines that this may not be conclusive, and could reflect low level of signals (e.g., complaints) reaching National Competent Authorities (NCAs), limited financial literacy, constraints on NCAs' resources and expertise for detection, and NCAs' difficulties to access good quality data. It is also reported that several NCAs have taken an educational approach and requested supervised entities to amend the potentially misleading information in their documents.

There are however incidences of greenwashing-related enforcement in several jurisdictions. Most recently, IOSCO's report "Supervisory Practices to Address Greenwashing" (December 2023) summarises initiatives undertaken to address greenwashing in line with its 2021 recommendations, as well as an overview of sanctions and other measures and cases of greenwashing related to asset management observed in different jurisdictions. For example, Australia's ASIC reported on its greenwashing enforcement actions relating to fund labels.

3/ Regulatory initiatives on fund naming and categorisation

In line with IOSCO's 2021 recommendations, regulators have issued guidance on fund naming and categorisation relying initially on principles-based approaches aiming to address greenwashing risks. As we explore below, regulators then further complemented these principles-based guidance with quantitative thresholds, high-level definitions and categorisations for "ESG funds" for disclosure purposes, naming restriction rules, and, with detailed labelling systems.

In this section, we focus on the regulatory developments in Europe (EU and UK). A summary of selected industry and official sector supported fund labels (Annex 3) as well as developments in relation to regulatory ESG-fund categorisation in key Asian and North American jurisdictions (Annex 4) can be found in the annexes of this report.

EU SFDR Disclosures as implicit labels

In the EU, regulatory disclosure categories have been used as "de facto" labelling. The Sustainable Finance Disclosure Regulation (SFDR), enacted in 2019 as one of the cornerstones of the EU's sustainable finance agenda, has introduced three categories for disclosure purposes: (i) Article 6 funds (all managed funds); (ii) Article 8 funds (which promote environmental or social characteristics); and (iii) Article 9 funds (which have a "Sustainable Investment" objective).

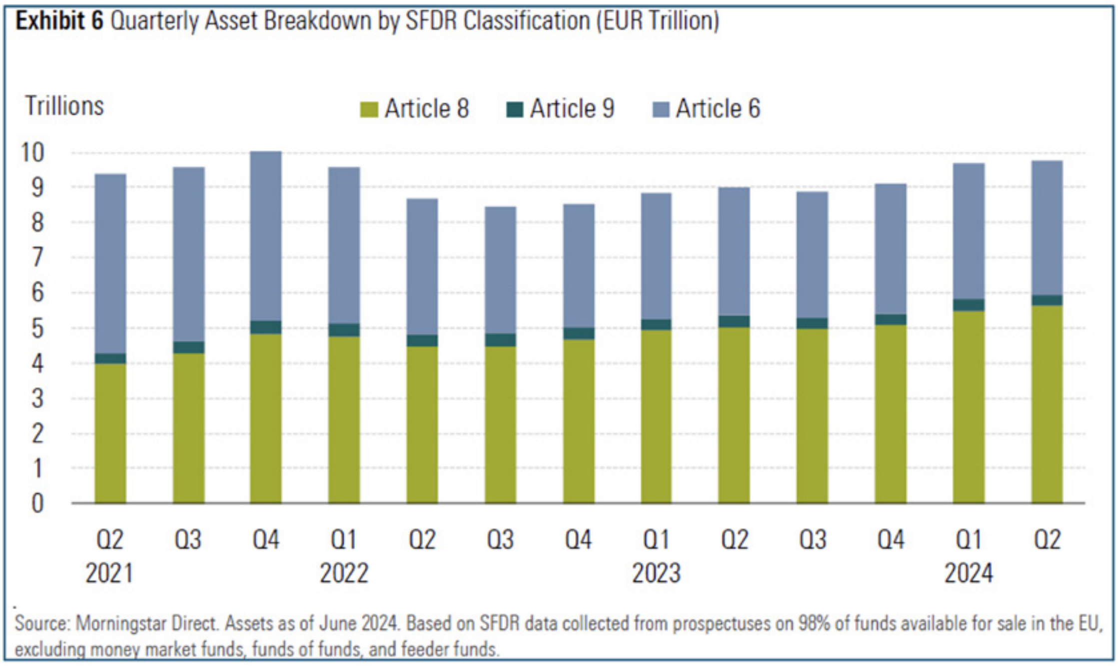
The concept of "Sustainable Investment"

SFDR provides a definition for the concept of "Sustainable Investment" (SI), which underpins the Article 9 category, as an economic activity that contributes to an environmental or social objective, provided that such investments do not significantly harm (DNSH) any of those objectives and that the investee companies follow good governance practices[8]. Importantly, DNSH is assessed differently than under the Taxonomy regulation and is based on the consideration of a number of principal adverse impact indicators (PAI) provided in Annex I of the regulation.

However, these categories have been used in the market in line with distribution and client appetite as if they were investor facing labels. This was also partly due to implied differences in the ambition level of products where Article 8 and Article 9 funds have been commonly referred to as "light green" and "dark green" funds, respectively. Collectively, Article 8 and Article 9 funds constitute near 60% of the universe of EU funds in scope of SFDR by assets, which have totalled around EUR6 trillion, and 50.1% by number of funds[9].

8 See also ESMA's paper "Concepts of sustainable investments and environmentally sustainable activities in the EU Sustainable Finance framework" of November 2023 for further explanation.
9 See Morningstar's "SFDR Article 8 and Article 9 Funds: Q3 2024 Review".

Figure 6



Source: SFDR Article 8 and Article 9 Funds: Q3 2024 Review, Morningstar

The wide, but unintended, use of SFDR fund disclosures as fund labels by the market has not occurred without creating issues. There are indeed significant usability issues arising from these categories including the following:

- The Article 8 category based on the "promotion of E/S characteristics" is very broad and lacks minimum quality conditions to serve as a reliable categorisation.
- The key concepts (e.g. contribution to an E/S objective or the DNSH for "Sustainable Investments") underpinning Article 9 categorisation lack clear guidance and criteria leading to divergent interpretations and lack of comparability[10].
- The investment universe in Article 9 products is narrow, especially for fixed income investments. This is mainly due to: (a) a high Sustainable Investment threshold being required; (b) data required for Principal Adverse Impact indicators, and (c) conservative approaches which can be motivated by reputational concerns..

UK FCA combining voluntary labelling with mandatory naming exclusions

In November 2023, the UK Financial Conduct Authority (FCA) introduced with the Sustainability Disclosure Requirements (SDR) and investment labels its final rules and guidance to help consumers navigate the market for sustainable investment products. The comprehensive package includes: (i) an "anti-greenwashing" rule reinforcing that sustainability claims must be fair, clear and not misleading applicable to all authorised firms making sustainability claims (with additional guidance finalised subsequently in April 2024); (ii) naming and marketing rules; (iii) four investment product labels of voluntary use; (iv) consumer facing disclosures; (v) detailed pre-contractual and ongoing product-level disclosures and entity-level disclosures; and (vi) distributor requirements.

10 See Morningstar's report "SFDR Article 8 and Article 9 Funds: Q4 2022 in Review" (January 2023) report p.35-37. The report outlines several underlying reasons for divergent Sustainable Investment numbers reported by different asset managers, even for similar portfolios. Among other things, Morningstar cites the current Sustainable Investment definition leaving too much room for interpretation, especially on its DNSH condition. As background, asset managers should assess the DNSH compliance for their investments by "considering" a number of principal adverse impact indicators (PAI) provided in Annex I of the SFDR Delegated Regulation. While what is meant by "considering" remains unclear, the regulation does not impose uniform thresholds for the DNSH test for each of these indicators and leave such to each asset manager's own discretion. At the same time, it is also reported that some asset managers apply the PAI indicators on a selective basis, as not all of them may be relevant to an asset manager's investment strategy and/or focus (see p. 31 of Morningstar's April 2024 report).

The FCA's voluntary labelling regime aims to strike a balance between principles-based and prescriptive approaches and uses both qualitative and quantitative criteria notably for minimum holdings of qualifying assets. Ultimately, under the FCA's labels (see below), specific asset selection criteria are left to firms provided they use, by applying an external or a proprietary methodology systematically, a "robust and evidence-based standard that is an absolute measure of sustainability"[11] and is independently assessed either internally or through a third party.

Overview of FCA voluntary sustainable fund labelling

<table>
<tr><th>Labels</th><th>Label specific criteria</th><th>General criteria (applicable to all labels)</th></tr>
<tr><td>Sustainability Focus</td><td>Minimum 70% of environmentally and/or socially sustainable assets (e.g. thematic funds)</td><td rowspan="4">Sustainability objective(s): Labelled products must have explicit, clear, specific and measurable sustainability objective(s) towards positive environmental and/or social outcomes. Firms should identify and disclose whether the pursuit of such objective(s) may result in material negative sustainability outcomes.
Investment policy and strategy: Minimum 70% of assets to be invested in accordance with the fund's sustainability objective(s). Remaining assets should be explained and not conflict with sustainability objective(s).
KPI(s): Firms must identify KPI(s) to measure progress against the sustainability objective (at product or individual assets-level).
Resources and governance: Appropriate resources, governance and organisational arrangements should be ensured to deliver on the sustainability objective.
Stewardship: Firms must identify and disclose stewardship strategy (including expected actions and outcomes) and an escalation plan for assets not demonstrating sufficient progress.</td></tr>
<tr><td>Sustainability Improvers</td><td>Minimum 70% of assets with potential to improve environmental and/or social sustainability over a period of time to be identified by firms (including short and medium-term targets).</td></tr>
<tr><td>Sustainability Impact</td><td>(i) Minimum 70% in assets aiming to achieve a pre-defined positive measurable impact and (ii) specify a theory of change and a robust method for measuring and demonstrating impact of both firms' investments and products' assets.</td></tr>
<tr><td>Sustainability Mixed Goals</td><td>(i) Minimum 70% in assets in accordance with a combination of the sustainability objectives for the other labels above and (ii) disclosure of the proportion of assets compliant with other labels.</td></tr>
</table>

In the absence of labelling, product names cannot include the terms "sustainable", "sustainability", "impact", and their variations, when products are made available to retail investors. Other sustainability terminology is not prohibited but triggers the same types of disclosures as with labelled products and a statement clarifying that the product does not use a label and explaining why. Unlabelled products using ESG-related names should still comply with the anti-greenwashing rule and the principle of ensuring consistency between a fund's name and its characteristics.

The uptake of these labels by 400 UK-domiciled sustainable funds has been initially slow but seems to be progressing. On 26 February 2025, Responsible Investor reported more than 100 funds either applied or were planning to apply for a label. In December 2024, the FCA also published further examples of good and poor disclosure practices stemming from these fund label applications.

11 FCA's examples include general E/S criteria (e.g. minimum % of revenue, CapEx, OpEx, or R&D related to E/S matters), taxonomy-based selection, GHG emissions profiles (e.g. by setting an absolute or intensity-based GHG emission thresholds), and thematic investments guided by a firm's own proprietary standard using a minimum % revenue. The FCA states however that given the broad nature of SDGs, referring to SDGs alone is unlikely to be sufficient. Neither strategies like exclusions, negative screening, ESG integration or basic tilts alone are enough to qualify for a label since labels are for products seeking to achieve positive sustainability outcomes, in other words, having a sustainability objective.

ESMA's anticipation of the SFDR Review with its fund naming Guidelines

Anticipating the outcome of the potential SFDR review, ESMA published in May 2024 its final Guidelines on ESG or sustainability-related terms in UCITS and AIF names. The purpose of the Guidelines is to specify the circumstances where the fund names using ESG or sustainability related terms are unfair, unclear or misleading, and to ensure investor protection. Subject to NCAs' compliance decision, the Guidelines will become applicable on 21 November 2024 for new funds, and 21 May 2025, for existing funds. We summarise in the table below the key content of the ESMA's Guidelines:

Overview of ESMA Guidelines

Name categories	Examples (non-exhaustive)	Specific recommendations	Recommendations for all name categories
Funds using transition-, social-, governance-related terms	"transition", "improve", "progress", "evolution", "transformation, "net-zero"	• Application of Climate Transition Benchmarks (CTB) exclusions • **Funds using transition-related terms** should ensure that investments are on a clear and measurable path to social or environmental transition	Minimum 80% of investments used to meet Environmental or Social characteristics or Sustainable Investment objectives in accordance with binding elements of the investment strategy.
Funds using environmental- or impact-related terms	"green", "environmental", "climate", "ESG", "SRI"	• Application of Paris-aligned Benchmarks exclusions • **Funds using impact-related terms** should ensure that investments are made with the objective to generate a positive and measurable social or environmental impact alongside a financial return	
Funds using sustainability-related terms	"sustainable", "sustainably", "sustainability"	• Application of PAB exclusions • Commitment to **"invest meaningfully in Sustainable Investments"** as per SFDR	

Importantly, the list of fund name examples that triggers the application of the Guidelines is non-exhaustive. Regarding the exclusions criteria, both Paris-aligned Benchmarks (PAB) and Climate Transition Benchmarks (CTB) exclusions are listed under the Commission Delegated Regulation 2020/1818. These are:

Exclusions under PABs	Exclusions under CTBs
(a) companies involved in any activities related to controversial weapons; (b) companies involved in the cultivation and production of tobacco; (c) companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises; (d) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (e) companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; (f) companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; (g) companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.	(a) companies involved in any activities related to controversial weapons; (b) companies involved in the cultivation and production of tobacco; (c) companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;

The question is where this leaves the expected review of the SFDR framework in the coming period as ESMA's Guidelines create a powerful precedent around three implied categories relating to sustainability, impact and transition. There are a variety of proposals from the European Commission, advisory bodies and the NCAs, which we summarise in Annex 2 of the report. An overview of over 300 stakeholder responses to the European Commission's consultation end 2023 revealed important feedback on a potential categorisation system under a reviewed SFDR. This included (i) strong support for an EU-level official sustainable fund categorisation system with a slight preference for categories which are built on investment intentions and objectives consistent with Article 8 and Article 9 categories; and (ii) significant support for categories focused on "sustainability solutions", "meeting credible sustainability standards or adhering to a specific theme", and "transition".

It is debatable whether at the time of the SFDR review there will be support from stakeholders for a change of course and any substantive modification of ESMA's categories. On that basis, the real focus of the review may be on the definition and content of "Sustainable Investments" under the regulation. There may, however, be scope for other adjustments in relation to disclosures for example (see box below).

A uniform transition plan disclosure under a revised SFDR

The European Commission queried in its comprehensive SFDR consultation the relevance of imposing disclosures that would apply across the board, in other words, even to funds without any sustainability claims. In our response, we recommended a uniform disclosure to understand all funds' exposure (%) to investees who are implementing "credible" transition plans where climate risks are material. Beyond achieving transparency and comparability, the objective is to also create incentives for behaviour change among investees based on a forward-looking disclosure. It may enhance also the depth and intensity of engagement practices on decarbonisation by asset managers.

Our engagement and discussions with asset managers post-SFDR consultations show they would welcome such a disclosure, but what a "credible transition plan" means should be clarified while the disclosure based on it should be usable and practical. In our February 2024 paper, we have pointed to the emerging transition plan concept as an important opportunity for transition finance and provided "Key actions & disclosures for an integrated transition plan". While not exhaustive, this presents 15 key actions and disclosures that can help issuers align with IFRS S2, ESRS E1, and UK TPT in their transition plans while ensuring international consistency.

While IFRS S2, ESRS E1, and UK TPT only require disclosure of transition plans where they exist, regulation may outright mandate their development and adoption and impose a behavioural obligation that goes beyond disclosure. This is already the case in the EU with the Corporate Sustainability Due Diligence Directive (CSDD Directive), which requires some large EU and non-EU entities to adopt and implement climate transition plans compatible with the 1.5°C objective in a phased manner. The Article 22 of the CSDD Directive provides minimum content requirement and guidance for these transition plans.

4/ The impending reorganisation and rebranding of the sustainable fund market

The regulatory initiatives described in the previous section are likely to have a profound impact on the sustainable fund market notably forcing its rebranding and possibly leading to exits from the segment. Our research (summarised in this section and attached in Annex 1) identifies divergence between the regulatory perception of the market and the reality of its practices. Regulatory developments may also lead the market to explore alternative approaches to structuring funds investing in sustainability objectives.

Rebranding of the sustainable fund market

Existing regulatory developments in the EU and the UK that we covered in the previous section are likely to lead to a structural rebranding of the sustainable fund market. In June 2024, Morningstar indicated that due to the application of PAB and CTB exclusions, ESMA's Guidelines on ESG or sustainability-related fund names may force more than 1,600 funds representing around two thirds of funds with ESG or sustainability-related terms, to rebrand (either by dropping ESG-related names or including a transition-related term in the name) or divest up to USD40 billion-worth of stocks. Nonetheless, for 70% of these 1,600-plus funds, fewer than five stocks cause the breach of PAB or CTB exclusions illustrating how targeted stock sales could potentially address the Guidelines' requirements.

However, ESMA's Guidelines also impose on named sustainable funds a minimum 80% of investments used to meet environmental or social characteristics or Sustainable Investment objectives. This seems further compounded in a recent ESMA Q&A that indicated that NCAs may apply a minimum 50% threshold for sustainable funds to meet the requirement of "meaningfully" investing in Sustainable Investments. This latter requirement could force almost 60% of the 1043 funds with "sustainability" or "sustainable" names to amend their investment strategy or rebrand[12].

Adding to this picture, sustainable funds in the UK which are using "sustainable," "sustainability," or "impact" - related names and marketed to retail consumers must drop these terms by April 2025 unless they implement an SDR label. Looking to the US and to more political factors, the controversy around ESG investing is likely to lead to an absolute contraction of the USD353 billion US ESG fund market.

ESMA's Guidelines and the sustainable bond market

ESMA's Guidelines on ESG or sustainability-related fund names could have also had a disruptive effect on the sustainable bond market. In June 2024, ICMA published a letter based on market feedback and analysis that expressed significant concerns on the application of entity-level PAB exclusions to sustainable bond investments, notably to use-of-proceeds bonds, as this would notably force asset managers to divest from green bonds from utilities and energy sector with legacy fossil fuel businesses or change their funds' names.

In December 2024, ESMA helpfully clarified through a Q&A that in the case of use-of-proceeds instruments, the PAB exclusions should apply at the projects/use-of-proceeds/activity(ies) level rather than the entity, except for the violation of the UN Global Compact and the OECD Guidelines for Multinational Enterprise. Furthermore, green bonds to be issued in line with the EU Green Bond Standard are totally exempt from the application of PAB exclusions.

12 In a report of June 2024, Morningstar had found that 41% of 1043 funds with "sustainability" or "sustainable" names contain over 50% of Sustainable Investment.

Regulated European fund categorisation at odds with market reality?

EU and UK regulators arguably converging around three implicit fund categories based on the concepts of sustainability, impact and transition. These categories are then organised differently by policies relating to minimum investments, potential exclusions and good governance. In June 2024, the three European Supervisory Authorities (ESAs) identified "sustainable" and "transition" as the two key categories in their *Joint Opinion on the assessment of the Sustainable Finance Disclosure Regulation*[13]. It remains therefore to be seen the extent to which these regulatory driven categories which were created primarily with a view to address perceived greenwashing risks can be adopted by asset managers and successfully sold to institutional and retail investors.

Our research below show that these categorisations are indeed not yet reflected by market reality. The industry sells ESG-related funds but without generally recognised market best practice and comparability. There is also significant porosity between the concept of sustainability and impact, as the latter can be categorised as a sub-set of the former. "Transition" can otherwise be used both broadly with reference to the energy transition and include sustainable assets such as pure play renewable energy companies, and more narrowly with a focus on fossil fuel and hard-to-abate transition while there are very few examples of labelled "transition" funds. Nonetheless, there seems relatively more consistent approaches to the application of SFDR's "Sustainable Investment".

13 Joint ESAs Opinion on the assessment of the Sustainable Finance Disclosure Regulation, June 2024.

Summary of ICMA research findings

We summarise here our in-house research into asset managers' own (non-regulatory) fund categorisation and SFDR Sustainable Investment definitions. More details on our research can be found in Annex 1. Our sample consists of 10 asset managers with an AUM over USD1 trillion, representing 35% of over USD3 trillion of total global sustainable assets. The combined volume of their actively managed sustainable assets amounts to over USD530 billion.

1. **Practices for own (non-regulatory) fund categorisation:** Fundamentally, we observe that some asset managers categorise their funds based on investment focus and intentions (impact, transition, etc.) while others rely on underlying investment methodologies used (exclusions, thematic, etc.) for categorisation. Despite these limitations of comparability, the prominent categories that emerge are:

- **Sustainable, Sustainability-focused or "enhanced" categories:** 8 out of 10 asset managers use these categories which go beyond basic ESG integration and exclusions and seem to accommodate a wide range of investment methodologies such as extended exclusions, positive sustainability characteristics, ESG ratings-based analysis, relative best-in-class approaches, etc.
- **Impact:** 7 out of 10 asset managers have either a (sub-)category directly referencing the term "impact". For others, impact strategies may be proposed under "thematic" categories. Approaches and parameters that seem to define impact investing and category seem more consistent.
- **ESG integrated:** 7 out of 10 asset managers have a distinct ESG integration (or similar) category. However, these are not distinct from sustainability-focused categories. Also, while for some asset managers ESG integrated products sit among ESG-related offerings, for others, ESG integration simply applies to all funds or all active funds.
- **Transition focused:** 3 out of 10 asset managers only have a dedicated (sub-) category for transition.

2. **Practices for SFDR "Sustainable Investment":** Reflecting the SFDR's high-level definition of "Sustainable Investment" as well as additional regulatory guidance, there seems to be a relatively more consistent approach in our sample with some common proxies and criteria, when compared with the asset managers' non-regulatory own categorisation practices. In our sample, 50% of asset managers had a dedicated document or statement to clearly set out their Sustainable Investment definition and approach. Regarding the SI criteria on the "contribution to an environmental (E) or social (S) objective", we find that:

- 70% of asset managers in our sample include investees with a minimum share of revenue (or similar relevant metric such as CapEx) linked to E/S objectives. Commonly, this minimum threshold is 20% and assessment is based on the UN SDGs and/or the environmental objectives of the EU Taxonomy (without necessarily a reference to its technical screening criteria however).
- Similarly, 90% of asset managers in our survey explicitly accept green, social, and sustainability bonds if they are aligned with ICMA or official standards and pass asset managers' internal assessments.

Regarding the assessment of DNSH and good governance, asset managers in our sample take into consideration the PAI indicators by applying their standard exclusion policies and standards, assessing investees' involvement in relevant controversies and violation of international standards such as UNGC, OECD MNEs, UNGP etc. Several asset managers also apply thresholds based on their ESG rating methodologies to exclude the worst performers. We have not however analysed in depth the extent to which these exclusion methodologies, thresholds for exposure to certain activities or sectors, etc. are consistent among these asset managers.

Alternative paths for market developments

While conducting our research and through stakeholder feedback on this publication, we gained insights into the thinking of market participants on both their experience of fund labelling to date as well as the wider effect of the multiplication of regulatory initiatives. It is clear from these discussions that some asset managers consider that there are alternatives to named or labelled funds when pursuing sustainable objectives. These alternatives would be designed to mitigate regulatory constraints while meeting institutional and retail investor expectations. This thinking can also be reinforced by the pressure from controversies around explicit ESG references primarily, but not only, in the US market.

Accordingly, in practice, some asset managers may prefer to avoid regulatory or third-party naming or labelling because they consider that these have proven both costly and commercially disappointing. In this line of thinking, funds could be proposed with selective investment strategies which are fully disclosed. With respect to naming, these strategies could be marketed as being “selective” or “filtered” (a trend which is already in evidence) and/or with reference to narrower themes such as climate change mitigation or clean energy. These strategies could also be guided by metrics and KPIs from corporate sustainability reporting under ISSB or ESRS, as well as regulatory disclosures relating to Principle Adverse Impact (PAI) indicators for example.

5/ Priorities for a common roadmap

Several priorities emerge for both the market and regulators to promote the integrity of the sustainable fund market as well as support financial flows towards sustainable investments. These include avoiding excessively restrictive approaches to sustainable investment for which there are currently a diversity of approaches in the market and progress on integrating and selling transition.

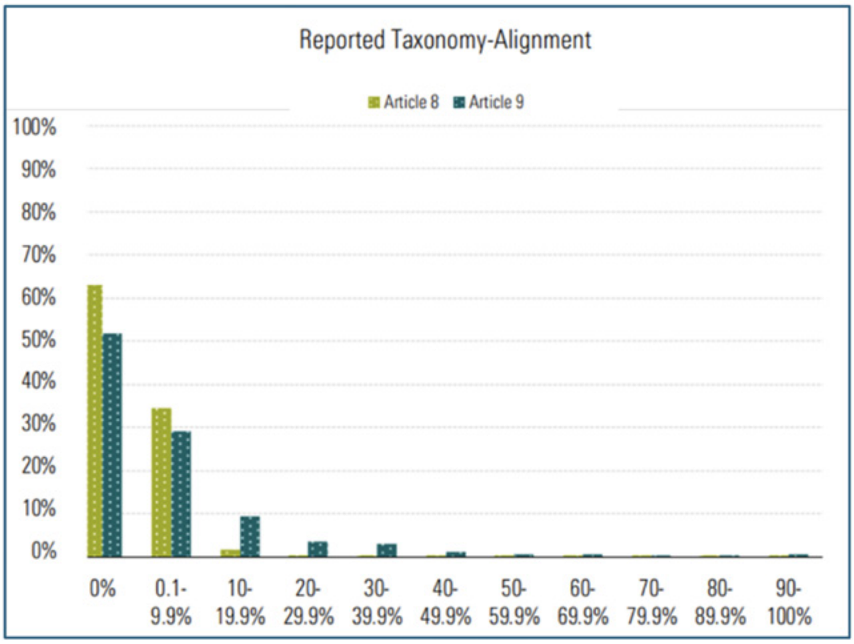
The EU Taxonomy cannot be the single measure of sustainability

In the EU, funds with sustainability claims (i.e. Article 8 and 9 funds) are required to disclose their alignment with the EU Taxonomy while aligned assets automatically count into and constitute a sub-set of the wider Sustainable Investment pool. Going forward, ESAs and some national regulators are arguing for further convergence where the EU Taxonomy would become the single standard to benchmark environmental sustainability in a future product categorisation regime under a reviewed SFDR, and, as relevant, to clarify the SFDR's "Sustainable Investments" definition.

As explained in our Commentary and recommendations for the simplification of the EU Sustainable Finance legislation (February 2025), regulators and policymakers need to consider however that Taxonomy alignment is very low and beset by usability issues (see box below). This precludes its use as the only main measure of sustainability other than at realistically low levels of alignment.

Overview of EU Taxonomy alignment data

Source	Summary
Reality check: 8 years after the first EU Taxonomy conversation (LSEG, October 2024)	According to an LSEG report (October 2024), around 1,900 large and public-interest companies (subject to previous NFDR) have so far come under mandatory reporting obligations (as per Taxonomy Regulation Art.8), with however 50% of these having so far not made any disclosure. Globally, less than 10% of the c.4,000 large and mid-cap companies in the FTSE All World Index fully disclose EU Taxonomy data. **Where companies complied with the entity-level reporting obligation, most reported below 5% alignment.** More generally, LSEG estimates that while the FTSE All World has around 8% green revenues, only 0.2% could be EU Taxonomy-aligned. This could go up to 2.1% if DNSH and MS were disapplied.
The Current State of EU Taxonomy Alignment in 2024 (Morningstar Sustainalytics, October 2024)	**Based on a sample of 1,100 non-financial corporates, Morningstar reports that 42% reported 0% alignment for FY 2023. This led to average aligned revenues and CapEx of 12.9% and 18.6% respectively for the entire sample.** Looking at companies reporting > 0% alignment, the numbers are an average of 23% aligned revenue, 27.5% aligned OpEx, and 28.5% aligned CapEx. On whichever basis, there is minimal variation compared to 2022. Taxonomy alignment averages are sector-dependant and highest for the utilities sector. Very few companies report above zero values for objectives other than climate change mitigation, which may however increase when mandatory reporting against the four remaining objectives starts in 2025.
EU Taxonomy Reporting 2024 (EY, July 2024)	EU Taxonomy disclosures nearly doubled for the FY2023, from 38% to 76% in the EY's sample of 530 companies in 12 countries. **Average turnover and CapEx alignment were at 9% and 12%, respectively.** In the banking sector, the alignment average, as measured by the Green Asset Ratio, was around 2%, with national averages ranging from 0% to 13%.

Source	Summary
SFDR Article 8 and Article 9 Funds: Q3 2024 in Review (Morningstar Sustainalytics, October 2024)	**63% of 7,264 Article 8 funds (which promote E/S characteristics) and 52% of 759 Article 9 funds (with Sustainable Investment objective) reported 0%** while approximately a third of both fund categories reported less than 10%. 

As we explained in our recent commentary and our earlier report "Ensuring the usability of the EU Taxonomy", low levels of Taxonomy alignment can be attributed to factors such as lack of coverage of several economic activities, data shortfalls and regulatory guidance taking a stringent stance against the use of estimates, and, importantly, the non-applicability of the EU legislation and criteria in an international market. The Taxonomy also does not recognise interim performance improvements, known as the "amber" category, unlike under Asian taxonomies (see also ICMA's February 2024 report "Transition finance in the debt capital market").

In our Commentary and recommendations for the simplification of the EU Sustainable Finance legislation (February 2025)[14], and in our responses to the consultations in the EU on greenwashing (January 2023) and SFDR (December 2023), we recommended, among other things, openness to equivalency on the use of other leading official sector and market taxonomies than the EU Taxonomy. This would help address data gaps for international portfolios. From a sustainability ambition perspective, such approach would also accommodate different starting points of emerging market and developing economies and avoid creating unintended investment biases that may impede sustainable finance flows from going where they may be most needed.

We also note that in February 2025, EC proposed to significantly reduce the number of companies subject to mandatory Taxonomy reporting through a reduction of in-scope companies subject to the Corporate Sustainability Reporting Directive (CSRD), alongside other measures such as materiality thresholds.

14 In this communication, we recommended that EC assess equivalency treatment for other jurisdictions' taxonomies and leading international market-based taxonomies (e.g. MDBs' Joint Methodology for Tracking Climate Change Finance and the Climate Bonds Initiative Taxonomy). A positive assessment of equivalency would require adequate safeguards against lock-in risks.

An inclusive approach to defining sustainable investments

As already reflected in market practices, broader and alternative approaches to sustainable investing are needed to complement the EU Taxonomy. These are either backed by evolving market practice or already in scope of regulation. These include:

- **Other official sector and leading market-based taxonomies** – in line with our recommendation that the equivalency of leading official and market taxonomies be recognised which is especially relevant for issuances incorporating international projects as the EU Taxonomy is not directly usable for these.
- **Sustainable financial instruments** aligned with recognised market or official standards. This is best illustrated by sustainable bonds aligned with the ICMA Principles which represent a market of almost USD5 trillion equivalent. These are used as the foundation of dedicated fixed income funds, as well as essential components of diversified sustainable funds.
- **ESG ratings** that can be both based on internal and external methodologies. Our research indicated that all firms in our sample used ESG ratings to evaluate investees for sustainability, mostly from a DNSH and risk mitigation perspective. There are ongoing regulatory initiatives as well as industry best practice developments such as Codes of Conducts relating to external ESG ratings.
- **Revenue and CapEx threshold methodologies** - our research indicates that a minimum 20% alignment with environmental and/or social themes is a common market practice when selecting sustainable equities or investments under most sustainable fund policies.
- **Net Zero and/or GHG reduction targets** which can be based on externally verified KPIs and targets validated by organisms such as the Science Based Targets Initiative (SBTi). These approaches may be significantly boosted by the future availability of international corporate sustainability reporting under ISSB's inaugural standards IFRS S1 and S2, as well as ESRS in the EU.
- **Other transition trajectory assessments** which can be based for example on official sector industry roadmaps from key jurisdictions or credible market and civil society initiatives[15].

Integrating and selling transition

The regulatory push for transition-themed fund categories such as "sustainable improvers" in the UK or through guidance on fund naming in the EU, was motivated firstly, by greenwashing concerns and, secondly, by the aim to promote transition finance. These efforts risk however being weakened by (i) a regulatory approach to greenwashing risks which may not be adapted to the more challenging aspects of transition, (ii) attempts to draw a clear line between investment in sustainability and in transition while the two often overlap and (iii) a scarcity of transition investment opportunities, notably, in fossil fuel and hard-to-abate sector transition.

While the regulatory drive for ESG-related fund naming and labelling rules aims to mitigate greenwashing risks, the creation of dedicated transition-themed categories potentially raises new challenges in this area. Investments in transition are more likely to involve exposure to entities and projects that, by definition, are not immediately sustainable and may fail to become so. In some cases, such investment may only lead to incremental progress, e.g. from "brown" to less "brown". Regulators will need to adjust their tolerance of greenwashing risks to include for example setbacks in transition trajectories or intermediate outcomes in the fossil fuel or hard-to-abate sectors. Therefore, comprehensive official guidance, e.g. in the form of transition-enabled taxonomies or government sponsored sectoral roadmaps, are needed to address potential disputes or controversies that could arise in this space.

European regulation implicitly leads to a form of segregation between transition and sustainability investments. This raises a real conceptual difficulty as transition occurs over a spectrum. In our report "Transition finance in the debt capital

15 See ICMA report Transition finance in the debt capital market (February 2024). See the box above *A uniform transition plan disclosure under a revised SFDR*.

market” (February 2024), we referred to “lenses of transition” with three different overlapping definitions in general use for transition finance. These cover: (i) economy-wide transition referring to transformation of the entire economy with the objective of meeting the goals of the Paris Agreement but also wider sustainable (e.g. biodiversity or circular economy) and social (e.g. Just Transition) objectives, (ii) climate transition covering the goals of the Paris Agreement and the target of achieving Net Zero but typically with a narrower sectoral or industry focus on the energy and high-emissions sectors, and (iii) hard-to-abate transition emphasising the specific challenges of the fossil fuel and hard-to-abate sectors.

Nonetheless, we see possible ways forward concerning the need to identify more specifically investments for transition-themed funds. These include:

- Investment strategies that could focus especially on: (i) transition trajectories based on KPIs from sustainability reporting (increasingly available under ISSB and ESRS) and from progress on execution of transition plans; (ii) investments in transition-themed sustainable bonds; and (iii) investments in fossil fuel & hard-to-abate transition.
- The use of clearer terminology to differentiate investments that relate notably to the more challenging dimension of transition such as in the fossil fuel and hard-to-abate sectors with those that contribute to transition but are investable under a “sustainable fund” category including “clean energy”, “climate mitigation”, and “energy efficiency”.

Finally, there may not be an enabling environment for the development at sufficient scale of investment opportunities in transition notably in its more challenging aspects e.g. in the fossil fuel & hard-to-abate sectors. This discussion goes however beyond the scope of this paper but is covered at a high level in the section on *Broader policies to support transition* in our report on “Transition finance in the debt capital market”.

Conclusion

Regulatory initiatives primarily in the EU and UK will have a structural impact on the sustainable fund market. It is already leading to a major reorganisation and rebranding of funds which will impact more than half of such funds in existence. The outlook is therefore a rebranded sustainable fund segment possibly alongside funds that may implement sustainability as a criterion but may not be marketed as such.

The implementation of the new regulatory landscape creates a significant challenge for the market. Although our research illustrates the existence of best practices that mirror some of the explicit or implied categorisation from regulation in the EU and the UK around sustainability, impact and transition themes, these remain insufficiently standardised. Nonetheless, further legislative and regulatory action in Europe (e.g. the SFDR review) should remain consistent with measures to date to prevent disruption and/or discouragement of the sustainable fund market which will have substantially rebranded and reorganised because of recent initiatives.

It is otherwise critical that the industry convey to EU legislators and regulators the risks of a potentially reductionist approach to defining sustainable investment only in terms of alignment with the EU Taxonomy as this would dramatically and unjustifiably narrow the investable universe. There are several other tools and approaches that are equally important and/or complementary with dedicated instruments such as other official and recognised market taxonomies, sustainable bonds, ESG ratings, sustainability-related revenue and CapEx threshold methodologies, Net Zero and/or GHG reduction targets, and other transition trajectory assessments.

There are challenges for the expansion of an explicit transition-themed fund category which our research indicates remains under-developed. Conceptually, there needs to be an understanding that transition, firstly, overlaps with sustainability and, secondly, occurs over a spectrum from economy-wide, via climate, to fossil fuel & hard-to-abate transition. Progress will also be contingent on regulators adjusting their perception of greenwashing risks to avoid deterring transition investments, as well on wider policy support for transition.

We also propose that transition-themed funds implied by European regulation could focus notably on investments in transition trajectories based on KPIs from sustainability reporting and the execution of transition plans, as well as in transition-themed sustainable bonds, while also especially promoting fossil fuel & hard-to-abate transition.

Based on the above, we have the following recommendations:

- Future regulation, notably from the SFDR review, should be consistent to avoid disruption and/or discouragement of the sustainable fund market which will have substantially rebranded and reorganised because of recent initiatives. Enhancements can however be considered such as a uniform disclosure relating to the exposure of funds to investees implementing transition plans where climate transition risks are material.[16]
- To prevent a dramatic narrowing of the investable universe in sustainability, EU regulators should not restrict the assessment of sustainable investments solely to the EU Taxonomy and remain open to other official and leading market taxonomies as well as established assessment tools and approaches.
- To grow transition-themed funds implied by European regulation, terminology and investment strategies need to identify more specifically transition investments that cannot necessarily be accommodated by other sustainable fund categories, such as in the fossil and hard-to-abate sectors, while regulators may need to adapt their greenwashing prevention efforts to avoid deterring such investments.

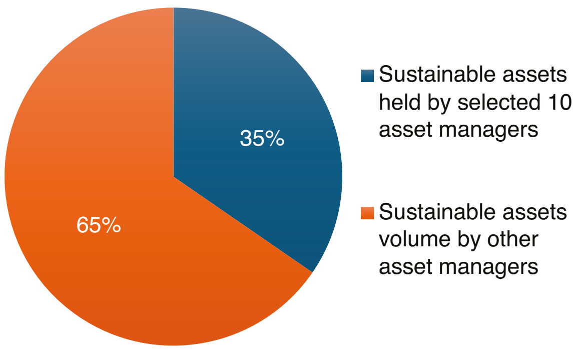
16 See the box on p15 *A uniform transition plan disclosure under a revised SFDR.*

Annex 1 – ICMA research on sustainable fund categorisation and investing

We summarise here our in-house research into non-regulatory fund categorisation and sustainable investing. These demonstrate both a diversity of practices as well as convergence around broad categories. We also evidence the impact of regulation focused on the implementation of the EU's SFDR.

Sample parameters

Our sample consists of 10 asset managers based on AUM and ICMA membership. The combined volume of assets from these asset managers, which includes both actively and passively managed funds, totals over USD1 trillion, representing 35% of over USD3 trillion of total global sustainable assets, as defined by Morningstar[17]. The combined volume of their actively managed sustainable assets amounts to over USD530 billion.



An anonymised overview of our detailed research on asset managers sustainable investing market practices covering their approaches to own (non-regulatory) sustainable fund categorisation and to the implementation of SFDR can be found in Annex 1.

Convergence around broad categories

Asset managers' own (non-regulatory) categorisation approaches show considerable diversity. Fundamentally, we observe that some asset managers categorise their funds based on investment focus and intentions (impact, transition, etc.) while others rely on underlying investment methodologies used (exclusions, thematic, etc.) for categorisation. Despite these limitations, the prominent categories that emerge are:

- **Sustainable, Sustainability-focused or "enhanced" categories**: 8 out of 10 asset managers have these categories which go beyond basic ESG integration and exclusions and seem to accommodate a wide range of investment methodologies such as extended exclusions, positive sustainability characteristics, ESG ratings-based analysis, relative best-in-class approaches, etc.
- **Impact:** 7 out of 10 asset managers have either a category or a sub-category directly referencing the term "impact". For others, impact strategies may be proposed under "thematic" categories. Approaches and parameters that seem to define impact investing and category seem more consistent.

17 Morningstar's report "Global Sustainable Fund Flows: Q2 2024 in Review" defines sustainable funds on the basis of intentionality rather than holdings and rely on a combination of fund names (as a strong indication of intentionality) and information in fund documents. The fund's documents should contain enough details to leave no doubt that ESG concerns figure prominently in the security-selection and portfolio construction process. "ESG integrated funds" or those that apply limited exclusionary screens (e.g. controversial weapons, tobacco, coal) are not included in the definition while ESG-screened passive funds are as the exclusions are the sole purpose of the strategy.

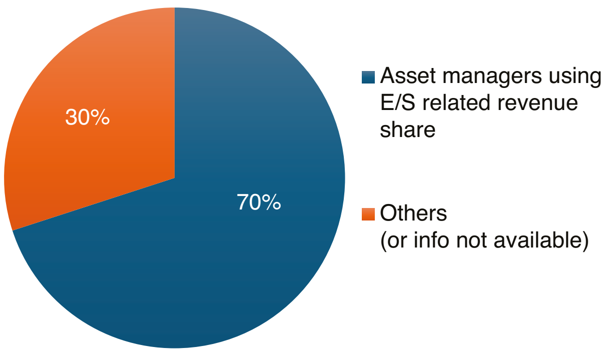
- **ESG integrated:** 7 out of 10 asset managers have a distinct ESG integration (or similar) category. However, these are not distinct from sustainability-focused categories. Also, while for some asset managers ESG integrated products sit among ESG-related offerings, for others, ESG integration simply applies to all funds or all active funds.
- **Transition focused:** 3 out of 10 asset managers only have a dedicated (category or sub-category for transition.

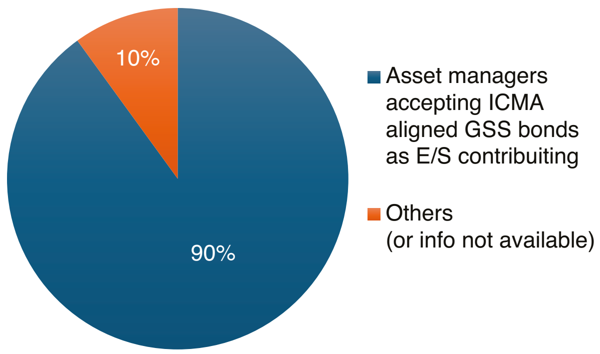
Impact of SFDR disclosures and definitions

SFDR provides a definition for the concept of "Sustainable Investment" (SI), which underpins the Article 9 category, as an economic activity that contributes to an environmental or social objective, provided that such investments do not significantly harm (DNSH) any of those objectives and that the investee companies follow good governance practices. However, the intention has not been to achieve convergence in sustainable investing approaches given the definition does not impose prescriptive elements, parameters, or thresholds[18].

In our sample, 50% of asset managers had a dedicated document or statement to clearly set out their Sustainable Investment definition and approach. For the remaining ones, we have looked at their relevant Article 9 or other relevant fund disclosures and tried to understand their approaches. Reflecting the SFDR's high-level definition of Sustainable Investment as well as additional regulatory guidance (e.g. assessment of the DNSH through PAI indicators), there seems to be a relatively more consistent approach in our sample with some common proxies and criteria, when compared with the asset managers' non-regulatory own categorisation practices. Regarding the SI criteria on the "contribution to an environmental (E) or social (S) objective", we find that:

- 70% of asset managers in our sample include investees with a minimum share of revenue (or similar relevant metric such as CapEx where this is more relevant) linked to E/S objectives. Commonly, this minimum threshold is 20% and assessment is based on the UN SDGs and/or EU Taxonomy objectives.
- Similarly, 90% of asset managers in our survey explicitly accept green, social, sustainability bonds if they are aligned with international standards and pass asset managers' internal assessments.





Regarding the assessment of DNSH and good governance, asset managers in our sample take into consideration the PAI indicators by applying their standard exclusion policies and standards, assessing investees' involvement in relevant controversies and violation of international standards such as UNGC, OECD MNEs, UNGP etc. Several asset managers also apply thresholds based on their ESG rating methodologies to exclude the worst performers. We have not however analysed in depth the extent to which these exclusion methodologies, thresholds for exposure to certain activities or sectors, etc. are consistent among these asset managers.

18 See also ESMA's paper "Concepts of sustainable investments and environmentally sustainable activities in the EU Sustainable Finance framework" of November 2023 for further explanation.

Other approaches we observed for the component of "environmental or social contribution" are:

- Some asset managers include credibly transitioning at organisation-level, as confirmed by SBTi verification. This is an approach that could incentivise credible transitions.
- Alongside their sustainable bonds, vanilla bonds of MDBs are also accepted by some asset managers due to the development mandate of and robust environmental and social risk management applied by these entities.

Other relevant insights from our research

Almost all asset managers combine data from external providers and internal analysis and research. All asset managers in our sample have a proprietary ESG rating methodology in place relying on third-party data and/or own research. These results are also consistent with dedicated ICMA research which will be published separately.

We understand that assessment of sovereign unlabelled bonds for the SFDR SI concept remains marginal. This may explain why equity funds constitute 70% of SFDR Article 9 funds (vs. 52% of Article 8 and 51% of Article 6 funds), per data from Morningstar. Indeed, some asset managers explicitly exclude sovereign assets from the SFDR SI assessment. A few others assess vanilla sovereign securities by relying on dedicated internal or external rating methodologies (e.g. the SDG Index initiative) as well as best-in-class approaches. As background, ESAs called on the EC to develop a methodology to assess the sustainability of government bonds in their Joint Opinion on the assessment of the SFDR (June 2024).

Overview of sample findings on sustainable fund market practices

Asset Managers (AM)	Own fund categorisation approach	SFDR Article 9 Sustainable Investment approach
AM1	AM1 categorises its products as "conventional", "ESG risk-focused", "sustainability-focused", and "impact-focused".	Only "impact-focused" categories are considered for Article 9 products. While we have not found a publicly available dedicated SI definition, it can be deduced from some fund-level disclosures. For impact-focused products, **E/S contribution:** 1) revenues linked to SDGs or EU Taxonomy objectives and 2) green bonds aligned with international standards (ICMA, CBI Taxonomy) where issuers' broader sustainability and transition strategies are also assessed; **DNSH:** focused on PAIs through the application of exclusion criteria, sector or activity thresholds and engagement. **Good governance:** Exclusion of issuers in severe violation of UNGC, OECD MNE standards, UNGP on Business and Human Rights.
AM2	AM2 categorises its products as "ESG mainstream products", "impact products", and "Net Zero Ambition products and Climate Investment solutions". Depending on the product, ESG characteristics are integrated through "best-in-class approach" (relative ESG rating/scoring vs. peers) or in absolute terms. Negative screening, ESG integration, and positive screening can be incorporated in responsible characteristics.	**E/S contribution:** 1) Two cumulative criteria: exclusion of companies with >10% revenue from activities related to coal, weapons, tobacco et. and company is "best performer", i.e. within top third of their industry as per AM2's proprietary ESG ratings. 2) GSS bonds are deemed to be an "E/S contributions". **DNSH:** Monitoring of PAIs through sector-based relative threshold and exclusion of worst performers as per ESG ratings and those involved in specific controversies. **Good Governance**: At least E score in some governance metrics.
AM3	AM3 does not have an explicit fund categorisation, but it defines "responsible investing" and its pillars (ESG integration, climate-related portfolio alignment, exclusions and sensitive ESG investments, green investment target and transition financing, impact investments, active stewardships) while having a detailed approach on impact investing in listed assets.	**E/S contribution:** 1) Contribution to SDGs (as measured by min. 20% SDGs-related revenues or a best-in-universe alignment threshold with any SDGs and qualitative assessment); 2) corporates engaged in decarbonisation with SBTi certification; 3) GSS bonds and SLBs listed in BBG database and passing AM3's internal test based on ICMA guidance **DNSH:** Exclusions based on AM3's exclusion policies, standards, and due diligence. Exclusion of bad performers as per AM3's ESG ratings and SDG scores (below -5) provided by third party. **Good governance:** Reliance on external provider screening based on international standards. Both for DNSH and Good Governance, stewardship policies may provide additional risk mitigation.

Asset Managers (AM)	Own fund categorisation approach	SFDR Article 9 Sustainable Investment approach
AM4	AM4 categorises its approach as “sustainable investing” (which includes “screened”, “uplift”, “thematic”, and “impact” strategies and objectives), “transition investing”, and “ESG integration”.	**E/S contribution:** Minimum business activity (e.g. min. 20% of E/S-related revenue or similar metric), business practices (e.g. SBTi alignment or leader enabling position), green/social bonds or other debt securities aligned with E/S objectives as determined by own analysis (e.g. MDBs’ vanilla bonds); **for DNSH:** own exclusion criteria based on involvement in specific activities or controversies; **MS:** compliance with international standards; **Good Governance:** Engagement with or reducing exposure to investees with governance issues.
AM5	AM5 categorises its range of responsible funds as “ESG integration” funds and “sustainability-focused” funds, which have the following sub-categories: “labelled funds” (with a European sustainability label), “sustainable thematic solutions”, “decarbonisation solutions”, and “impact solutions”.	**E/S contribution:** Multi-option criteria based on 1) min. 20% EU Taxonomy or SDG aligned revenues, 2) GSS bonds which pass AM5’s internal assessment or bonds from development agencies, 3) high-emitting issuers transitioning in line with 1.5C objective of the Paris Agreement, and 4) best E/S performers per AM5’s proprietary ESG ratings based on a best-in-class approach. **DNSH and Good governance** assessed based on significant controversies, and exclusion of worst performers per AM5’s ESG ratings, RBC watchlist, and those involved in O&G sector.
AM6	AM6 has two overlapping categories: “sustainable funds” (which apply positive tilts, best-in-class, and/or thematic approaches) and “ESG integrated funds” which comprise sustainable funds but also funds that only apply exclusions and/or ESG promote (i.e. where a defined percentage of the portfolio is invested in positive ESG issuers/ companies) approaches.	While we have not found a publicly available overarching SI definition, some fund-level disclosures show that **E/S contribution:** 1) min. 20% revenue linked to a climate/social theme identified with the support of an AI tool, or if below such threshold, inclusion based on companies’ beneficiaries, scale of activities, and/ or sustainability outcomes; 2) For GSSS bonds assessed based on a proprietary framework aligned with industry standards. **DNSH and Good Governance:** Use of activity, or sector-based exclusions, and exclusion of worst offenders and those violating internationals standards.
AM7	Three broad categories: “responsible” (delivering better ESG performance vs. a benchmark), “sustainable” (investing in specific E/S themes), “impact”.	Based on AM7 definition - **E/S contribution:** Multi-option criteria based on: 1) GSSS bonds assessed with internal ratings, 2) min.20% E/S related revenue, 3) SBTI certified issuers, 4) sovereign securities mapped per SDG Index data and considered if in the top 10%; **DNSH:** integration of PAIs through sectoral and exclusion policies, engagement policy, exclusion of companies exposed to severe controversies, application of additional MSCI filters. For sovereigns, being in top 30% carbon intensity performance and not subject to violation of international conventions and treaties. **Good governance:** combination of several methodologies and application of MSCI filters. Higher than 80th quantile for sovereigns.
AM8	AM8’ sustainability-focused product categories are: “STARS strategies”, “thematic ESG strategies”, and “enhanced exclusion filters”. AM8 applies ESG integration to all its funds.	**E/S contribution:** 1) Min. 20% UN SDGs or EU Taxonomy-linked revenues (or if more appropriate CapEx or OpEx), 2) sustainable bonds aligned with ICMA standards, and some covered bonds. **DNSH:** screens based on PAI indicators, some sector and activity-based exclusions. **Good governance:** Screening based on employee relations, pay practices, management structures, and tax compliance, among others.
AM9	AM9 categorises its sustainable investment solutions as “exclusionary strategies”, “ESG Enhanced strategies”, and “thematic strategies”.	While we have not found a publicly available overarching SI definition, the relevant fund-level disclosures show that **E/S contribution:** investment in green bonds and debt instruments of “climate leaders” (based on whether they provide climate solutions or have transition plans in place). **DNSH:** consideration of PAIs through issuer engagement and exclusion screenings (e.g. those exposed to certain activities above a certain threshold). **Good governance:** Use of controversies and other tools including ESG scores to determine alignment with international standards.

Asset Managers (AM)	Own fund categorisation approach	SFDR Article 9 Sustainable Investment approach
AM10	AM10's sustainable investing approach relies on two overarching approaches: "ESG integration strategies" (application of standard exclusions, screening and SI assessment, stewardship) and "sustainable and impact focused strategies" under which, "sustainability-focused" strategies rely on extended exclusions, positive sustainability-characteristics, engagement, EU Taxonomy compliance, risk-based screening and "impact (thematic) strategies" include, in addition to these latter, a verifiable impact measurement, relying on the UN SDGs as underlying framework.	No SI definition has been found but based on a dedicated fund which partially does SI, we understand that AM10's sustainable and impact focused strategies can qualify for SI, with impact strategies being those that have a measurable, verifiable investors and/or company impact using a recognized impact framework (e.g. UN SDGs). **For DNSH and Good governance:** AM10 considers PAIs on a selective basis and through the application of its exclusion policies as well as its ESG Risk Dashboard that gathers multiple internal and external data.

Annex 2 - Regulatory proposals for fund categories under a revised SFDR

<table>
<tr><th>Regulators</th><th>Proposed categories</th><th colspan="2">Underlying approach (criteria, KPIs, etc.)</th></tr>
<tr><td rowspan="4">European Commission</td><td>Solutions</td><td>Products investing in assets that specifically strive to offer targeted, measurable solutions to sustainability related problems that affect people and/or the planet, e.g. investments in firms generating and distributing renewable energy, or in companies building social housing or regenerating urban areas.</td><td rowspan="4">For all these categories, the EC has consulted on the relevance of minimum criteria based on the following parameters:
• Taxonomy alignment
• Engagement strategies
• Exclusions
• Pre-defined, measurable, positive environmental, social or governance-related outcome
• Other</td></tr>
<tr><td>Products aiming to meet credible sustainability standards or themes</td><td>Products aiming to meet credible sustainability standards or adhering to a specific sustainability-related theme, e.g. investments in companies with evidence of solid waste and water management, or strong representation of women in decision-making.</td></tr>
<tr><td>Exclusion</td><td>Products that exclude activities and/or investees involved in activities with negative effects on people and/or the planet</td></tr>
<tr><td>Transition</td><td>Products with a transition focus aiming to bring measurable improvements to the sustainability profile of the assets they invest in, e.g. investments in economic activities becoming taxonomy-aligned or in transitional economic activities that are taxonomy aligned, investments in companies, economic activities or portfolios with credible targets and/or plans to decarbonise, improve workers' rights, reduce environmental impacts.</td></tr>
<tr><td rowspan="2">European Supervisory Authorities (ESAs)</td><td>Sustainable</td><td colspan="2">• Products that invest in economic activities/assets that are already environmentally and/or socially sustainable.
• EC to consider whether to have a single "sustainable" category or splitting it into two categories "environmental" and "social" categories
• To be underpinned by a certain minimum sustainability threshold with the EU Taxonomy to be used as a benchmark for environmental sustainability
• Rest of assets should comply with the DNSH principle (to both E/S objectives) and good governance principles, with both these concepts more prescriptively defined.</td></tr>
<tr><td>Transition</td><td colspan="2">• Products that invest in economic activities / assets that are not yet sustainable, but which improve their sustainability over time to become environmentally or socially sustainable.
• Potential mix use of: (i) EU Taxonomy KPIs (for environmental performance), (ii) transition plans of underlying assets, (iii) product decarbonisation trajectories, and (iv) mitigation of PAIs at product level;
• Consideration of appropriate exclusions and criteria to define "credible" transition plans.
• ESAs recommend considering an ambitious but realistic % of underlying investments initially being required to comply with the category's requirements, while such ratio could tighten over time.
• The EC could consider a sub-category "investor's impact".</td></tr>
</table>

Regulators	Proposed categories	Underlying approach (criteria, KPIs, etc.)
EU Platform on Sustainable Finance	*Sustainable*	• X% of Taxonomy-aligned or Sustainable Investments, with the latter based on an amended definition that relies mostly on EU Taxonomy • All non-Taxonomy investments pass DNSH which is assessed through PAI thresholds • Application of EU PAB exclusions though adjusted. • Additional binding elements adopted by FMPs, if any. • Suggested indicators include: Taxonomy alignment and SI share, PAI performance, adherence to exclusions, and FMPs' own indicators to assess other binding elements if any.
	Transition	• X% of assets and/or portfolio transitioning as measured by credible transition pathways or plans at portfolio and/or investment level. • Relevant criteria to be identified by FMP through any or a combination of: (1) reduction at portfolio-level at least in line with regulatory standards; (2) investments in portflios tracking EU Climate Benchmarks; (3) committed Taxonomy aligned CapEx or transitional activities (revenues or CapEx); (4) investments with credible transition plan or science-based targets; (5) up to X% (e.g. 20%) investments in companies without credible transition plans but subject to credible engagement strategies with escalation mechanism and facing ultimately divestment; (6) transitioning real estate and infrastructure based on a credible plan at portfolio level to render the assets environmentally sustainable; (7) sovereign debt assessed based on NDCs and against environmental and social objectives and performance; (8) Social Transition once objectives are developed and recognised; (9) investments eligible for the Sustainable category. • Any other assets must not undermine the transition objective. • Application of EU CTB exclusions though adjusted. • Additional binding elements adopted by FMPs, if any. • Suggested indicators include: CSRD/ESRS transition plans or equivalent, Taxonomy share, measurement against EU Climate Benchmarks, science-based targets, engagement activities and resulting changes.
	ESG collection	• X% of assets follow one or more material sustainability feature where materiality is to be defined through one criterion or a combination of the following: (1) X% better than the reference benchmark/investable universe or year-on-year improvement on specified indicators; (2) reduction of investment universe (e.g. at least 20%); (3) target vehicles that are sustainable, transition or ESG collection; (4) investments in companies without credible transition plans but subject to credible engagement strategies with escalation mechanism and facing ultimately divestment; (5) all investments eligible for the categories of "Transition" and "Sustainable". • Any other assets must not undermine the ESG characteristics/features. • Application of EU CTB exclusions though adjusted. • Additional binding elements adopted by FMPs, if any. • Suggested indicators include: KPIs to assess the above criteria (e.g. reduction of investment universe), use-of-proceeds bonds, engagement activities and resulting changes.
AMF	*Environmental solutions*	• Products investing in activities already environmentally sustainable • A minimum x% of Taxonomy aligned investments which balances ambition and reality and is dynamic and evolving upwards depending on the Taxonomy alignment in the economy; and, • Exclusions related to fossil-fuel activities, controversial weapons, tobacco, and violation of good governance practices (with objective and precise criteria/thresholds).
	Social solutions	• Products investing in activities already socially sustainable • To be established if objective, precise, and simple category are developed.
	Climate transition	• Products that invest in companies in climate transition • First criterion could be based on (i) product decarbonisation trajectories; (ii) investee transition plans; (iii) Taxonomy aligned investments; and, • Exclusions related to controversial weapons, tobacco, and violation of good governance practices.
	Non-financial filters	• Products applying some non-financial filters to the selection of assets • Objective non-financial filters for public equity include: a) min. coverage of 90% of the portfolio by non-financial analysis; b) min. 20% weight to each of E, S, and G pillars; c) min. 30% of reduction of investment universe or weighted average of non-financial rating at least 30% higher than investable universe; and, • Exclusions related to controversial weapons, tobacco, and violation of good governance practices.

Regulators	Proposed categories	Underlying approach (criteria, KPIs, etc.)
AFM	*Sustainable*	• Products with objective to invest in sustainable assets • For activities covered by the Taxonomy, the investments should be taxonomy aligned; for others or social-related objectives, asset managers to use own criteria • No investments in companies doing significant harm to E/S objectives • All assets aligned with the Paris Agreement's goals • Min. 80% of AuM invested according to the product's strategy, provided that all AuM adhere to the DNSH principle
	Sustainable impact	• Products with objective to generate positive impact alongside financial return • Financial additionality by financing unserved sustainable sectors or markets • No investments in companies doing significant harm to E/S objectives • All assets aligned with the Paris Agreement's goals • Min. 80% of AuM invested according to the product's strategy, provided that all AuM adhere to the DNSH principle
	Transition	• Products with objective to generate positive impact alongside financial return • Additionality through active management and engagement strategy • Exclusions related to controversial weapons, tobacco, and violation of good governance practices. • Investees have credible transition plans, where possible, based on ESRS; • Product has transition targets in line with Paris Agreement and/or Kunming/Montreal agreements on biodiversity • Min. 80% of AuM invested according to the product's strategy.
BaFin	*Sustainable*	• Invests exclusively in economic activities that pursue an environmental or social goal, or both, with the exception if investments for hedging and liquidity purposes.
	Transition	• Product that invests in activities that advance the economy towards sustainability, supported by clear rules to avoid greenwashing. • As example, requirements for concrete, plausible transition plans and goals by companies to be considered as investment targets for transition products.
	Exclusion	• Exclude investments in certain activities, for example those that are harmful to the climate. These different products would also differ in terms of their risk-return profile. • The investment universe of transition or sustainable products would probably be relatively narrower than that of exclusion products, which could diversify their portfolios more broadly.

Annex 3 - Industry and official sector-supported fund labels

Various voluntary national and regional labels have long existed in the European sustainability-related fund markets. According to a study by Novethic (October 2023), sustainable funds which have their investment processes certified by a label accounted for over 2700 and represented over EUR1.3 trillion as of end-July 2023, out of a total of 66 000 funds and EUR19 trillion AUM in Europe.

		Total labelled funds	Number of studied funds (where data is available on Morningstar)	Number of funds with another label	AUM (EURbn) (Morningstar data)
ESG	Label ISR	1 354	1 066	205	783
	FNG-Siegel	291	284	39	94
	LuxFLAG ESG	246	188	43	112
	LuxFLAG Microfinance	28	10	1	4
	Towards Sustainability	771	661	492	539
Labels « verts »	Umweltzeichen	304	167	192	64
	Nordic Swan	60	48	8	18
	LuxFLAG Environment	9	3	1	1
	Label Greenfin	120	46	23	22
TOTAL		2 733	2 071	333	1 307

Source: Novethic (based on data as of 31 July 2023) [shortened and translated]

These labels show diversity in terms of governing bodies (e.g. public sector vs. industry) and underlying approaches. Nonetheless, they usually make use of a combination of high-level, process-based, and prescriptive criteria underpinning certification. For example, the label SRI, created by the French Ministry of Economy and Finance in 2016, is based on a mix of process-based criteria and prescriptive minimum requirements many of which have been added in its 2024 update. The process-based requirements for equity and bond funds include the disclosure of specific ESG objectives, methodologies, strategies, engagement policies, controversy identification, data sources, etc. while more prescriptive measures include the consideration of SFDR PAIs and better performance in at least 2 indicators compared to the benchmark/universe, usually at least 20% weight to each E/S/G pillars, compliance with detailed exclusion rules (e.g. due to involvement or new projects in fossil fuels), and measurability of the ESG strategy (e.g. as demonstrated by 30% reduction in initial investment universe).

The label Towards Sustainability, managed and supervised by the Belgian non-profit Central Labelling Agency (CLA), aims to be a broad label and mainstream sustainability in portfolios and accommodate transition, going beyond the objective of combatting greenwashing. Its expectations are formulated around three axes: having explicit and measurable ESG characteristics/objectives (positive angle), avoiding harm (negative angle), and disclosures (e.g. on engagement policies). Flexibility is provided on the positive angle where the label does not define "sustainability" and allows the use of different methodologies (e.g. best-in-class/universe, thematic investing, impact investing, better ESG performance vs. a benchmark, or other). These are however subject to various minimum standards or the CLA's recognition. More prescriptive requirements are provided for the negative angle, notably through double materiality based ESG and normative screenings, as well as detailed exclusions and corporate sector eligibility criteria.

The label Nordic Swan, managed by Nordic Ecolabelling Board mandated by Nordic governments, combines obligatory criteria with a point-based system. Beyond detailed exclusion, active ownership, and transparency conditions, it provides detailed, and in some cases, quantitative requirements for the selection of assets in some sectors, relying for example on the EU Taxonomy disclosure and alignment performance, biodiversity-related PAIs, SBTi, among others.

Some labels may also incorporate elements accommodating transition finance. For example, power utilities under Towards Sustainability can be eligible subject to a non-expansion of adverse impacts (i.e. no new coal-fired plants and production and capacity increase) and having SBTi-approved decarbonisation targets, and a strategy to shift towards renewables. Green bonds are also exempt from the label's exclusions which would otherwise be triggered due to the entity-level fossil fuel involvement for example, provided that the issuer has an overall transition strategy that is scrutinised by asset managers.

Similarly, under Nordic Swan, utilities generating 5% of their revenue coming from power generation based on coal, gas, crude oil, and uranium, are normally excluded. However, there is an exception where they have at least 90% of their CapEx invested in renewables for the last three years on average, at least 50% of revenue from or production capacity based on renewables, and no revenue from tar sand, shale oil or shale gas or other fracking activities and/or mining of oil shale and/or extraction in the Arctic region. The SRI label introduces a direct requirement to incorporate climate issues into ESG evaluation criteria, notably through scrutinising investee transition plans and showing increased vigilance for high impact climate sectors.

Annex 4 - Wider international regulatory initiatives

Fund categorisation progress in Asia

Several Asian jurisdictions have introduced high-level "ESG fund" category and/or quantitative asset selection thresholds. Compliance with quantitative thresholds in these cases substantiate the materiality of the ESG focus a fund's name suggests about its strategy and underlying investments. In all cases, these sustainability-related funds are subject to additional product level disclosures on investment objectives, strategies, chosen ESG-related index, proxy voting and engagement, periodic reporting, etc. in line with IOSCO recommendations of 2021.

Under the ASEAN Sustainable and Responsible Fund Standards (2022), funds compliant with the Standard should primarily invest in securities which are in accordance with their sustainable investment objectives and strategies, with a minimum asset allocation of at least two-thirds (2/3) of its net asset value, at all times. The Circular released by Hong Kong SFC in 2021 introduces an "ESG funds" category defined as funds which incorporate ESG factors as their key investment focus and reflect such in the investment objective and/or strategy, as well as a "climate fund" sub-category thereunder. Accordingly, an ESG fund's primary investments and/or strategy should reflect the particular ESG focus which the fund name represents, by applying a 70% minimum threshold for funds regulated by SFC (see here).

Japan introduced a similar "ESG investment trust" definition and an "impact fund" subcategory thereunder which is subject to impact reporting. The asset managers have however discretion on the specific quantitative ratio or target they apply and indicators they choose to monitor the achievement of ESG factors.

More direct guidance on naming restrictions has also been observed, albeit with different stringency in some cases. For example, while in Japan a fund which does not fall under the "ESG investment trust" category should exclude ESG-related terms (e.g. ESG, SDGs, green, decarbonization, impact, sustainable, etc.), Hong Kong SFC may permit exceptions on a case-by-case basis if fund manager demonstrates the consistency and proportionality of the name to the fund's ESG features.

Regulatory initiatives and proposals in North America

In an updated Notice of March 2024, the Canadian Securities Administrators (CSA) introduced a layered system of disclosure expectations by providing four categories, namely "ESG Objective Fund", "ESG Strategy Fund", "ESG Limited Consideration Fund", and, "Non-ESG fund". The CSA has also stated that these categories are not intended to be used as investor-facing labels or prospectus classifications. The CSA Notice also specifies that the name and investment objectives of a fund should accurately reflect the extent to which the fund is focused on ESG, where applicable, including the particular aspect(s) of ESG that the fund is focused on. A fund that references ESG in its name should primarily invest in assets that meet the fund's ESG-related criteria. However, no quantitative threshold has been imposed.

In 2022, the US SEC proposed a similar categorisation for ESG strategies: (i) "integration funds" (where ESG factor(s) is considered in investment process in a way that is no more significant than non-ESG factors); (ii) "ESG-focused funds" (with ESG factor(s) being significant or main in asset selection or engagement with invested companies); and (iii) "ESG impact funds" (seeking to achieve a particular ESG impact) which has been proposed as a sub-category of the "ESG-focused funds". Such categorisation would be subject to a layered disclosure framework with less disclosure for integration funds and most onerous disclosures foreseen for the category of "ESG impact funds". This proposal has not been finalised, however. Separately, in September 2023, SEC has adopted amendments to its naming rule which ensures among other things that funds with ESG (or similar) terms would invest at least 80% of their assets in accordance with the investment focus that the fund's name suggests.

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