

# ESMA issues Q&A on Fund ESG Names

The European Securities and Markets Authority (“ESMA”) has issued a new Questions & Answers document (the “Q&A”) on its final report on funds’ names using ESG or sustainability-related terms (the “Final Report”). The new Q&As are related to green bonds, the convergence on “meaningfully investing in sustainable investments” and the definition of controversial weapons.

### Background

ESG has been a key focus of ESMA in recent years. However, fund products established to meet perceived demand for more sustainable investments raised concerns of “green washing”. Accordingly, on 18 November 2022 ESMA launched a consultation on fund names using ESG or sustainability terms and subsequently issued the Final Report to ensure investors are not misled by unsubstantiated or exaggerated sustainability claims in fund names. It provides clear criteria to determine usage of related terms in fund names.

### Central Bank Approach

The Central Bank of Ireland (the “CBI”) has confirmed it expects compliance with the Final Report.

### New Requirements

The Final Report provides that to be able to use certain key terms, a minimum threshold of 80% of investments must meet environmental, social characteristics or sustainable investment objectives. The Final Report also provides for exclusion criteria based on relevant benchmarks

for specific terms used in fund names, e.g.: “Environmental” or “Impact”

### Clarifications in the Q&A

The Q&A explains that investment restrictions related to exclusions of companies for green bonds do not apply to investments in European Green Bonds. For other green bonds, a look-through approach may be used. Clarification of the treatment of Green Bonds is important because of the imminent application of the European Green Bonds Regulation.

The Q&A on “meaningfully investing in sustainable investments” provides that such funds must contain at least 50% of sustainable investments; and the Q&A on controversial weapons provides that the reference to the exclusion related to controversial weapons should relate to SFDR principal adverse impact indicator 14.

### How Clerkin Lynch Can Help

The Clerkin Lynch team have a keen focus on ESG related topics for funds and advise on related compliance, including in relation to the Final Report. Contact us for more information.



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