

ESMA Opinion

Sustainable investments: Facilitating the investor journey *- A holistic vision for the long term -*

1 Reasons for publication

1. In the last few years considerable progress has been achieved in building the EU Sustainable Finance regulatory framework ('Framework'), with most legislative initiatives already completed. These developments constitute a major step forward in the area of sustainable finance, with the EU being a pioneer globally. ESMA and National Competent Authorities (NCAs) have acquired significant knowledge with the application of the Framework, which they note, is already well developed, provides a good basis for investment decisions, and includes safeguards against greenwashing.
2. At the same time, ESMA and NCAs are of the view that **the Framework could further mature and evolve to facilitate the investors' sustainable investment journey**. With a long-term perspective in mind, ESMA developed this Opinion¹ to improve usability and coherence of the Framework, taking into account the Joint ESAs Opinion on the SFDR ('Joint ESAs Opinion')², with which it is broadly aligned.
3. Taking the needs of investors as a starting point, this Opinion sets out the holistic vision of securities markets regulators for the long-term, considering the Framework's overall architecture and the interconnectedness between its different building blocks. It outlines securities markets regulators' view of how the Framework should function in the longer-term, aspiring to its 'ideal end-state'. Given its long-term time horizon and high-level approach, this Opinion does not go into the technical details of policy proposals and their implementation in EU legislative texts. Moreover, this Opinion aims at covering the **entire Sustainable Investment Value Chain ('SIVC') encompassing the various nodes along the SIVC into its policy recommendations**.

¹ This Opinion builds on the findings of the [ESMA Progress Report on Greenwashing](#) (Ref.: ESMA30-1668416927-2498 | 31 May 2023) and represents the last component of ESMA's reply to the EC [Request to the ESAs for input related to greenwashing risks and supervision of sustainable finance policies](#) (May 2022), next to the [Final Report on Greenwashing](#) (Ref ESMA36-287652198-2699 | 4 June 2024).

² The Joint ESAs Opinion provides the ESAs' views on the changes that need to be made to the SFDR in the medium-term, (Joint ESAs Opinion on the assessment of the SFDR, Ref.: [JC 2024 06](#) | 18 June 2024).

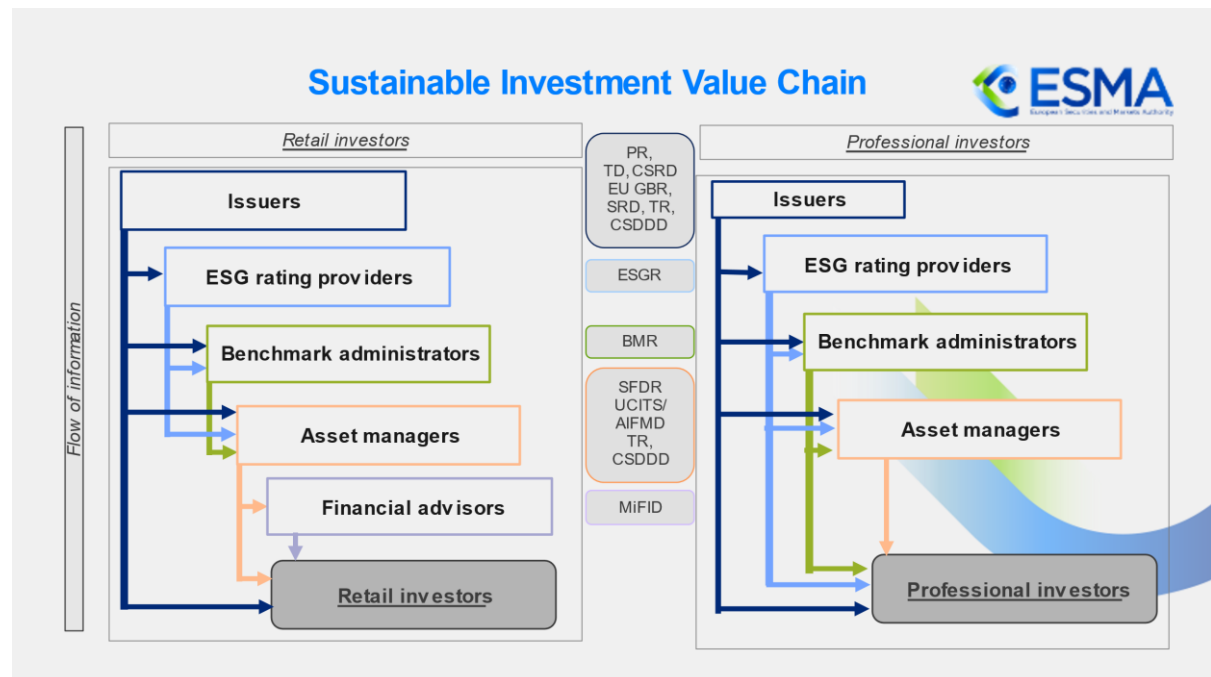
2 Introduction

4. The Framework has evolved rapidly in the last few years³ in order to support the **mobilisation of private capital into sustainable investments, in line with the EU targets** of climate-neutrality by 2050 and reduction of greenhouse gas (GHG) emissions by at least 55% by 2030. In this regard, **investors play a key role** as they ultimately drive the allocation of capital to investment objectives. The Framework, therefore, needs to **'facilitate the investor journey'** by helping investors navigate through a broad selection of sustainable products with different sustainability characteristics and varying degrees of sustainability ambition. It is also important that the Framework effectively supports the financing of the transition to a sustainable economy by incorporating the tools that are needed to help investors channel capital for transition purposes.
5. The Framework should **provide investors with adequate information and tools to make effective decisions in line with their needs and preferences**. This is even more critical for retail investors who may not have the same means, expertise and understanding as professional investors and are, therefore, likely to rely on investment advice for their investment decisions.
6. This Opinion focuses on the perspective of investors. At the same time, to effectively support the investment decision process, it is instrumental to have **an all-inclusive and coherent overview of the SIVC**, as illustrated in the below graphic. The different players in the SIVC interact and are closely dependent on each other. The **Framework must consider these dependencies in the interaction between the various legal texts**⁴, which impose disclosure and conduct requirements. The Framework needs to **support the effective functioning of the SIVC as a whole**. Looking forward to the future developments in the Framework, the policy recommendations in this Opinion **aim at**

³ "Europe will need an estimated EUR 350 billion in additional investment per year over this decade to meet its 2030 emissions-reduction target in energy systems alone, alongside the EUR 130 billion it will need for other environmental goals": [EC Communication](#): Strategy for Financing the Transition to a Sustainable Economy (6 July 2021).

⁴ Prospectus Regulation PR (Regulation 2017/1129); Transparency Directive - TD (Directive 2004/109/EC), as amended by the Corporate Sustainability Reporting Directive - CSRD (Directive 2022/2464); EU Green Bond Regulation - EU GBR (Regulation 2023/2631); Shareholders Rights Directive - SRD (Directive 2007/36/EC, as amended); Taxonomy Regulation - TR (Regulation 2020/852), Corporate Sustainability Due Diligence Directive (Directive 2024/1760), ESG Ratings Regulation (ESGR), Credit Rating Agencies Regulation - CRAR (Regulation 2009/1060), Benchmarks Regulation - BMR (Regulation 2016/1011), Sustainable Finance Disclosure Regulation - SFDR (Regulation 2019/2088), UCITS Directive (Directive 2009/65/EC), AIFM Directive (Directive 2011/61), MiFID (Directive 2014/65).

supporting an environment of trust for sustainable investments, by ensuring high-quality disclosures⁵ and the good conduct of market participants.



7. The ambition of the Framework is to ensure that financial systems can support sustainability and transition. The EU is a clear frontrunner in driving this ambition, having built a Framework, which is more advanced than frameworks in non-EU jurisdictions. At the same time, ESMA underlines the **need to ensure and promote international interoperability** of the Framework and, through this, **support the competitiveness of EU capital markets**.
8. With these considerations in mind, **addressing complexity and further simplifying the Framework** has been a key driver in putting together the proposals that follow. ESMA's suggestions also entail the simplification of definitions and their harmonisation across the Framework in order to ensure their consistency across legislative texts, support comparability between products based on the disclosures of a few basic metrics

⁵ For example see recital 10 SFDR: "This Regulation aims to reduce information asymmetries in principal-agent relationships with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment, by requiring FMPs and financial advisers to make pre-contractual and ongoing disclosures to end investors when they act as agents of those end investors (principals)."

(regardless of sustainability ambition), tailor disclosures to cater to investors' needs and capabilities as well as incorporate in the Framework signalling tools to facilitate retail investors in their investment choices.

3 Consumer and industry testing

Key recommendation

- Consumer and industry testing should be used to ensure that policy solutions are appropriate for retail investors as well as the feasibility and workability of those solutions.

9. ESMA underlines the importance of **consumer testing** – designed in accordance with behavioural science – before launching any legal proposal addressed to retail investors. Given that policy solutions should address retail investor needs, it would be prudent to carry out consumer testing to explore key elements of the solutions and ensure that they actually support retail investors in their decisions. At the same time, consumer testing should be complemented, where necessary, with **industry testing** to generate input from financial market participants ('FMPs') on the feasibility and workability of potential solutions.

4 EU Taxonomy as a central point of the Framework

Key recommendations

- The EU Taxonomy should become the sole, common reference point for the assessment of sustainability and should be embedded in relevant SF legislation.
- The EU Taxonomy should be completed, including with a social taxonomy.
- The Sustainable Finance Disclosure Regulation ('SFDR') definition of 'sustainable investments' should be phased out.

10. The EU Taxonomy should constitute the sole common reference point against which sustainability performance should be measured and it should be fully embedded in the Framework. However, ESMA acknowledges that this is not the case at this stage. In particular, the SFDR definition of sustainable investments, that was put in place before the

development of the Taxonomy Regulation, provides a high level of flexibility regarding contribution to sustainability objectives and the application of the principle of ‘do no significant harm’ (DNSH). In the absence of relevant thresholds, supervised entities are given discretion on how to apply the key parameters of ‘sustainable investment’ under Article 2 (17) SFDR. This does not ensure a consistent minimum sustainability ambition of financial products and hampers comparability between them.

11. For investors to be clear about the sustainability profile of their investments, making the EU Taxonomy the sole common reference point of the Framework would promote convergence in financial products offered in EU capital markets and facilitate comparability. Using the science-based EU Taxonomy to assess sustainability would bolster robust assessments and mitigate greenwashing risks at the same time. However, at this stage, the Taxonomy does not cover all the economic activities that could substantially contribute to the environmental objectives. To fulfil its central role, the EU Taxonomy should be completed for all activities that can substantially contribute to environmental sustainability⁶. The EU Taxonomy should also be extended to cover activities with the potential to improve and those activities that should be decommissioned⁷. As regards the assessment of social sustainability, ESMA underlines the need for a reliable and objective tool to assess investments that pursue social objectives and calls for prioritising the development of a social taxonomy.
12. To reinforce consistency across the Framework, ESMA notes that where a legal text (for instance SFDR and BMR) includes a concept of sustainability; this should be defined with **direct references to the EU Taxonomy to embed a single definition of sustainability.**
13. ESMA is aware that **the full deployment of the EU Taxonomy will need time and effort**, given that some economic activities require deeper assessment in order to develop appropriate criteria. ESMA acknowledges that adding new activities, while also refining and updating existing activities, is an ambitious ongoing process. However, the completion of the EU Taxonomy is an important task as it will eventually support science-based and

⁶ This is to tackle a perceived uncertainty around the compatibility of current non-eligible activities with EU environmental objectives.

⁷ These are harmful activities that are either a) always significantly harmful (‘ASH’), i.e. activities for which there is no technological possibility of improving their environmental performance and for which urgent action is needed for exit or decommissioning; or b) significantly harmful (‘SH’), i.e. those for which there is a technological possibility of improving their environmental performance and which are in need of an urgent transition to avoid significant harm to environmental objectives. Please see the report on The [Extended Environmental Taxonomy](#), Platform on Sustainable Finance, March 2022, page 8.

comparable disclosures. ESMA is also aware that the initial application of the EU Taxonomy requires some effort. With this in mind, **ESMA is actively supportive of ongoing efforts to assist market actors in the implementation phase.**

14. ESMA believes that the **SFDR approach of defining environmental sustainability should be phased out in due course as the EU Taxonomy is being completed.** This is to remedy the current situation in which it is possible for an FMP to use its own definition to construct a product. Indeed, FMPs may currently apply weak DNSH tests to portfolio holdings or use an overly generic sustainable objective at fund level.
15. As regards the medium term, ESMA reiterates its support for the ESAs' proposed approach in the Joint ESAs Opinion⁸ for the treatment of environmental and social sustainability in the interim phase and, in particular, making the key parameters of 'sustainable investment' under Article 2(17) of the SFDR more prescriptive.

5 Effectively support the transition

Key recommendations

- Complement current disclosures to provide information on the share of revenue and Capital Expenditure (CapEx) associated with harmful activities that are in a transitioning trajectory or are decommissioning.
- Provide a legal definition of transition investments.
- Ensure the consistency of transition-related disclosure requirements in EU legal texts.
- Take stock of transition plan disclosures to ensure credibility and consistency.
- Develop a broader set of transition benchmarks and raise the ambition of EU Climate Benchmarks.
- Develop high-quality standards for transition bonds and sustainability-linked bonds.

16. The Framework already provides a number of tools for transition-minded investors⁹. **These tools need to make full use of the potential of the EU Taxonomy** as the uptake of

⁸ Paragraph 38 of the Joint ESAs Opinion, Ref. [JC 2024 06](#) | 18 June 2024.

⁹ EU Climate Benchmarks, disclosures for financial products with GHG emission reduction targets recently developed by the ESAs (pending formal adoption by the Commission), EU Green bonds. See also [Commission Recommendation \(EU\) 2023/1425](#) on facilitating finance for the transition to a sustainable economy on financing the transition.

Taxonomy-alignment is at its initial stage. Having in mind that transition is a key element to meet the objective of the EU Green Deal, ESMA sees merit in **providing information on the share of revenue and CapEx associated with harmful activities¹⁰ that are in a transitioning trajectory or are decommissioning** because their environmental performance cannot be improved. The objective of providing this information is to support investors when making investments into activities which are in more urgent need of transition. These disclosures would be subject to the further development of the Taxonomy, as mentioned in section 4.

17. ESMA considers that the definition of transition investments, that is included in the EC Recommendation on financing the transition¹¹, is an important improvement, but notes that it is non-binding. ESMA, therefore, recommends **incorporating a definition of transition investments¹² into the Framework** to provide legal clarity and support the creation of transition-related products.
18. ESMA appreciates that the Framework already includes disclosure requirements regarding transition. To fully support efficient financing of the transition, ESMA considers that an overall mapping and assessment of current obligations of **financial and non-financial undertakings in terms of transition planning and transition plan disclosures** would be useful in order to complement them as needed and ensure consistency of various requirements at activity, project, company and financial product level. ESMA monitors the different initiatives on transition and transition plans that are taking place in the EU and globally and notes the need to avoid overlaps and ensure consistency at international level.
19. ESMA notes that for the financial sector to be able to properly manage risks relating to climate change and support the transition to climate neutrality, large financial undertakings

¹⁰ Please see footnote 7 for a definition of harmful activities.

¹¹ [Commission Recommendation \(EU\) 2023/1425](#) on facilitating finance for the transition to a sustainable economy on financing the transition.

¹² Transition investments could be understood as those that are compatible with and support the transition, i.e., aligned with headline EU and global objectives. With regards to environmental objectives, those headline objectives are identified under Article 9 of the Taxonomy Regulation. Alignment with these objectives would mean improvement in the environmental performance of the underlying assets in a timeframe that is aligned with the contribution expected from the said assets under a transition scenario that delivers on the objectives of limiting global warming to 1.5 °C above pre-industrial levels, the objective of climate change adaptation and other environmental objectives of the EU. For activities covered by the EU Taxonomy, this alignment may be assessed by reference to Taxonomy reporting and the gradual achievement of Taxonomy alignment over time. For other activities and assets outside of the scope of the Taxonomy (e.g., sovereign bonds, shares and bonds of companies active outside of the EU) this alignment may be assessed by reference to commonly accepted sectoral and/or regional transition pathways.

need to operationalise their strategic climate targets and commitments via transition planning. For that purpose, they need to build on the transition planning and related disclosures by non-financial undertakings¹³.

20. Moreover, ESMA is of the view that **the scope and robustness of transition investing tools should be further enhanced**, as reflected in the proposal for the introduction of a categorisation system that caters to transition¹⁴. Such continuous improvement could also be contemplated by **raising the ambition of the EU Climate Benchmarks¹⁵ minimum standards¹⁶**, developing a broader set of transition benchmarks covering various environmental objectives¹⁷ and creating **high-quality EU labels for transition bonds and sustainability-linked bonds**, based on the experience with the EU Green Bond Standard.

¹³ For instance, in the case of asset managers, developing and disclosing transition plans means defining long term ambitions and intermediate milestones and explaining how they are planning to support the transition across the range of financial products and services they offer, including via the development of “transition-focused” funds, engagement plans and stewardship, portfolio management and financial advice.

¹⁴ Please see section 7 of the Opinion for the proposed transition category.

¹⁵ EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks.

¹⁶ For example, by setting additional constraints on the sectoral allocation of the benchmarks to ensure that the decarbonisation of the benchmarks relies on a minimum amount of actual GHG emissions reduction by the constituents over a given time period.

¹⁷ For instance, via the year-on-year increase of the portfolio’s share of taxonomy-aligned turnover (as contemplated by the [EC Study](#) on the feasibility of an EU ESG Benchmark label, 2023) or Taxonomy-aligned CapEx (as considered at the moment by the Platform on Sustainable Finance).

6 Adapted Transparency Requirements

Key recommendations

- Development of minimum sustainability disclosures for all financial products consisting of a small number of simple sustainability KPIs.
- Simple sustainability disclosures for certain financial instruments not captured by the SFDR.
- A sub-set of sustainability disclosures ('vital' information) to be provided to retail investors, while the entire set of sustainability information would be available to all professional and retail investors. Use of layering for documents distributed in digital format.
- 'Vital' information to be placed in short consumer facing documents, like the PRIIPS KID¹⁸.
- Alignment between product names, marketing material and sustainability profile of products.

21. ESMA acknowledges the **inherent complexity of sustainability matters** and recognises that this will be unavoidably reflected in regulatory disclosures. However, despite this complexity, it should still be possible to provide investors – especially retail investors – with information that is appropriately adapted to their needs and capabilities. This would help them assess the sustainability profile of their investments and make efficient use of investment advice.

Minimum sustainability disclosures for all financial products

22. To support investment decisions, investors also need information on the sustainability impact of investments. ESMA, therefore, considers that **all financial products** ¹⁹ **should disclose specific sustainability information regardless of the stated sustainability ambition of the product**. These minimum disclosures would not only improve transparency and facilitate comparability between financial products. The disclosures

¹⁸ Key information document (KID) for packaged retail and insurance-based investment products (PRIIPS).

¹⁹ The reference to financial products in this document should be understood as products falling within scope of the SFDR.

would also ensure comparability between products with an ESG objective, products with smaller ambition and products without such ambitions.

23. Such minimum sustainability information could consist of a small number of key sustainability metrics in the form of key performance indicators (KPIs). The relevant indicators should convey in a simple way the notion of sustainability, be based on existing Taxonomy information, but also leverage off reported ESRs²⁰ and SFDR datapoints that capture specific sustainability aspects.
24. These KPIs should **cover basic environmental and social sustainability characteristics**. An *example* of such potential disclosures is provided below:
- environmental indicators: GHG emissions, Impact on Biodiversity, Taxonomy-alignment.
 - social indicators²¹: human rights, labour rights and Taxonomy-alignment.
25. ESMA reiterates that the final selection of the KPIs should be made, inter alia, on the basis of **consumer testing** and given the dynamic nature of environmental and social elements, these metrics should be under **regular review** to reflect their evolving nature and ensure their continued relevance. Moreover, ESMA invites the Commission to carry out a cost-benefit analysis. In this context, the Commission should also take into account **industry feedback** to assess the extent to which potential costs of this proposal for FMPs are outweighed by the benefits of mainstreaming sustainability disclosures. Moreover, the Commission should consider the application of these requirements in a proportionate way to ensure that they are not overly burdensome for smaller FMPs.
26. As regards the medium term, ESMA reiterates its support for the ESAs' proposed approach in the Joint ESAs Opinion ²².

²⁰ European Sustainability Reporting Standards.

²¹ The metrics selected should be relevant and facilitate comparison between products.

²² Please see section 3.1.1.2 of the Joint ESAs Opinion which proposes that products that fall under product categories would provide disclosures appropriate to the given category, products that have sustainability features but do not qualify for categories would make limited disclosures on their sustainability features, while products with no sustainability features would make minimal disclosures on adverse impacts on sustainability. (Ref. [JC 2024 06](#) | 18 June 2024).

Sustainability disclosures for MiFID II financial instruments not captured by the SFDR

27. Reiterating the proposals set out in the Joint ESAs Opinion²³, ESMA is of the view that – beyond the products currently covered by SFDR – an assessment needs to be conducted concerning **which MiFID II financial instruments²⁴ should be subject to standardised minimum sustainability disclosures²⁵**. In such an assessment, consideration has to be given to the ability of instruments²⁶ to effectively contribute to channelling capital flows to sustainability objectives.

Layering of information to meet different investor needs

28. ESMA appreciates that investors do not have the same **needs and capabilities to assess sustainability information**. To cater to different investor needs, the full set of sustainability disclosures should include a sub-set of **‘vital’ information for less sophisticated investors**. The objective of ‘vital’ information would be to focus the attention of retail or less-sophisticated, investors to sustainability disclosures provided in a simpler and easily understandable way as regards language and terminology, and which are essential for the investment decision. ‘Vital’ information would be updated annually in line with the detailed sustainability information and in accordance with existing rules. ESMA notes that the entire set of sustainability information would be available to all professional and retail investors.

29. **Layering can be of high added value** to help investors (and advisors) access ‘vital’ information, **in the case of documents distributed in electronic format**. Use of layering would make electronically delivered documents extendable and would allow investors to click through to access more detailed disclosures, if they wish. While layering does not impact reporting burden per se, as the full set of sustainability information would still be disclosed, it would nevertheless enhance accessibility and improve readability of regulatory documents.

30. The exact content of the ‘vital’ information should be determined on the basis of consumer testing. However, in ESMA’s view, it **should include the key sustainability metrics**

²³ Idem. Section 3.5 sets out examples of such products.

²⁴ The Listing Act will clarify the expected disclosures for non-equity securities offered to the public or admitted to trading on a regulated market that are advertised as taking into account ESG factors or pursuing ESG objectives.

²⁵ Please note that this proposal does not necessarily mean that these financial instruments should be brought within scope of the SFDR.

²⁶ For instance, structured notes, derivatives etc.

described above to allow for comparability across all financial products **and be placed in short documents like the PRIIPS KID**. The fund's prospectus would continue to contain the full set of sustainability information for those investors wishing to go beyond the 'vital' information. In addition, the usability and relevance of the disclosed data points should be assessed to maintain the appropriate balance between investor protection and reporting burden.

7 Implementation of a product categorisation system

Key recommendations

- Establishment of a product categorisation system that includes strong categories for sustainable and transition investments.
- Regular review of eligibility criteria of categories, weighed against the need for regulatory stability.
- Categories subject to supervision by NCAs.
- Assessment of the feasibility and usefulness of a grading system, although recognising the methodological challenges to capture the multiple dimensions of sustainability.
- Streamline the way in which investors are asked to express their sustainability preferences with the future product categorisation.

31. In an effort to navigate the complexity of the Framework, investors and FMPs tend to perceive SFDR as a labelling regime, even though in reality it was designed as a disclosure regime. ESMA supports the idea that transparency could be complemented with a proxy such as **product categorisation for products offered to retail investors**²⁷. The categorisation would act as a translator to help investors understand the sustainability profile of the financial product in a consumer-friendly way and raise awareness regarding sustainability-related products. It would also simplify the selection of such products for investors that are interested in them.

²⁷ While product categories are generally aimed at retail investors, category products could also be offered to institutional investors as a useful tool to support financing the transition.

32. ESMA acknowledges that the introduction of categories for financial products would entail some effort and implementation costs for the adoption of the categorisation system by market actors. However, such costs would be one-off and should be weighed against the need to provide clarity to investors on the sustainability objectives and ambition of financial products.
33. A strong categorisation system should provide clarity to **investors about the objectives and criteria of each category and why certain products qualify for it**. The establishment of categories would enable investors to assess and compare between different, complex financial products and support them to focus and identify those that have explicit sustainability or transition objectives.
34. To ensure its integrity, a product categorisation system would have two key parts, notably a) a set of clear, science-based, binding, and measurable **'eligibility criteria'** which **should cater to the outcomes that retail investors seek**; and b) **'transparency obligations'** that will apply to the products in order to **make sure that information is provided to investors on the outcomes sought**. These should be concrete and, where possible, quantifiable and enable investors to assess whether the product meets its objectives. ESMA considers that the transparency obligations for the categories would **build on existing and upcoming disclosure requirements**. Moreover, ESMA is of the view that **categories could be voluntary**²⁸. Only products that meet the eligibility requirements would qualify for the categories.
35. To account for market evolution and innovation, **regular review of the categories and their eligibility requirements** would be needed to maintain their relevance for investors and the Framework should explicitly allow for this. At the same time, the need to ensure that categories are fit for purpose should be weighed against the need for regulatory stability.
36. Having in mind the need to provide clarity on the objectives pursued by financial products, ESMA, in line with the Joint ESAs Opinion, calls for two robust categories catering for a) sustainability; and b) transition. ESMA notes that the Joint ESAs Opinion invites the

²⁸ ESMA notes that the [Joint ESAs Opinion](#) (section 2.2) proposes that the Commission could also test a mandatory category regime similar to how the SFDR currently works.

Commission to consider, among other things, solutions for those long-term products that would face restrictions to change their asset allocation²⁹.

37. The paragraphs that follow provide a brief description of the key characteristics of the sustainability and transition categories. ESMA notes that the eligibility criteria and transparency obligations would need to be specified in more detail to ensure that product categories are robust and provide effective protection for investors.

*For a category that would cater to **investments that are sustainable**:*

- a. Cater to products with a common denominator to make sustainable investments, i.e. aligned with the EU Taxonomy.
- b. **Standardised set of metrics** based on the EU Taxonomy to allow investors to assess the level of Taxonomy-alignment and compare between products.
- c. Compliance with the **DNSH principle** for all investments in the product that falls into this category³⁰.
- d. Regular review of the eligibility criteria related to Taxonomy-alignment with the objective of adjusting them as Taxonomy-alignment increases in the real economy.

*For a category that would **relate to transition and cater to transition-minded investors**:*

- a. Cater to a variety of products that have as common denominator to make transition investments ³¹, namely investments in underlying activities/assets that achieve sustainability over time, in line with headline EU and global objectives such as limiting global warming to 1.5 °C above pre-industrial levels.
- b. Build on existing **transition-focused tools** such as EU Climate Benchmarks and, more broadly, disclosure requirements applicable to funds that have GHG emissions reduction as an objective.

²⁹ The [Joint ESAs Opinion](#) (section 3.1.1.1) invites the Commission to consider allowing for only a share of the product's investments to comply with the minimum requirements for transition products. This share will increase over time.

³⁰ This requirement will allow some investments in activities which are not yet Taxonomy-aligned. These activities should meet the DNSH criteria, i.e., not harm the Taxonomy objectives, even if they do not yet comply with the substantial contribution criteria.

³¹ ESMA notes that the proposals in section 5 on how to support transition should be taken into account when designing the eligibility criteria for the transition category, to ensure consistency in the Framework with regards to transition finance.

- c. Explain the investment strategy with reference to **a standardised set of metrics**³² to allow investors to assess and compare the level of ambition of products and monitor progress over time. These would need to be elaborated and included in relevant, easily accessible documents.
 - d. **Ease the application of the DNSH criteria** for investments in activities that are in a transitioning trajectory (although currently harmful) and investments in activities that are decommissioning because their sustainability performance cannot improve to avoid significant harm³³.
 - e. As part of the eligibility criteria for this category, consider an obligation to ensure that a minimum share of reduced “financed environmental or social impacts” (e.g. financed GHG emissions) reflects actual reduction in environmental or social impact of investee companies (either based on robust ex-ante selection or other robust mechanisms such as active engagement)³⁴.
38. The introduction of EU categories will reduce market fragmentation and facilitate the development of the Capital Markets Union. ESMA would expect that EU-defined categories would promote market consolidation and gradually phase out national labels.
39. As regards supervision of categories, ESMA expects this to be carried out by NCAs. Oversight of categories needs to involve sufficient safeguards to ensure their integrity.

Implementation of a grading system

40. In ESMA’s understanding, a **grading system is a complementary way to facilitate the investors’ journey**. In line with the Joint ESAs Opinion³⁵ which suggests to the Commission, inter alia, the introduction of sustainability indicator(s), **ESMA appreciates that such a system could be an appealing way to aggregate complex sustainability information in order to illustrate the sustainability profile of a product to investors**. ESMA considers that, in the longer term, a grading system would help investors identify

³² In the current context and subject to further discussion, the most relevant metrics appear to be either Taxonomy metrics (e.g., share of taxonomy-aligned turnover or CapEx) or metrics on environment-related or climate-related impacts associated with the product (e.g., financed GHG emissions). Where relevant, such metrics may be examined as part of the analysis of the transition plans disclosed by investee companies in the portfolio.

³³ Please see footnote 7 for a definition of harmful activities. The transitioning or decommissioning of harmful activities could be assessed based on transition plan disclosures by companies engaged in such harmful activities.

³⁴ This is meant to address potential greenwashing risks associated with funds achieving reduced “financed environmental or social impacts” over time, only based on capital reallocation.

³⁵ Section 3.2, Joint ESAs Opinion, [Ref. JC 2024 06](#) | 18 June 2024.

those products that are compatible with their sustainability preferences and compare between them, provided that it would efficiently capture the multiple dimensions of sustainability.

41. At the same time, ESMA acknowledges that developing a grading system comes with **significant methodological challenges** as sustainability matters are multi-dimensional. This means that the algorithm(s) that will be used would need to incorporate thresholds for each dimension and for each scale. Moreover, there is a wide range of parameters to consider. For instance, whether the grading system would address environmental and social sustainability together or separately for each environmental objective. In addition, the question of relative “greenness” between a low-ranking sustainable investment and a higher-ranking transition investment needs to be addressed, to avoid making transition products appear as second-best. Similar considerations are set out in the Joint ESAs Opinion which includes some pros and cons of introducing a sustainability indicator³⁶.
42. ESMA expects it to be feasible to address these challenges in a satisfactory way in the future when the Taxonomy is completed. For this reason, ESMA considers that the use of grading could be an appealing tool in the longer term. Moreover, to ensure the robustness and usability of such a system, the Commission should carry out consumer testing to assess retail investors’ capacity to comprehend the different elements incorporated in grades. As part of this exercise, the Commission should also test the key parameters of a grading system with a view to avoid penalising transition products and also assess whether it is helpful for investors to apply it across categories or within each category.

Product names and marketing material

43. Currently, retail investors may base their investment decisions on available marketing material or product names, that do not necessarily reflect accurately the sustainability characteristics and strategy of the financial product. **Alignment between the content of marketing material, the product’s name³⁷ and its sustainability profile would help investors distinguish between different products³⁸**. Rules on this should be

³⁶ Section 3.2, Joint ESAs Opinion, [Ref. JC 2024 06](#) | 18 June 2024.

³⁷ Following its [public statement](#) of 14 December 2023 ESMA published the Final Report containing Guidelines on funds’ using ESG or sustainability-related terms (Ref.: [ESMA34-472-440](#) | 14 May 2024).

³⁸ There is already a requirement in Article 13 of Regulation (EU) 2019/2088 that marketing documents should not contradict the disclosures given under SFDR. This is reinforced by paragraphs 59-62 of the ESMA Guidelines on Marketing Communications (Ref. [ESMA34-45-1272](#)).

incorporated in the Framework. Therefore, reiterating the views set out in the Joint ESAs Opinion³⁹, ESMA considers that certain sustainability-related terms should only be used in names when products meet certain sustainability characteristics. Additionally, information in a product's marketing material should be consistent with the product's sustainability profile. Products not falling into the categories would face restrictions on using certain ESG or sustainability related terms in naming and marketing. Such considerations could also be useful for benchmarks, where the absence of a definition of ESG benchmarks could potentially lead to disclosures that could be seen as inaccurate or misleading⁴⁰.

Investment advice supports investors' decisions

44. The complexity of regulatory disclosures is likely to **hinder investment advisors from fully understanding and communicating the sustainability profile of the product**. This has an impact on their ability to give informed investment advice. Furthermore, ESMA considers it is unrealistic to expect retail investors (who are seeking investment advice or portfolio management services) to be in a position to provide information on which products "should be integrated in his/her investment" and in which proportions before expert guidance is provided to them⁴¹.
45. ESMA is of the view that the implementation of product categories would provide a good basis to discuss investors' "**sustainability preferences**" under the MiFID II Delegated Regulation. These should be defined, among others, based on **a consumer-friendly product categorisation system, as described above**. This approach **would help advisors in their dialogue with investors** about their sustainable preferences and support the identification of those preferences and therefore the cluster of (likely) suitable products. At the same time, categories could be used in product governance to define the

³⁹ Please see section 2.2, paragraph 13(g) of the Joint ESAs Opinion, [Ref. JC 2024 06](#) | 18 June 2024.

⁴⁰ As regards prospectuses published under the Prospectus Regulation, there are rules in place in relation to advertisements (Article 22 PR and Article 13-17 of Commission Delegated Regulation 2019/979).

⁴¹ A definition of "Sustainability Preferences" has been included in the amended MiFID II Delegated Regulation, Article 2(7). The way the definition of sustainability preferences has been set up appears in contrast with what has been - so far - the approach on suitability, where clients are not asked to express preferences of specific products (e.g. shares, bonds, funds) but are asked instead to provide broader information on investment objectives, financial situation, and knowledge and experience. Furthermore, it should be noted that clients will be required to provide this information on their sustainability preferences (the Delegated Regulation uses the terms "client's or potential client's choice") before any advice is given or portfolio management service is provided, making it challenging for a retail client to be able to independently identify which products "should be integrated in his/her investment" and in which proportions this should be done. It is also (apparently) the market's expectation that asking clients about "sustainability preferences" might require quite a few additional questions to be asked to clients in already lengthy MiFID questionnaires.

target market. The Framework should also account for the assessment of sustainability preferences for MIFID II financial instruments that are currently not captured by the SFDR as mentioned in section 6. As in previous sections, ESMA reiterates that these policy proposals should be subject to consumer-testing to ensure they are fit for purpose.

46. The **knowledge and competence of investment advisors** is particularly relevant given the complexity and innovation of financial products in general and in particular as regards sustainability-related products. It is important to ensure that the level of knowledge and competence of financial advisors meets the required standards⁴².

8 ESG data quality

Key recommendations

- Monitor the practical application of the ESRS.
- Continue improving the consistency of ESG metrics across the Framework.
- Ensure reliability of estimates.
- Continue improving standardisation and machine-readability of sustainability disclosures.
- Bring ESG data products within the regulatory perimeter.

47. A significant amount of data will be disclosed under **the upcoming ESRS**. This is expected to **address, for the most part, current ESG data gaps** as well as **improve data quality and reliability**. In its Opinion on the ESRS⁴³, ESMA appraised the standards with a view, among others, of avoiding unnecessary complexity to users of the resulting information. ESMA will monitor the practical application of the ESRS and will raise any relevant problems it observes, most notably from a supervisory perspective. As a general remark, ESMA considers that the overall assessment of the ESRS should take into account the costs associated with ESRS reporting weighed against the benefits for end users from the significantly enhanced transparency on sustainability matters.

⁴² The Commission's proposal on the Retail Investment Strategy suggests promoting some of ESMA's Guidelines on advisors' knowledge to legal requirements with the introduction of an additional element regarding sustainable investments. Compliance with requirements is to be proven by obtaining a certificate and a minimum requirement for ongoing professional training is introduced in MIFID.

⁴³ Opinion of the European Securities and Markets Authority on the technical advice by the European Financial Reporting Advisory Group on European Sustainability Reporting Standards (Set 1), page 35 ([ESMA32-334-589](#) | 26 January 2023).

48. The upcoming application of the ESRS and the comprehensive set of standardised regulatory information to be disclosed will enhance transparency on sustainability matters and as such provide a solid basis for sustainable investments. However, not all investee companies fall within the scope of the Corporate Sustainability Reporting Directive ('CSRD'). Therefore, for companies not reporting under the ESRS, FMPs will continue to **rely on ESG data providers for their regulatory disclosures**. In this regard, efforts to ensure the quality of ESG data products should not ease in the future. As part of these efforts, ESMA supports the Commission's announcement⁴⁴ that it will develop guidance, to ensure that **estimates are reliable and based on transparent methodologies**.
49. The entry into force of the ESG Ratings Regulation ('ESGR') is expected to improve the reliability of ESG ratings and enhance transparency around them. The upcoming ESGR, however, focuses on the more limited scope of ESG ratings. ESMA is of the view that it is equally important to bring ESG data products into the regulatory perimeter to ensure that **ESG data is reliable and comparable**. ESMA believes that the Commission should consider addressing ESG data issues in a holistic way to establish a regulatory regime that would provide a robust basis for the quality and reliability of ESG data products. This could entail setting out appropriate definitions of what constitutes ESG data products, define the duties and responsibilities of ESG data product providers and set out disclosure, conflict of interest and quality requirements.
50. To maintain a smooth flow of information across the nodes of the SIVC, ESMA supports the Commission in its efforts to continue improving, where needed, the **consistency of ESG metrics**⁴⁵ by looking at the needs of the various SIVC nodes and how information is transmitted and used. Moreover, current efforts should continue in order to ensure that sustainability information is disclosed in a **standardised and machine-readable format** allowing market actors to have easy access to sustainability disclosures.

⁴⁴ Guidance is in principle planned by the Commission as announced in its [June 2023 SF package](#).

⁴⁵ In the context of the adoption of the ESRS, consistency with other relevant EU legislations such as BMR and SFDR was looked at (Ref.: [ESMA32-334-589](#) | 26 January 2023). ESMA considers this is a good practice and encourages the Commission to confirm consistency of ESG metrics also between BMR and SFDR and in general consider such consistency checks as part of an iterative process in future amendments of SF legal texts. One such example where consistency could be improved is the disclosure on the exposure of the underlying assets of benchmarks to "activities defined as generating environmental goods and services by Regulation (EU) No 691/2011" which is required in Commission Delegated Regulation 2020/1816 on ESG disclosures in benchmark statements. This disclosure could be replaced with information on the Taxonomy-alignment of the underlying assets.

9 Conduct of SIVC actors

Key recommendations

- The responsibility of all market actors for conducting their own due diligence and making the materiality assessment should be commensurate to their role and responsibilities in the SIVC.
- Due diligence obligations for the financial and non-financial sector should be well-defined.
- Deeper integration of the concept of active engagement with investee companies. Consider the introduction of an EU-wide stewardship code for market actors.

51. In ESMA's Progress Report on Greenwashing⁴⁶ the conduct of market actors across the SIVC was underlined as a key element for the proper functioning of the Framework and addressing greenwashing risks. Due diligence responsibilities **should not lie only on issuers but on all SIVC actors**. In principle, all market actors should be responsible for conducting their own due diligence and materiality assessment. These obligations should be commensurate to their role and responsibilities in the SIVC and respect the principle of proportionality. The role of external parties providing views on sustainability related disclosures should be further assessed (auditors, depositaries, etc.)⁴⁷.

52. ESMA is supportive of targeted and well-defined due diligence obligations to integrate sustainability-related matters in the business strategy in both the financial and non-financial sectors and sees the upcoming Corporate Sustainability Due Diligence Directive ('CSDDD') as a step in the right direction. This would promote deeper integration of sustainability matters into investment strategy and risk management practices.

53. The Framework should **fully support the concept of active engagement** with investee companies, requirements for clear goal setting, measuring of progress, escalation

⁴⁶ ESMA Progress Report on Greenwashing, [Ref. ESMA30-1668416927-2498](#) | 31 May 2023.

⁴⁷ Please see the Final Report on draft Regulatory Technical Standards on the review of PAI and financial product disclosures in the SFDR Delegated Regulation, [JC 2023 55](#) | 4 December 2023. The Final Report suggests that the Commission should clarify how SFDR-related disclosures should be audited under sectoral legislation. It would also be useful to clarify the role of depositaries and the extent of the controls to be performed on the SFDR related disclosures where not clear under sectoral rules. The proposed Article 7(3) states: '3. Financial market participants may consider datapoints assessed as non-material by investee companies reporting in accordance with Annex I to Commission Delegated Regulation 2023/2772, ESRS 1 General Requirements, Section 3.4 Impact materiality and Section 3.5 Financial materiality as not contributing to adverse impact measured by the corresponding indicator in Annex I of this Regulation.'

mechanism and reporting on achievement of goals. The Shareholder Rights Directive ('SRD') requires that institutional investors and asset managers publish their engagement policies on relevant matters including social and environmental impact and corporate governance as well as annual disclosure on their implementation. Disclosures on engagement policies are also required under the SFDR framework.

54. ESMA believes that **active engagement with investee companies** is a powerful tool to drive change and transition. Given the importance of engagement, ESMA reiterates⁴⁸ that claims about engagement efforts should be better substantiated and expectations should be made clearer. As part of the review of the SRD, ESMA encouraged the Commission to assess the need for standardisation of the disclosures provided under SRD. With respect to proxy advisors, ESMA has asked the Commission to consider requesting more specific disclosure of information sources, including ESG data. Furthermore, ESMA made proposals which are designed to facilitate shareholder engagement and participation (e.g. improving the flow of information between issuers and shareholders)⁴⁹.
55. Additionally, ESMA is of the view that the Commission could consider putting in place a **stewardship code at EU level** that would apply to asset managers and institutional investors but also other market actors such as benchmark administrators and investment service providers, leveraging off existing stewardship codes in other jurisdictions⁵⁰. The added value of a voluntary EU-wide stewardship code is that it would reflect the EU Framework and provide active support for its implementation across Member States and constitute a valuable tool for smaller market actors.

⁴⁸ Progress Report on Greenwashing, page 62, paragraph 171 ([ESMA30-1668416927-2498](#) | 31 May 2023).

⁴⁹ Implementation of SRD2 provisions on proxy advisors and the investment chain (Ref.: [ESMA32-380-267](#), EBA/Rep/2023/26 | 27 July 2023).

⁵⁰ Progress Report on Greenwashing, page 47, paragraph 116 ([ESMA30-1668416927-2498](#) | 31 May 2023).