

Guidelines

on funds' names using ESG or sustainability-related terms

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1. Scope

Who?

1. These guidelines apply to UCITS management companies, including any UCITS which has not designated a UCITS management company, Alternative Investment Fund Managers including internally managed AIFs, EuVECA, EuSEF and ELTIF and MMFs managers as well as competent authorities.

What?

2. These Guidelines apply in relation to Article 14(1)(a) of Directive 2009/65/EC, Article 12(1)(a) of Directive 2011/61/EU and Article 4(1) of Regulation (EU) 2019/1156. In particular, they apply in relation to the obligation to act honestly and fairly in conducting their business as well as the obligation that all information included in marketing communications is fair, clear and not misleading.
3. These obligations are relevant to all fund documentation and marketing communications addressed to investors or potential investors for UCITS and AIFs, including when they are set up as EuVECAs, EuSEFs, ELTIFs and MMF.

When?

4. These guidelines apply three months after the date of the publication of the guidelines on ESMA's website in all EU official languages.
5. Managers of any new funds created after the date of application of the guidelines, should apply these guidelines immediately in respect of those funds.
6. Managers of funds existing before the date of application of these guidelines should apply these guidelines in respect of those funds after six months from the application date of the Guidelines.

2. Legislative references, abbreviations and definitions

2.1. Legislative references

AIFMD	Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 ¹
CDR (EU) 2020/1818	Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks ²
CDR (EU) 2022/1288	Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports ³
ESMA Regulation	Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC ⁴
KIID Regulation	Commission Regulation (EU) No 583/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website ⁵
Regulation (EU) No 345/2013	Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds ⁶

¹ OJ L 174, 1.7.2011, p.1.

² OJ L 406, 3.12.2020, p. 17.5

³ OJ L 196, 25.7.2022, p. 1.

⁴ OJ L 331, 15.12.2010, p. 84.

⁵ OJ L 176, 10.7.2010, p. 1.

⁶ OJ L 115, 25.4.2013, p. 1.

Regulation (EU) No 346/2013	Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds ⁷
Regulation (EU) 2019/2088	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ⁸
UCITS Directive	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) ⁹

2.2. Abbreviations

AIFM	Alternative Investment Fund Manager
CDR	Commission Delegated Regulation
CTB	EU Climate Transition Benchmark
ELTIF	European Long Term Investment Funds
ESMA	European Securities and Markets Authority
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
MMF	Money Market Fund
PAB	EU Paris-aligned Benchmark
SFDR	Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088)
UCITS	Undertaking for Collective Investment in Transferable Securities

2.3. Definitions

Benchmark	a market index against which to assess the performance of a fund;
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⁷ OJ L 115, 25.4.2013, p. 18.

⁸ OJ L 317, 9.12.2019, p. 1.

⁹ OJ L 302, 17.11.2009, p. 32.

Fund	a collective investment undertaking (as defined in Article 1(2)(a-b) of the UCITS Directive and Article 4(1)(a) of the AIFM Directive);
Fund Managers	a) a management company (as defined in Article 2(1)(b) of the UCITS Directive); b) an investment company that has not designated a management company authorised pursuant to the UCITS Directive; c) an AIFM (as defined in Article 4(1)(b) of the AIFMD) of an AIFs; and d) an internally managed AIF in accordance with Article 5(1)(b) of the AIFMD

3. Purpose

7. These guidelines are based on Article 23(7) of the AIFMD, Article 69(6) of the UCITS Directive and Article 16(1) of the ESMA Regulation. The purpose of these guidelines is to specify the circumstances where the fund names using ESG or sustainability related terms are unfair, unclear or misleading.
8. The name of a fund is a means of communicating information about the fund to investors and is also an important marketing tool for the fund. A fund's name is often the first piece of fund information investors see and, while investors should go beyond the name itself and look closely at a fund's underlying disclosures, a fund's name can have a significant impact on their investment decisions.

4. Compliance and reporting obligations

4.1 Status of the guidelines

9. In accordance with Article 16(3) of the ESMA Regulation, competent authorities and financial market participants must make every effort to comply with these guidelines.
10. Competent authorities to which these guidelines apply should comply by incorporating them into their national legal and/or supervisory frameworks as appropriate, including where particular guidelines are directed primarily at financial market participants. In this case, competent authorities should ensure through their supervision that financial market participants comply with the guidelines.

4.2 Reporting requirements

11. Within two months of the date of publication of the guidelines on ESMA's website in all EU official languages, competent authorities to which these guidelines apply must notify ESMA whether they (i) comply, (ii) do not comply, but intend to comply, or (iii) do not comply and do not intend to comply with the guidelines.
12. In case of non-compliance, competent authorities must also notify ESMA within two months of the date of publication of the guidelines on ESMA's website in all EU official languages of their reasons for not complying with the guidelines.
13. A template for notifications is available on ESMA's website. Once the template has been filled in, it shall be transmitted to ESMA.
14. Financial market participants are not required to report whether they comply with these guidelines.

5. Guidelines on funds' names using ESG or sustainability-related terms in UCITS and AIF names

5.1 Explanations of key terms under these Guidelines

15. The following explanations are relevant for the key terms mentioned in the below sections of these Guidelines.
 - "Transition"-related terms encompass any terms derived from the base word "transition", e.g. "transitioning", "transitional" etc. and those terms deriving from "improve", "progress", "evolution", "transformation", "net-zero", etc.
 - "Environmental"-related terms mean any words giving the investor any impression of the promotion of environmental characteristics, e.g., "green", "environmental", "climate", etc. These terms may also include "ESG¹⁰" and "SRI¹¹" abbreviations.
 - "Social"-related terms mean any words giving the investor any impression of the promotion of social characteristics, e.g., "social", "equality", etc.
 - "Governance"-related terms mean any words giving the investor any impression of a focus on governance, e.g., "governance", "controversies", etc.

¹⁰ "ESG" means Environmental, Social, Governance

¹¹ "SRI" means Socially Responsible Investments

- “Impact”-related terms mean any terms derived from the base word “impact”, e.g., “impacting”, “impactful”, etc.
- “Sustainability”-related terms mean any terms only derived from the base word “sustainable”, e.g., “sustainably”, “sustainability” etc.

5.2 Recommendations to fund managers on the use of terms in funds’ names

16. Funds using transition-, social- and governance-related terms should:

- meet an 80% threshold linked to the proportion of investments used to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of the investment strategy, which are to be disclosed in Annexes II and III of CDR (EU) 2022/1288; and
- exclude investments in companies referred to in Article 12(1)(a) to (c) of CDR (EU) 2020/1818.

17. Funds using environmental- or impact-related terms should:

- meet an 80% threshold linked to the proportion of investments used to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of the investment strategy, which are to be disclosed in Annexes II and III of CDR (EU) 2022/1288; and
- exclude investments in companies referred to in Article 12(1)(a) to (g) of CDR (EU) 2020/1818.

18. Funds using sustainability-related terms should:

- meet an 80% threshold linked to the proportion of investments used to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of the investment strategy, which are to be disclosed in Annexes II and III of CDR (EU) 2022/1288;

- exclude investments in companies referred to in Article 12(1)(a) to (g) of CDR (EU) 2020/1818; and
 - commit to invest meaningfully in sustainable investments referred to in Article 2(17) of the SFDR.
19. Where a Fund name combines terms from more than one of paragraphs 16 and 17, the provisions of those paragraphs should apply cumulatively, except for those terms combined with any transition-related terms, where only paragraphs 16 and 21 should apply.

Further recommendations for specific type of funds

20. Funds designating an index as a reference benchmark should only use the terms as referred to in paragraphs 16 to 18 in their name if the guidance under those paragraphs are fulfilled by the Fund.
21. Funds using “transition-” or “impact”-related terms in their names should also ensure that investments used to meet the threshold referred to in paragraphs 16 and 17 respectively are on a clear and measurable path to social or environmental transition or are made with the objective to generate a positive and measurable social or environmental impact alongside a financial return.

Supervisory expectations

22. Competent authorities should consider paragraphs 16 to 21 throughout the life of the Fund. Investors could verify this information through the periodic disclosures provided in accordance with the CDR (EU) 2022/1288. A temporary deviation from the threshold and the exclusions, should be treated as a passive breach and corrected in the best interest of the investors, provided that the deviation is not due to a deliberate choice by the Fund Manager.
23. Subject to the relevant circumstances, competent authorities should consider that inputs warranting further investigation and a supervisory dialogue with the Fund Manager include the following:

- Discrepancies in the level of the quantitative threshold which are not passive breaches;
- A Fund that does not demonstrate sufficiently high level of investments to use transition-, ESG-, impact- or sustainability-related terms in its name; or
- Where the competent authority considers that using transition-, ESG-, impact- or sustainability-related terms in the Fund name would result in investors receiving unfair or unclear information or in a failure of the manager to act honestly or fairly thus misleading investors.