Supervisory Practices to Address Greenwashing

Final Report

The Board
OF THE
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EXECUTIVE SUMMARY

Amongst the various aspects of sustainable finance, IOSCO has also focused its efforts on addressing the growing risk of greenwashing to mitigate the investor protection concerns.

The growth of Environmental, Social, and Governance (ESG) investing, and sustainability-related products has led to several challenges, including concerns regarding the reliability, consistency and comparability of available information, and the risk of greenwashing. These challenges include (i) data gaps at the corporate level, (ii) concerns around the transparency, quality, and reliability of ESG ratings and data products providers, including lack of transparency around methodologies, (iii) lack of consistency in terminology as well as labelling and classification of sustainability-related products, (v) gaps in skills and expertise, and (vi) evolving regulatory approaches.

While some of these challenges are currently being addressed, greenwashing remains a fundamental market conduct concern that poses risks to both investor protection and market integrity. Countering these risks is not an easy task given that greenwashing can take different forms and can vary in scope and severity. Greenwashing can also occur throughout the investment value chain, and any market participant – from issuers to asset managers to ESG ratings and data products providers – can engage in this behaviour.

Taken more broadly, greenwashing undermines the fundamental trust in sustainable finance. To ensure a healthy global sustainable finance market, there is a need for reliable, consistent, and comparable sustainability related information, while related ESG products should be marketed and managed in a way that does not undermine investors' trust.

In a major step towards consistent, comparable, and reliable sustainability information, IOSCO recently endorsed the sustainability-related financial disclosures standards, recently issued by the International Sustainability Standards Board (ISSB), IFRS S1 and IFRS S2[1]. After a detailed analysis, IOSCO has determined that the ISSB Standards are appropriate to serve as a global framework for capital markets to develop the use of sustainability-related financial information in both capital raising and trading and for the purpose of helping globally integrated financial markets accurately assess relevant sustainability risks and opportunities. IOSCO now calls on its 131 member jurisdictions, regulating more than 95% of the world's financial markets, to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards within the context of their jurisdictional arrangements, in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors.

At the same time, asset managers' activities and how they market their ESG products to investors also matter, and products that identify themselves as sustainable need to comply with several characteristics. In that regard, many jurisdictions have already taken steps in setting out regulatory and supervisory expectations for the asset management industry reflecting the IOSCO's recommendations published in November 2021. Efforts to bring ESG ratings and data products providers under the regulatory perimeter are however in the nascent stages and remain fragmented for now. These are, nevertheless, important initial steps of many before the entire ecosystem is ready.

[1] https://www.iosco.org/news/pdf/IOSCONEWS703.pdf

To bring greater visibility to the roles that regulators are playing in addressing greenwashing this Report provides an overview of the initiatives undertaken in various jurisdictions to address greenwashing in line with the IOSCO recommendations published in 2021 and the subsequent Call for Action. This Report provides a mapping of the regulatory and supervisory approaches and practices (current or planned) by regulators to address greenwashing in the areas of asset managers and ESG ratings and data product providers, including challenges and data gaps hindering the implementation of the 2021 IOSCO recommendations. The main findings of the Report indicate the following:

- **There is no global definition of greenwashing**. The IOSCO's 2021 Asset Management Report[2] described greenwashing as *the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products*. The analysis observed that most jurisdictions do not specifically define greenwashing in their respective legislation, especially in legally binding provisions. However, many authorities have provided guidance on the identification of greenwashing and the risks associated with it. In addition to greenwashing, other malpractices such as greenhushing[3] and green-bleaching[4] are becoming prominent. While there are no specific frameworks to regulate these concepts, some regulators noted ways in addressing these malpractices.

- The Report notes that most jurisdictions have in place **supervisory tools and mechanisms** to address greenwashing in the area of asset managers and their products. For example, at the asset manager level, the regulators conduct assessments or reviews of the asset manager's entity-level policies, procedures, practices, and disclosure (as part of the licensing or registration process or as part of the ongoing compliance review process for registered entities); they conduct targeted inspections on the subject matter; they gather intelligence, monitor complaints, and supplement the gathering of relevant information through interactions and dialogue with the industry. The regulators also conduct reviews (thematic or targeted) of product-level disclosure materials and marketing materials, and market-wide studies into sustainability-related disclosures. Importantly, technology can also add to available capacity and play an important role in fostering sound and transparent sustainable finance markets, thereby mitigating greenwashing risks.

- **Educational, awareness measures and capacity building** activities are also used as proactive tools to prevent greenwashing. Some regulators provide guidance or establish some requirements about the knowledge the staff of the asset managers is expected to have for handling and for offering sustainable finance products to retail investors. Regulators are also putting in place different actions to enhance the knowledge and skills of their personnel in relation to sustainable finance and the whole supervisory cycle related to such products (e.g., authorisation, supervision and oversight, enforcement). Moreover, addressing greenwashing also requires **financial education initiatives**, both at investor and at industry levels.

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2 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf

3 Planet Tracker: Greenhushing refers to the act of corporate management teams under-reporting or hiding their sustainability credentials in order to evade investor scrutiny.

4 Green-bleaching is a term used for example when a provider of investment services or products that is in practice "green" chooses not to claim that it is to avoid extra regulatory requirements and a potential regulatory or legal risk. Source: https://www.esma.europa.eu/sites/default/files/2023-01/esma22-106-4384_smsg_advice_on_greenwashing.pdf

- The market for **ESG ratings and data products** is in a phase of rapid growth. This global market is concentrated around a small number of providers with a global presence, alongside a larger number of providers with a more regional focus or offering more specialised services. Some of the larger market participants – notably certain credit rating agencies, exchanges, data and index providers – have acquired and continue to acquire smaller and more specialised ESG data and ratings providers and/or have invested significant resources to develop their own ESG expertise/capacities. In this context, the Report notes that the ESG ratings and data products market remains largely unregulated. However, a few jurisdictions are currently developing mandatory or voluntary policy frameworks for ESG ratings and data products providers. The Report sets out the key elements of these new frameworks.

- According to the feedback provided by the AMCC[5], both at international and national levels, steps are being taken by AMCC members to improve the **consistency of terminology**, which could lead to better classification of funds and labelling. This is in line with the good practices set out in the 2022 IOSCO Call for Action[6].

- **Enforcement** measures have also been applied to greenwashing cases, from infringement notices to monetary fines, to revocation of license, to suspension of business, to other public reprimands, or even to potential civil or criminal liability, depending on the severity of the greenwashing case at hand. In fact, we are starting to see some prominent enforcement measures being taken on a number of greenwashing cases which have also been noted in this Report. Jurisdictions have however indicated that the introduction of specific greenwashing-related penalties or sanctions would enable them to target greenwashing more effectively. While authorities have made efforts to adapt their supervisory practices and enforcement regimes to prevent and address greenwashing, it is still necessary to fully test the adequacy and effectiveness of these mechanisms.

- Finally, the cross-border nature of sustainable finance investments requires **adequate cross-border cooperation**. Such cooperation, including sharing experiences and knowledge, as well as exchanging relevant information and data, is therefore necessary in ensuring market integrity and investor protection. Securities regulators have put in place different mechanisms and tools (bilateral and multilateral) to assist each other throughout the regulatory cycle (i.e., licensing, supervision/oversight, and enforcement). IOSCO is well-placed to continue supporting these initiatives from a global perspective to ensure securities regulators have the necessary framework for cooperation.

While steps have been taken by both regulators and market participants, greenwashing remains a fundamental concern that poses risks to both investor protection and market integrity. Ensuring that the proliferation of sustainability-related products does not increase the risk of greenwashing is also a matter of culture. Greenwashing will remain a high risk to the reputation of global sustainable finance markets until the quality and reliability of information available to investors improve. There is an expectation that all stakeholders foster cultures supporting good practices aimed at preventing harm to consumers and markets. Industry engagement is therefore crucial to this goal. The ability to address greenwashing is also a matter of capacity. Several jurisdictions, notably from emerging markets, will require assistance for both designing and executing their action plans towards any net zero commitment they may have

[5] IOSCO Affiliate Members Consultative Committee
[6] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf

and more concretely, for implementing new corporate sustainability requirements and new or enhanced supervisory practices. IOSCO is looking to assist jurisdictions in building this capacity, in collaboration with other bodies as appropriate.

Sustainable finance is a constantly evolving space. Corporates, asset managers, ESG ratings and data products providers, investors, information providers, regulators and policy makers will need to act in concert to combat greenwashing and help build a more reliable ecosystem to ensure trust in sustainable finance markets. This future remains however dependent on the ability of all stakeholders to ensure healthy conduct and adequate capacity – all supported by the overarching goal of fostering a culture of good practices throughout the investment value chain and preventing harm to investors and markets.

CHAPTER 1: INTRODUCTION

Sustainable Finance is one of IOSCO´s key priority areas under the IOSCO workplan for 2023-2024[7]. In February 2020, the IOSCO Board agreed to establish a Board-level Sustainability Taskforce (STF)[8], aimed at enabling IOSCO to play a key role in the global efforts to address sustainability risks.

In November 2021, IOSCO published two STF reports, that addressed greenwashing in two areas of critical importance in sustainable finance: asset management and ESG ratings and data products providers. The report on *Sustainability-related Practices, Policies, Procedures, and Disclosures in Asset Management industry*[9] (IOSCO's 2021 Asset Management Report) sets out a series of recommendations that securities regulators and/or policymakers, as applicable, should consider in order to improve sustainability-related practices, policies, procedures and disclosure in the asset management industry. The recommendations cover, amongst others, the regulatory and supervisory expectations for asset managers; related disclosure both at the firm and product levels; terminology; and financial and investor education.

The Report on *ESG Ratings and Data Products Providers*[10] (IOSCO's 2021 ESG Ratings Report**)** explores the developments and challenges related to the use of ESG ratings and data products and sets out recommendations for regulators, providers, users, and rated entities considering the increasingly important role of these products. As most jurisdictions do not currently have regulatory frameworks in place for such providers, the report highlights issues that regulators should consider in developing their regulatory frameworks. For ESG ratings and data products providers, the recommendations focus on the governance and internal processes and call for transparency on the methodologies and data that underpin ratings.

On 22 February 2022, the STF set up the Promoting Good Practices workstream (PGP)[11] which aims at supporting the implementation of the 2021 IOSCO Recommendations to address greenwashing and investor protection concerns. Based on the PGP's work, on 07 November 2022, IOSCO published a Call for Action[12] (2022 IOSCO Call for Action) addressed to all voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing.

Based on the 2021 IOSCO Recommendations and the Call for Action, this Report provides an overview of the regulatory and supervisory approaches and practices (current or planned) to address greenwashing in the areas of asset management and ESG ratings and data products providers, including challenges and data gaps hindering the implementation of the 2021 IOSCO Recommendations.

The Report is based on the responses received to a survey covering 22 jurisdictions and the discussions held through various roundtables, both with industry participants and regulators. The Report also incorporates the feedback received from AMCC about the steps taken by the industry participants to implement the Call for Action.

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7 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD731.pdf
8 Currently led by Mr. Rodrigo Buenaventura, Chairman of the Spanish CNMV.
9 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf
10 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf
11 The PGP workstream, which is composed of 16 members and is co-chaired by Grant Vingoe, Chief Executive Officer of OSC Canada and Dr Mohamed Farid Saleh, Executive Chairman of FRA Egypt
12 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf

Two roundtables were held, one for industry participants in July 2022, and another dedicated to supervisors in February 2023. The industry roundtable aimed to (i) inform the industry about IOSCO's call for asset managers and ESG ratings and data products providers to adopt the good sustainability practices and to gather their feedback and support for the IOSCO's Call for Action; and (ii) to identify the main challenges and data gaps hindering the implementation of the IOSCO recommendations to inform potential future work.

The virtual roundtable for supervisors aimed to (i) exchange experiences in implementing the regulatory and supervisory practices set out in the 2021 IOSCO Recommendations, (ii) share views on the main challenges and data gaps hindering the implementation of the 2021 IOSCO Recommendations to inform potential future work by IOSCO, and (iii) discuss approaches to encouraging industry adoption of the good practices in the 2022 IOSCO Call for Action. Additionally, the PGP has facilitated the exchange of views and experiences among its members and engaged with some jurisdictions which have taken regulatory steps around ESG ratings and data products providers, notably regarding the development of codes of conducts or targeted regulation.

To further substantiate preliminary discussions, a survey was sent to STF members in June 2023. The survey sought to collect information about regulatory initiatives and supervisory practices that authorities have implemented, or are planning to implement, to address greenwashing risks in the areas of asset management and ESG ratings and data products providers.

The survey was divided into 8 sections namely Definition and Regulatory Framework, Supervisory Practices for Asset Managers, Supervisory Practices for ESG Ratings and Data Products Providers, Promoting Good Practices at Industry Level, Cross Border Cooperation, Financial and Investor Education and Capacity Building. Members from 22 jurisdictions responded to the survey.[13]

Finally, the AMCC organised a roundtable on *Good Sustainability Practices for Asset Managers* on 11 September 2023 where market participants discussed the initiatives taken by the industry to respond to the 2022 IOSCO Call for Action and the challenges encountered in implementing the relevant good practices.

[13] Responses were received from the following STF members: AFM Netherlands, AMF and OSC Canada, AMMC Morocco, ASIC Australia, BaFin Germany, CMVM Portugal, CNBV Mexico, CNMV Spain, CONSOB Italy, ESMA, FINANSINSPEKTIONEN Sweden, FINMA Switzerland, FRA Egypt, FSMA Belgium, FSA Japan, MAS Singapore, SC Malaysia, FCA United Kingdom, SFC Hong Kong, US SEC, and AMF France.

CHAPTER 2: GREENWASHING RISKS

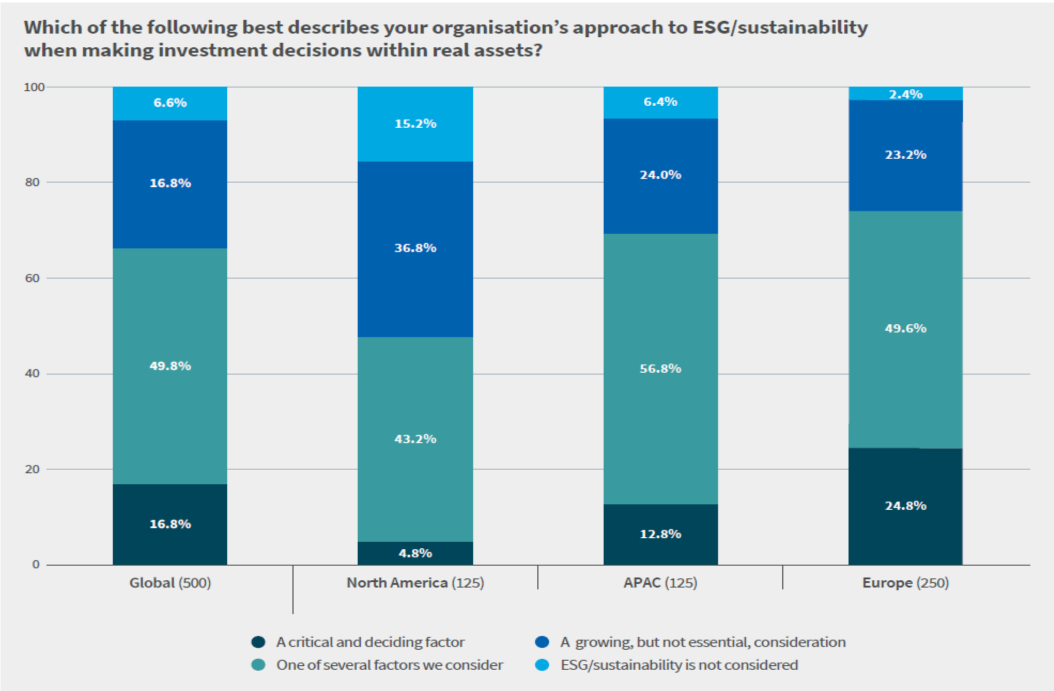
In recent years, there has been a growing recognition of the significant economic and financial impacts from climate change and ESG factors. But there is also growing concern of firms making misleading claims about their ESG risks, opportunities, and impacts. Internationally, industry participants, investors, regulators, and policy makers have stepped up their efforts to t to combat such potential greenwashing.

Given that greenwashing, and similar practices, have the potential to severely undermine investor confidence in sustainable finance and threaten efforts to combat climate change, supervisors should continue to play a key role where relevant, by (i) monitoring greenwashing risks and any other malpractices and ensuring appropriate risk management policies and transparency by market participants, as well as (ii) overseeing compliance with sustainability-related regulations, including promptly referring breaches for enforcement actions and potential sanctions.

2.1. Growth in sustainable investing and resulting challenges

A 2023 study conducted by Aviva Investors over a pool of 500 institutional investors noted that "the sea change in attitudes towards ESG and sustainable investment approaches, albeit less prevalent in North America, has perhaps been the biggest structural trend in the investment industry in the recent years. This has extended to the real assets arena. Nine out of ten (93%) of institutions consider ESG as a factor in investment decisions involving real assets. For 17%, ESG and sustainability matters are a critical factor."[14]

Figure 1: Institutional investors' approach to ESG/sustainability



Source: Aviva Investors

14 https://static.aviva.io/content/dam/aviva-investors/main/assets/capabilities/real-assets/real-assets-study-2023/aviva-investors-real-assets-study-2023.pdf

The study raises the question of whether "the ESG walk matches the talk." Two thirds of the study's respondents reported their organisation has a responsibility to invest sustainably, but "only one half believe real asset investments can have a more direct ESG impact versus listed equites and credit".

The growth of ESG investing and sustainability-related products has led to several challenges regarding the reliability, consistency and comparability of available information, and the risk of greenwashing. These challenges include data gaps at the corporate level, issues arising from the proliferation of ESG ratings and data products providers such as a lack of consistency and transparency in terminologies underpinning ESG ratings and data product, lack of transparency in methodologies, labelling and classification, different interpretations of materiality, the management of conflicts of interest, gaps in skills and expertise, and evolving regulatory approaches.

While some of these challenges are currently being addressed, greenwashing remains a fundamental concern. Greenwashing can be the result of various inter-connected drivers or causes; these can vary from challenges in implementing the necessary governance processes and tools that support high-quality sustainability disclosures to lack of sustainability skills and expertise faced by both supervisors and market participants.

Although greenwashing may take different forms and can vary in scope and severity, it undermines trust in sustainable finance ecosystem. To ensure a healthy global sustainable finance market, corporates issuers should provide reliable information and related ESG products should be marketed and managed in a way that investors' trust is not broken.

Many jurisdictions have already taken steps to introduce sustainability-related corporate reporting requirements. At the same time, the new ISSB standards have been recently issued and endorsed by IOSCO. IOSCO has concluded that the ISSB Standards are appropriate for the purpose of helping globally integrated financial markets accurately assess relevant sustainability risks and opportunities. It has also concluded that they form an appropriate basis for the development of a robust assurance framework to apply to such disclosures[15].

This is only the first step of many before the entire ecosystem is ready to provide consistent, comparable, reliable disclosures. Recognising that individual jurisdictions have different domestic arrangements regarding the consideration of international standards, IOSCO calls on members to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards, within the context of their jurisdictional arrangements, in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors. IOSCO encourages jurisdictions to consider implementing the ISSB Standards for compulsory application or to allow for companies to voluntary use the ISSB Standards in their jurisdictions in the absence of an existing framework. In addition, the consistent and comparable application of assurance standards is important.[16]

At the same time, the asset managers' activities and how they market their ESG capabilities, processes and products to investors matter. The products that identify themselves as sustainable need to comply with disclosure requirements and avoid potentially misleading investors.

[15] Enforcement Decision - https://www.iosco.org/library/pubdocs/pdf/IOSCOPD741-Endorsement-Decision.pdf

[16] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD729.pdf

2.2. Understanding Greenwashing

The IOSCO's 2021 Asset Management Report described greenwashing as *the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products*. To efficiently address greenwashing risks, regulators and industry need to understand the drivers behind this practice. The IOSCO's 2021 Asset Management Report noted that *in the race to promote their green credentials, some asset managers may misleadingly label products as sustainable without meaningful changes in the underlying investment strategies or shareholder practices*.

In their 2023 Progress Report on Greenwashing, ESMA noted that *the competitive drive for market shares and revenue has led to both entity-level and product-level efforts at bolstering sustainability profiles. In a context of very low levels of Taxonomy-aligned assets, investment opportunities for which sustainability performance appears to be beyond doubt or disagreement are still scarce. In this context, greenwashing risk appears to be driven by the convergence of multiple factors (including market, regulatory, supervisory, data and methodological aspects) which may be aggravating conduct issues*[17].

Figure 2: The multiple drivers of greenwashing risks

Source: ESMA

While the 2021 IOSCO sustainability reports focused primarily on asset management and ESG ratings and data products providers, there is an understanding that greenwashing could happen throughout the investment chain and any market participant (issuers, asset managers, financial advisers, ESG rating and data products providers, etc.) could potentially engage in this

[17] ESMA30-1668416927-2498 Progress Report on Greenwashing (europa.eu) https://www.esma.europa.eu/sites/default/files/2023-06/ESMA30-1668416927-2498_Progress_Report_ESMA_response_to_COM_RfI_on_greenwashing_risks.pdf

behaviour.[18] IOSCO's description of greenwashing could be broadly applied, and jurisdictions can elaborate on the specific scope and activities covered, taking account of local circumstances.

Based on the survey responses, most jurisdictions do not specifically define greenwashing in their respective legislation, especially in legally binding provisions. However, many authorities have provided guidance on the identification of greenwashing and the risks associated with it. Recognising that greenwashing may be a misleading conduct, some survey respondents have associated this phenomenon with an act of misleading consumers regarding the environmental practices of firm or the environmental characteristics of a product or service. Some jurisdictions have also noted that greenwashing is not limited to the 'E' component of ESG but is intended to cover 'S' and 'G' as well.

2.3. Defining Greenwashing

For those jurisdictions that have a description for greenwashing, it is noted that the description is generally aligned to IOSCO's one. Other jurisdictions have built upon IOSCO's greenwashing description and elaborated further on the scope of application, taking account local circumstances.

The responses to the survey indicated that in some jurisdictions greenwashing covers all market participants throughout the investment value chain ranging from asset managers and their products, ESG rating and data products providers, issuers, financial advisers, and benchmark administrators, while for other regulators it only covers market participants such as issuers and asset managers.

The following section sets out a few examples on how the concept of greenwashing is introduced in some jurisdictions.

Authority	Details
ESMA	ESMA noted that there is currently no binding definition of greenwashing in the European Union (EU) financial regulatory framework. As part of their responses to a request for input on greenwashing received from the European Commission (EC), the European Supervisory Authorities (ESAs)[19] referred to a common high-level understanding of greenwashing. The ESAs refer to greenwashing as *a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants*. The EU's respondents referred to this high-level common understanding of greenwashing as set out by the ESAs, which is completed by 8 core characteristics. According to the

18 According to the IOSCO's Call for Action published in 2022, greenwashing is the practice of misrepresenting sustainability-related information, practices, or features throughout the investment value chain.

19 The ESAs: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

Authority	Details
	ESA's Progress Report, *Greenwashing can occur at any point where sustainability-related statements, declarations, actions or communications are made, including at different stages of the business cycle of financial products or services (e.g., manufacturing, delivery, marketing, sales, monitoring) or of the sustainable finance value chain*. The ESAs also agreed that sustainability-related misleading claims can occur and spread either intentionally or unintentionally and that greenwashing does not require investors being actually harmed.
FINMA Switzerland	FINMA Switzerland describes greenwashing in its supervisory framework as *investors and clients who are consciously or unconsciously misled about the sustainable characteristics of financial products and services*. Furthermore, in its guidance[20] on Preventing and combating greenwashing, FINMA describes a number of scenarios as being greenwashing or bearing a potential greenwashing risk due to the lack of transparency vis-à-vis investors. On 16 December 2022, the Federal Council of Switzerland published its position[21] on the prevention of greenwashing in the financial sector, mentioning that *greenwashing occurs in the financial sector when, for example, a financial instrument or service is portrayed as having sustainable characteristics or pursuing sustainability goals, and this portrayal does not adequately reflect reality*. This definition is not applicable yet and the Federal Department of Finance is currently examining various options for implementing the Federal Council's position.
ASIC Australia	Greenwashing is not currently defined in legislation or regulations in Australia. However, in June 2022, ASIC Australia issued an Information Sheet 271[22] on how to avoid greenwashing when offering or promoting sustainability related products which defines greenwashing as *the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical*. The document provides further guidance to issuers of sustainability-related products about lifting disclosure standards and avoiding contravention of existing, general misleading and deceptive disclosure requirements under the *Corporations Act 2001* (Cth).
AMF Québec and OSC Canada.	The Canadian Securities Administrators (CSA) Staff Notice 81-334[23] – ESG Related Investment Fund Disclosure, defines

[20] FINMA Guidance 05/2021 "Preventing and combating greenwashing" - https://www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/myfinma/4dokumentation/finma-aufsichtsmitteilungen/20211103-finma-aufsichtsmitteilung-05-2021.pdf?sc_lang=en&hash=7F911020E829EA5910FF903AF851B2F3

[21] https://www.newsd.admin.ch/newsd/message/attachments/74580.pdf

[22] https://asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-related-products/

[23] https://www.osc.ca/sites/default/files/2022-01/csa_20220119_81-334_esg-related-investement-fund-disclosure.pdf

Authority	Details
	greenwashing in relation to investment funds, *(…) whereby a fund's disclosure or marketing intentionally or inadvertently misleads investors about the ESG-related aspects of the fund*. In relation to corporate issuers, the CSA Staff Notice 51-364[24] - Continuous Disclosure Review Program Activities for the fiscal years ended 31 March 2022, and 31 March 2021 defines greenwashing for corporate issuers as *(…) issuers making potentially misleading, unsubstantiated or otherwise incomplete claims about business operations or the sustainability of a product or service being offered, conveying a false impression.*
AMMC Morocco	The AMMC Morocco views greenwashing as *disinformation disseminated by an organization so as to present an environmentally responsible public image.*
FCA UK	Though the FCA UK does not have a formal definition of greenwashing, its consultation on Sustainability Disclosure Requirements (SDR) and investment labels (CP22/20[25]) describes greenwashing as in relation to products *firms making exaggerated, misleading or unsubstantiated sustainability-related claims about their products; claims that don't stand up to closer scrutiny*. The FCA UK also noted that greenwashing may also occur at corporate level (about the entity as a whole, including who it does business with).
SFC Hong Kong	Greenwashing is not legally defined under the Securities and Futures Ordinance (SFO) in Hong Kong. However, the SFC Hong Kong mentioned in its *Strategic Framework for Green Finance*,[26] issued in September 2018 that greenwashing refers to *asset managers marketing themselves as "green" or "sustainable" but do not fully integrate these factors into the investment process.*

2.4.Other Malpractices

In addition to greenwashing, other malpractices such as greenhushing[27] and green-bleaching[28] becoming prominent, may come under regulators' clear fair and not misleading rules. None of the survey respondents has specific frameworks to regulate these concepts. However, the following regulators have showcased ways in addressing these malpractices:

Authority	Details
ASIC Australia	ASIC Australia noted that although 'greenhushing' is not currently a specific offence, it has recently warned entities against this practice,

24 https://www.osc.ca/sites/default/files/2022-11/csa_20221103_51-364_continuous-disclosure-review.pdf

25 https://www.fca.org.uk/publication/consultation/cp22-20.pdf

26 Strategic Framework for Green Finance, September 2018

27 Planet Tracker: Greenhushing refers to the act of corporate management teams under-reporting or hiding their sustainability credentials in order to evade investor scrutiny.

28 Green-bleaching is a term used for example when a provider of investment services or products that is in practice "green" chooses not to claim that it is to avoid extra regulatory requirements and a potential regulatory or legal risk. Source: https://www.esma.europa.eu/sites/default/files/2023-01/esma22-106-4384_smsg_advice_on_greenwashing.pdf

Authority	Details
	given this constitutes a form of greenwashing. In addition, in a speech[29] at the Australian Financial Review ESG Summit, the Chair of ASIC noted that entities may seek to garner a 'green halo' effect without having to do the work while making generic statements that represent *[they] have such a good ESG policy, but [they] can't say anything about it because the regulators won't let [them*].
ESMA	ESMA indicated that the Securities and Markets Stakeholder Group [30] have expressed concerns about green-bleaching and referred to one study by the consultant South Pole finding out that a quarter of 1,200 companies surveyed say they would not publicise their science-based net zero emissions targets. It added that from the perspective of market participants, green-bleaching may be due to the convergence of multiple factors namely (i) a fast-moving regulatory framework that introduced detailed disclosures requirements and concerns about liability risks; and (ii) skills and expertise gaps. From an investor protection's perspective, green bleaching may undermine investors' ability to access quality sustainability information relevant and material to their investment decisions and risk management. According to ESMA playing down ESG commitments and achievements could be considered as a case of omission of sustainability information, and therefore a practice by which the sustainability profile of the entity/product is not "fairly and clearly" communicated.
AMF France	AMF France noted that greenhushing can already be covered by the notion of greenwashing. It referred to ESMA indicating in its progress report on greenwashing[31] that declarations that do not exhaustively reflect the practices of the players can represent a form of greenwashing: *omission is also seen as a source of greenwashing risk in relation to underlying ESG data used and ESG metrics in general. Indeed, the lack of clearly outlined data limitations and/or disclaimers in documentation on underlying methodologies pose a high risk to investor protection and deter comparisons across products and financial market participants.*"
FSA Japan	The FSA Japan pointed out that even though ESG could be emphasised in the prospectus for a publicly offered investment trust, the asset management company of this investment trust could claim that the investment trust is not categorised as an ESG investment trust to avoid disclosure requirements stipulated in the Supervisory Guidelines.

[29] https://asic.gov.au/about-asic/news-centre/speeches/asic-chair-s-afr-esg-summit-speech/
[30] esma22-106-4384_smsg_advice_on_greenwashing.pdf (europa.eu)
[31] https://www.esma.europa.eu/sites/default/files/2023-06/ESMA30-1668416927-2498_Progress_Report_ESMA_response_to_COM_RfI_on_greenwashing_risks.pdf

CHAPTER 3: REGULATORY INITIATIVES ADDRESSING GREENWASHING

3.1. Initiatives Regarding Asset Managers

As of 30 June 2023, more than 315 asset managers, with USD59 trillion[32] in assets, have committed to achieve net zero alignment by 2050 or sooner. Indeed, increasingly more asset managers are making sustainability related commitments and/or integrating ESG factors into their investment process.

The growth of interest in ESG investing and the increased potential for greenwashing have led securities regulators and international organisations to address potential greenwashing issues related to ESG-related investment vehicles, particularly ESG-related funds.

The IOSCO's 2021 Asset Management Report outlines several areas where regulators and policymakers can consider developing sustainability-related rules and regulations, consistent with their mandates and domestic regulatory frameworks.

> **Recommendation 1**: **Asset Manager Practices, Policies, Procedures and Disclosure.** Securities regulators and/or policymakers, as applicable, should consider setting regulatory and supervisory expectations for asset managers in respect of the: (a) development and implementation of practices, policies and procedures relating to material sustainability-related risks and opportunities; and (b) related disclosure.
>
> **Recommendation 2: Product Disclosure.** Securities regulators and/or policymakers, as applicable, should consider clarifying and/or expanding on existing regulatory requirements or guidance or, if necessary, creating new regulatory requirements or guidance, to improve product-level disclosure in order to help investors better understand: (a) sustainability-related products; and (b) material sustainability-related risks for all products.

The survey results revealed that some jurisdictions have requirements in place that specifically address sustainability-related practices, policies, procedures and disclosure for asset managers or their products. It is noted that those requirements relate mostly to disclosure aspects. On the other hand, some jurisdictions rely on existing securities rules.

For example, **EU jurisdictions** must comply with the directly applicable rules envisaged by the Sustainable Finance Disclosures Regulation (SFDR) and with the rules adopted by the EU jurisdiction implemented according to other EU Directives, covering both asset managers and their products. Under the SFDR, all market participants, including asset managers, are required to disclose certain corporate level sustainability information on their websites, such as policies on due diligence and integration of sustainability risks into the investment decision-making process/investment advice. The SFDR also imposes specific product-level disclosure requirements including documentation via periodic reporting.

There are also other jurisdictions that have introduced new dedicated requirements or guidance for asset managers, including four (**Egypt, Hong Kong, Singapore, and the United Kingdom)** that made explicit references to the Task Force on Climate-related Financial

32 Signatories – The Net Zero Asset Managers initiative.

Disclosures (TCFD) recommendations. In introducing these new requirements, two jurisdictions (Hong Kong and United Kingdom) have adopted a phased approach. The **SFC Hong Kong** adopted a proportionate two-tiered approach, with fund managers categorised based on assets under management (under this approach, the baseline requirements are applicable to all licensed fund managers with investment discretion of collective investment schemes while only large fund managers are subject to additional enhanced requirements).

The **FCA UK** introduced a phased approach to TCFD requirements for asset managers, with the largest firms (those with over GBP50 billion in assets under management) in scope from 01 January 2022 and required to make their first disclosures by 30 June 2023, and smaller firms (with above GBP5 billion in assets under management) in scope one year later and required to make their first disclosures by 30 June 2024.

In December 2020, **MAS Singapore** issued Guidelines on Environmental Risk Management laying out supervisory expectations for all fund management companies and real estate investment trust managers to manage environmental risk and disclose their approach using international reporting frameworks such as the TCFD. MAS is studying the formulation of mandatory requirements for S climate-related financial disclosures for larger asset managers based on the ISSB standards.

3.1.1. Legal and regulatory frameworks addressing greenwashing

The survey results revealed that most jurisdictions have legal and regulatory frameworks in place to address greenwashing risks. For those which have a framework to address greenwashing, its coverage varies from focusing solely on asset managers, to covering issuers, ESG rating and data products providers as well.

Some jurisdictions have introduced specific sustainability-related requirements to regulate such risks, while others rely on existing securities regulations governing accurate, complete, truthful and non-misleading disclosures. The legal and regulatory frameworks mainly apply to asset managers and their products. As some jurisdictions rely on existing securities regulations, such frameworks cover a wide range of financial market participants including investment advisers and securities firms.

Authority	Details
ASIC Australia	Greenwashing is not explicitly described in the Australian laws, but it is rather catered under the general misleading and deceptive laws. There are general prohibitions under the Corporations Act and the Australian Securities and Investments Commission Act 2001[33] (Cth) (ASIC Act) against a person making statements or disseminating information that is false or materially misleading or engaging in dishonest, misleading or deceptive conduct in relation to a financial product or financial service. In addition, issuers of managed fund products (both responsible entities of managed investment schemes and trustees of superannuation funds) have a range of conduct obligations that would be relevant in terms of greenwashing (for example, to act honestly) but are not specifically focused on

33 Australian Securities and Investments Commission Act 2001 (legislation.gov.au). (see sections 1021E, 1041E, 1041G, 1041H of the Corporations Act, and section 12DA of the ASIC Act).

Authority	Details
	greenwashing risks. Similarly, others involved in investments such as advisers have relevant obligations, but these are not directed to greenwashing risks specifically.
FINMA Switzerland	In Switzerland, there is no specific regulation on greenwashing or sustainability more generally. However, the existing principle-based regulation imposes obligations that can serve to prevent and combat greenwashing and to regulate greenwashing risk. In relation to the asset management sector, there are some non-sustainability-specific regulations that are used to address greenwashing, for example the prohibition of deception in the Collective Investment Scheme Act (art. 12 CISA) or various organisational requirements, including an adequate risk management on institutional and portfolio level (art. 9 FinIA, 8, 10, 11 FinIO-FINMA).
AMMC Morocco	AMMC Morocco is planning to foster the development of sustainability-aligned practices at the level of asset management industry, including through the publication of guidelines on socially responsible investment. Although Greenwashing risk in not specifically addressed in the regulatory framework, it is covered by rules and provisions pertaining to: • Prohibition of dissemination of false or misleading information (law on AMMC, article 44) • The obligation for Asset managers to establish, for each fund, an information document that includes a description of its investment policy (articles 16 and 22 of the law n°1-93-213 on Collective investment funds) • The obligation for the asset manager to act in the sole interest of the fund investors and respect the investment policy described in the fund's information document (article 52 of the law n°1-93-213 on Collective investment funds). Non-compliance with these provisions induces sanctions on the asset management company (article 110) and on its managers (article 114).
FSA Japan	The prevailing legal and regulatory framework, which stipulates general requirements for asset management companies and their products, is applicable to greenwashing risks. In addition, as soft law, the JFSA has formulated and published in March 2023 the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc[34] (Supervisory Guidelines). On 31 March 2023, the FSA Japan amended the Supervisory Guidelines to define the scope of ESG investment trusts for asset management companies (investment trust management companies) and to provide for information disclosure and the establishment of frameworks for such ESG investment trusts. In Japan, public offering investment trusts are counted as a major financial instrument as a means of asset formation for retail investors. Therefore, measures against the risk of greenwashing have been focusing on public offering investment trusts,

[34] https://www.fsa.go.jp/common/law/guide/kinyushohin_eng.pdf

Authority	Details
	by imposing necessary regulations on asset management companies of those investment trusts, from both sides of hard and soft laws.
FRA Egypt	There is no specific regulation on greenwashing in Egypt. However, the FRA has started to initiate the regulatory framework by issued decrees regarding ESG and TCFD mandatory disclosures No. 107-108 of the year 2021. The related decrees detailed the reporting process on developed ESG and TCFD matrices and have provided a grace period whereby companies received support and trainings from FRA to enable them to disclose if they have environmental, social and sustainability related governance practices. It is worth mentioning that those decrees considered to be the First of their kinds in Middle East and North Africa region and were formulated in a way that consider the current status and knowledge level of the market in regard to the sustainability issues and principles. However, FRA has recently issued a decree no. 3045 for 2023 related to the regulations of the ESG funds requirements and the related and simultaneously working on identifying the greenwashing practices to mitigate any potential misleading practices for the whole non-banking financial sector including asset managers and capital market companies, insurance sector, Mortgage, Factoring and Leasing, Microfinance, and Consumer Finance sectors as well. The FRA has recently issued a regulatory decree no. 3045 that specifies the requirements for creating ESG funds. This decree comprises the ESG fund definition, the investment structure of the fund, and requires information to be included in the prospectus. This decree is considered to be the cornerstone for creating the regulatory framework for the ESG funds in the national context.
MAS Singapore	A fund that is offered to retail investors in Singapore must be authorised (if it is constituted in Singapore) or recognised (if it is constituted outside of Singapore) by MAS. The offer must also be accompanied by a prospectus registered by MAS, which complies with relevant disclosure requirements set out under legislation, codes and/or guidelines. Under the Securities and Futures Act 2001 of Singapore, fund prospectuses must also not contain false or misleading statements. In particular, to mitigate greenwashing risks, ESG funds that are offered to retail investors must comply with the Disclosure and Reporting Guidelines for Retail ESG Funds issued by MAS Singapore in July 2022. Under the Guidelines, retail ESG funds must, from January 2023, disclose in offering documents their ESG investment objectives and approaches, as well as relevant ESG criteria and metrics, among other things. Retail ESG funds will also have to periodically disclose their ESG-related investments and how their ESG objectives have been met.
SC Malaysia	To mitigate greenwashing risks, SC Malaysia ensures accurate and relevant information of the funds are made available to investors, although explicit disclosure on the risks is not mandatory. Paragraph

Authority	Details
	3.09 of the Sustainable and Responsible Investment (SRI) Funds Guidelines[35] states that an SRI Fund must primarily invest in securities which are in accordance with its policies and strategies, with a minimum asset allocation of at least two thirds (2/3) of its Net Assets Value (NAV). The issuer of an SRI Fund may take a temporary defensive position, provided that at least 2/3 of the SRI Fund's NAV is maintained by investing in instruments that are subjected to sustainability considerations. For example, an equity SRI Fund may, as part of its defensive strategy, reduce its holding in ESG-compliant shares and invest in ESG-compliant instruments that are less risky e.g., money market instruments.
SFC Hong Kong	*Asset managers.* In Hong Kong, the Code of Conduct for Persons licensed by or registered with the SFC (Code of Conduct)[36] is applicable to all licensed intermediaries, while the Fund Manager Code of Conduct[37] (FMCC) is specific to licensed fund managers. The Code of Conduct and the FMCC set out the general principle that an asset manager should ensure representations made or information supplied by it to any fund or investor are accurate and not misleading. This applies to disclosures relating to the asset manager's green and sustainable practices. The provision of misleading or inconsistent information with its actual practices to investors may reflect adversely on whether an asset manager is fit and proper to be licensed. Where there are material concerns on the asset manager's fitness and properness to remain licensed, the SFC may conduct an investigation which could potentially result in license revocation and other disciplinary actions. In addition, SFC Hong Kong amended its FMCC and issued a circular on 20 August 2021[38] setting out regulatory expectations on the management and disclosure of climate-related risks by fund managers, which became fully effective since 20 November 2022 (SFC climate risk requirements). The objectives of such additional expectations are to ensure that fund managers incorporate the assessment of climate-related into their investment and risk management processes as well as to promote disclosure of adequate and comparable climate-related information (including portfolio carbon emission).

35 Revised 2021 - Guidelines on Sustainable and Responsible Investment Funds (sc.com.my) - https://www.sc.com.my/api/documentms/download.ashx?id=82073d55-faac-43e6-b43e-45abc234baed

36 Code_of_conduct Aug 2022_Eng 4th.doc (sfc.hk) - https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/codes/code-of-conduct-for-persons-licensed-by-or-registered-with-the-securities-and-futures-commission/Code_of_conduct_05082022_Eng.pdf?rev=0fd396c657bc46feb94f3367d7f97a05

37 Fund Manager Code of Conduct_Eng (Aug 2022)_v4 (Clean) (sfc.hk) - https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/codes/fund-manager-code-of-conduct/Fund-Manager-Code-of-Conduct_Eng_20082022.pdf?rev=9aae7a8541054823b7f4626749e56cf8

38 Circular to licensed corporations regarding management and disclosure of climate-related risks by fund managers dated 20 August 2021 - https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=21EC31

Authority	Details
	ESG funds.[39] In Hong Kong, investment funds that are offered to the public are required to obtain prior authorisation from the SFC[40] and to comply with the relevant prevailing requirements issued by the SFC. The SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products (Handbook) [41] further sets out that information provided in the offering documents of SFC-authorised funds shall not be false or misleading nor be presented in a deceptive or unfair manner._In addition, SFC-authorised ESG funds that no longer meet the requirements set out in its circular of June 2021 (SFC ESG funds circular)[42] will be removed from the SFC's list of ESG funds and the SFC may take appropriate regulatory action for compliance breaches such as failure to meet the stated investment objective and/or strategy in the offering documents.
FCA UK	Greenwashing falls under the FCA UK's rules for firms to ensure their communications are clear, fair and not misleading. Where relevant, it applies to UK listed companies with respect to their sustainability-related disclosures. In its consultation on Sustainability Disclosure Requirements (SDR) and investment labels, the FCA UK has proposed to introduce an 'anti-greenwashing' rule to reinforce the existing 'clear, fair and not misleading' requirements. This will clarify that they apply to sustainability claims and that those claims must be consistent with the sustainability profile of the product or service. This would apply to all regulated firms (in respect of all of their products and services). The rest of the package in its consultation – labels, disclosure requirements and naming and marketing rules – is specific to asset managers. The proposals aim to tackle greenwashing, help consumers navigate the market and make better informed decisions.
US SEC	While the US SEC rules do not specifically reference greenwashing, there is a framework for addressing the risk of false or misleading statements, including those related to sustainability or ESG claims. While the governance and disclosure requirements of the Investment Advisers Act of 1940[43] (Advisers Act) do not specifically address greenwashing, investment advisers do have a fiduciary duty to their clients under the Advisers Act. As fiduciaries, investment advisers owe their clients duties of care and loyalty. To meet an investment adviser's duty of loyalty, an investment adviser must make full and fair disclosure to its clients of all material facts relating to the advisory relationship, which could include information about greenwashing

39 Defined as funds which incorporate ESG factors as their key investment focus and reflect such in their investment objective and/or strategy.

40 Sections 104 and 105 of the Securities and Futures Ordinance (SFO).

41 https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/codes/sfc-handbook-for-unit-trusts-and-mutual-funds/sfc-handbook-for-unit-trusts-and-mutual-funds.pdf?rev=b28da6c69b3a43c78022b34d634460d1

42 Circular to management companies of SFC-authorized unit trusts and mutual funds – ESG Funds. This ESG funds circular supersedes a previous version issued in April 2019 - https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=21EC27

43 https://www.govinfo.gov/content/pkg/COMPS-1878/pdf/COMPS-1878.pdf

Authority	Details
	risks, depending on the facts and circumstances of the investment adviser's relationship with its client. Similarly, for registered investment companies (funds), the requirements under the Investment Company Act of 1940[44] do not contain specific governance or disclosure requirements related specifically to greenwashing risks. Rather, funds are required to provide disclosures concerning material information on investment objectives, strategies, risks, and governance.
SEBI India	SEBI introduced a regulatory framework to address greenwashing risk in July 2023.[45] Investment criteria for ESG schemes has been laid down by SEBI wherein it is mandated that ESG schemes can invest only in such companies which have comprehensive Business Responsibility and Sustainability Reporting (BRSR) disclosures are made. It is also mandated that an ESG scheme shall invest at least 65% of its AUM in companies which are reporting on comprehensive BRSR and are also providing assurance on BRSR Core disclosures. This is to ensure that ESG schemes invest in companies wherein adequate disclosures are made, which improves the quality of ESG ratings. Further, while drafting the policy to address greenwashing risk a focus was on disclosures. Asset Management Companies (AMCs) are mandated to disclose security wise ESG scores, ESG scheme's score, name of the ESG Rating Provider, in case there is a change in ERP, the reason for such change is also required to be disclosed in the monthly portfolio statements of ESG schemes. AMCs are required to disclose name of the strategy in the name of scheme and also obtain independent reasonable assurance on an annual basis regarding their ESG scheme's portfolio being in compliance with the strategy and objective of the scheme, as stated in respective Scheme Information Documents. Further, to address the concerns of conflict of interest with the assurance provider, AMCs need to ensure that the assurance provider or any of its associates do not sell its products or provide any non-audit/non-assurance related service including consulting services, to the AMC or its group entities. The board of directors of AMCs, based on comprehensive internal ESG audit, is also mandated to certify the compliance of ESG schemes with the regulatory requirements including disclosures. A fund manager of ESG schemes needs to provide a 'Fund Manager Commentary' wherein disclosures with respect to engagements

44 https://www.govinfo.gov/content/pkg/COMPS-1879/pdf/COMPS-1879.pdf

45 https://www.sebi.gov.in/legal/circulars/jul-2023/new-category-of-mutual-fund-schemes-for-environmental-social-and-governance-esg-investing-and-related-disclosures-by-mutual-funds_74186.html

Authority	Details
	undertaken by Mutual Funds for ESG schemes, how ESG strategy was applied on the fund, how engagements were carried out, any escalation strategy that the Fund Manager may have applied on the portfolio companies, Case studies where Fund Managers have engaged with portfolio companies with a clear objective of engagement and engagements carried out for exercise of votes. This apart, for enhanced stewardship reporting, the asset management companies are required to disclose voting rationale along with decision wherein AMCs need to categorically disclose whether the resolution has or has not been supported due to any environmental, social or governance reasons.

3.1.2. Legal and regulatory framework in the European Union

The sustainable finance regulatory framework in the EU comprises sustainability disclosures for financial market participants and sustainability reporting requirements for companies (Taxonomy Regulation and Corporate Sustainability Reporting Directive), and manufacturers of financial products and financial advisers (Regulation (EU) 2019/2088[46] SFDR, as supplemented by Commission Delegated Regulation (EU) 2022/1288), and level 2 measures to integrate sustainability risks and factors into Alternative Investment Fund Managers Directive (AIFMD), the Undertakings for the Collective Investment in Transferable Securities (UCITS) Directive and the Directive 2014/65/EU on markets in financial instruments (MiFID II)[47]).[48]

Under this framework, the EU has created tools to increase transparency and help end-investors identify credible sustainable investment opportunities and potential risks. Building on disclosures under the SFDR and the Taxonomy Regulation, these tools consist of the benchmarks under the Benchmark Regulation and the proposal for a European green bond standard and the recommendations to support finance for the transition to a sustainable economy.

The various regulatory instruments mentioned above refer to greenwashing in specific contexts:

- The Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (or Taxonomy Regulation) states in its recital 11: *In the context of this Regulation, greenwashing refers to the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact basic environmental standards have not been met.*[49]

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[46] eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&qid=1693153514598

[47] The integration of sustainability aspects including sustainability preferences was implemented through amendments of the Level 2 regulations under MiFID, UCITS Directive, AIFMD, IDD and Solvency II. See Commission communication on the Sustainable Finance Package.

[48] request_to_esas_on_greenwashing_monitoring_and_supervision.pdf (europa.eu), page 1 - https://www.esma.europa.eu/sites/default/files/library/request_to_esas_on_greenwashing_monitoring_and_supervision.pdf

[49] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852

- Commission Delegated Regulation (EU) 2022/1288 of 06 April 2022 supplementing Regulation (EU) 2019/2088 (SFDR) contains the following provisions:

    - explanatory memorandum: *Disclosure obligations and the assessment of sustainability preferences support the policy objective of reducing the occurrence of greenwashing, a form of mis-selling.*

    - recital 16: *It is therefore necessary to address concerns about 'greenwashing', that is, in particular, the practice of gaining an unfair competitive advantage by recommending a financial product as environmentally friendly or sustainable, when in fact that financial product does not meet basic environmental or other sustainability-related standards*.[50]

- MiFID II clarifies the following in its recital 7: *It is necessary to address concerns about 'greenwashing', that is, in particular, the practice of gaining an unfair competitive advantage by recommending a financial instrument as environmentally friendly or sustainable, when in fact that financial instrument does not meet basic environmental or other sustainability-related standards. In order to prevent mis-selling and greenwashing, investment firms should not recommend or decide to trade financial instruments as meeting individual sustainability preferences where those financial instruments do not meet those preferences. Investment firms should explain to their clients or potential clients the reasons for not doing so, and keep records of those reasons*.[51]

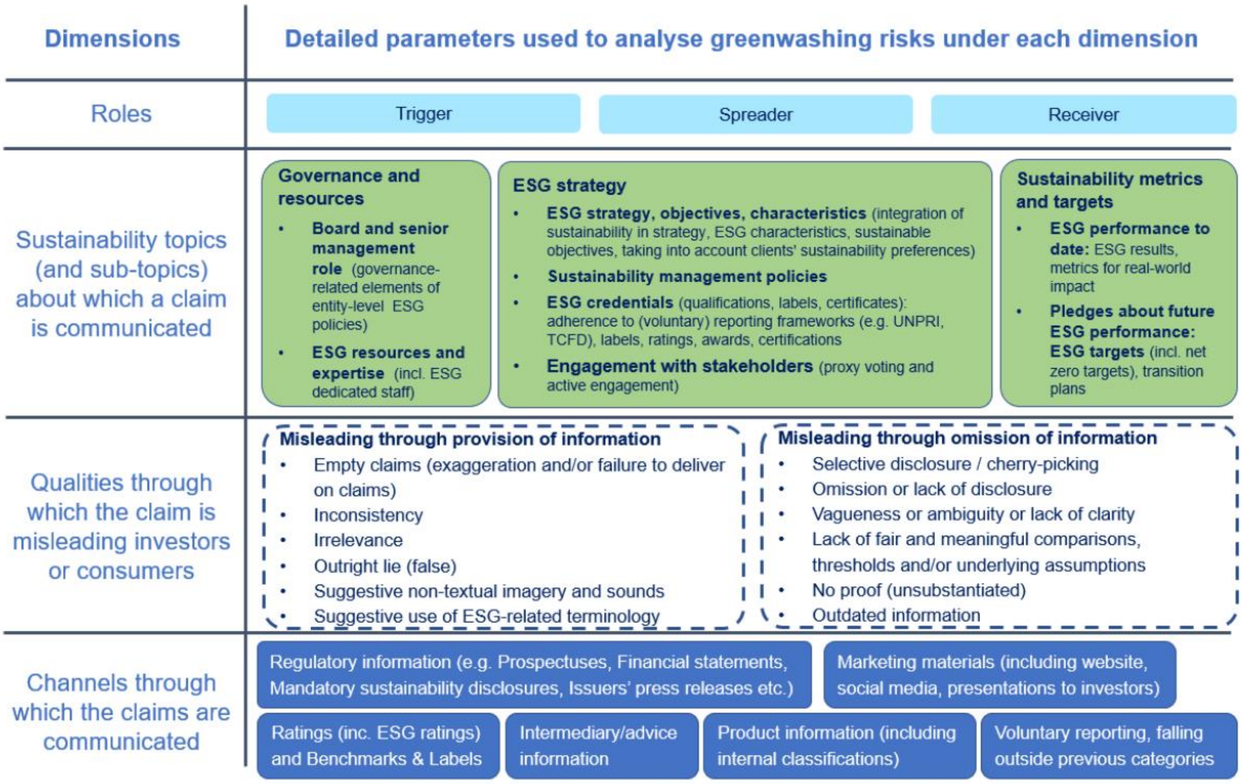
- Recital 2 to Directive 2022/2464/EU as regards corporate sustainability reporting (CSRD)[52] does not give a definition but makes a reference to greenwashing: *greenwashing of financial products that unduly claim to be sustainable*.

In their response, **ESMA** provided information about the regulatory framework applicable to key segments of the sustainable investment value chain. In their 2023 Progress Report on Greenwashing,[53] ESMA noted that greenwashing may occur not only in relation to the application of specific disclosures required by the EU sustainable finance regulatory framework but also in relation to general principles, as featured either in the general EU financial legislation or, more specifically, in EU sustainable finance legislation.

The general principles concerning fairness of behaviour and clear and not misleading disclosure to investors are of relevance in that context. Moreover, ESMA noted that in *adopting a structured approach to identify areas more exposed to greenwashing risks, ESMA assessed greenwashing across four key dimensions: i) the role that an actor of a given sector may play in greenwashing, namely trigger, spreader, or receiver of misleading sustainability claims; ii) the topics on which sustainability claims are made; iii) the qualities which make them misleading such as omission, cherry-picking, etc; and iv) the channels through which such claims are communicated, such as regulatory information, marketing material, etc*.

[50] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R1288
[51] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R0565
[52] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464
[53] https://www.esma.europa.eu/sites/default/files/2023-06/ESMA30-1668416927-2498_Progress_Report_ESMA_response_to_COM_RfI_on_greenwashing_risks.pdf

Figure 3: Dimensions used to analyse greenwashing risks



Source: ESMA's Progress Report on Greenwashing, page 18

The following paragraphs cover the specific approach taken with regard to investment managers. Under the SFDR, financial market participants – in particular investment managers - must comply with entity and product level disclosures requirements. In 2021, the implementing rules (Regulatory Technical Standard (RTS)) were developed and became applicable at the beginning of 2023, after adoption by the EC.

The SFDR is being reviewed based on the mandate received from the Commission in April 2022. A consultation paper with draft RTS proposals was launched in April 2023, aiming to finalise the RTS by the end of October 2023. The review was focused on streamlining and expanding the Principal Adverse Impact (PAI) disclosures by financial market participants and enhancing transparency regarding carbon emissions reduction targets in financial products. Ten new social PAI indicators (four mandatory and six "opt-in" indicators) and consulting on a comprehensive transparency framework for greenhouse gas emissions reduction targets are proposed. Additionally, simplifications to the financial product templates, including the introduction of a dedicated 'dashboard' of key information for retail investors have been suggested.

Further, on 14 September 2023, the EC launched a targeted consultation document on the implementation of the SFDR (consultation period: 14 September 2023 – 15 December 2023).[54] [55]

Survey respondents such as **AMF France, AFM Netherlands, BaFin Germany CMVM Portugal, CONSOB Italy, Finansinspektionen Sweden, CNMV Spain, and FSMA Belgium** (Authorities) noted their compliance with the EU sustainable finance legislations which address greenwashing risks. However, some of these Authorities have introduced some additional measures which are described as follows:

Authority	Details
AMF France	The "Article 29" of the French 2019 Energy-Climate Law (which represents a continuation of the article 173-VI of the 2015 Law on the Energy Transition for Green Growth) requires specific ESG-related disclosures from asset managers (both at entity and product level) and complements the EU law in three key complementary areas: • Climate - notably with the required disclosure of alignment strategies with regards to the temperature objectives of the Paris Agreement[56]), as well as the share of Taxonomy-aligned assets and finally the share of fossil fuels related activities; • Biodiversity - notably through the required disclosure of alignment strategies with regards to international biodiversity preservation objectives); and • ESG factors to be fully integrated in the risk management, governance, and transition support systems of financial actors. In case asset managers have not yet implemented practices that need to be disclosed, they must publish an improvement plan explaining the timing and means they have planned to implement them. Additionally, in 2020, the AMF France published a supervisory policy[57] aimed at ensuring the proportionality between the reality of non-financial criteria taken into account in the fund's asset management and the place reserved for this criterion in investor communication. This national policy will be reviewed by the AMF France as soon as it considers that the European framework to offer a sufficient level of investor's protection, to avoid "over transposition" beyond the European rules apart from exceptional cases.
BaFin Germany	Greenwashing entails civil and regulatory liability risks, as well as criminal liability risks. Greenwashing is therefore regulated across a variety of different legal statutes. Greenwashing falls *inter alia* under the provisions against misstatements in financial reporting (sections 331 of

54 Consultation document - Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR) (europa.eu) - https://finance.ec.europa.eu/system/files/2023-09/2023-sfdr-implementation-targeted-consultation-document_en.pdf

55 Noteworthy, the ESMA Consultation on Guidelines on funds' names using ESG terms closed last February:UWGhttps://www.esma.europa.eu/press-news/consultations/consultation-guidelines-funds%E2%80%99-names-using-esg-or-sustainability-related

56 quantitative greenhouse gas emission targets to be set every five years until 2050.

57 https://www.amf-france.org/en/regulation/policy/doc-2020-03

Authority	Details
	the German Commercial Code[58] (HGB), section 400 of the German Stock Corporation Act[59] (AktG)) and against (capital investment) fraud (sections 263, 264a of the German Criminal Code[60] (StGB)). In addition, advertising with inaccurate information about sustainability properties can constitute a criminal offense under Section 16 (1) of the German Unfair Competition Act.[61] Prospectus liability can be considered pertaining to a prospectus linked to a fund or a document replacing the prospectus. However, this framework is partially specific to companies who have to report under the German Commercial Code and partially applies to companies in general, e.g., the criminal offences governed by the German Unfair Competition Act.

3.2.Initiatives Regarding ESG Ratings and Data Products Providers

3.2.1. Role and importance of ESG ratings and data products providers for sustainable finance in capital markets

The market for ESG ratings and data products is in a phase of rapid growth. It is estimated that there are 140 different ESG data providers[62] in the market and are expected to continue to evolve over the coming years. The global market for ESG ratings and data products is concentrated around a small number of providers with a global presence, alongside a larger number of providers with a more regional focus or offering more specialised services. Some of the larger market participants – notably certain credit rating agencies, exchanges, data and index providers – have acquired and continue to acquire smaller and more specialised ESG data and rating providers and/or have invested significant resources to develop their own ESG expertise/capacities.

The smaller actors tend to have a specific regional presence and/or specialisation in specific data sets, coverage, or innovative products and services.

A wide variety of ESG ratings and data products have emerged in response to investor demands. ESG ratings and data product offerings are constantly evolving to respond to new topics of interest and emerging areas of attention (e.g., nature/climate/environmental, diversity and inclusion, biodiversity), or to provide an alternative way to assess ESG characteristics, impact, risks and/or opportunities.

According to Bloomberg,[63] the ESG-related assets under management are predicted to reach USD53 trillion by 2025. The main reasons behind this growth are two-fold:

58 https://www.gesetze-im-internet.de/englisch_hgb/englisch_hgb.pdf
59 https://www.gesetze-im-internet.de/englisch_aktg/englisch_aktg.html
60 https://www.gesetze-im-internet.de/englisch_stgb/englisch_stgb.pdf
61 https://www.gesetze-im-internet.de/englisch_uwg/englisch_uwg.pdf
62 https://www.financierworldwide.com/esg-ratings-key-considerations-for-stakeholders#.Y7f20XbMI2w
63 https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/

i. There is increasing legislative and regulatory focus on financial market participants' consideration of the ESG characteristics of potential investments, with some jurisdictions imposing or considering imposing new regulatory obligations; and

ii. There is increasing demand from investors for ESG products.

Given the increasing prominence of ESG ratings and data products in the financial sector, which is expected to be promulgated by these two drivers, stakeholders have raised concerns about these products. A key challenge raised in relation to ESG ratings includes the lack of transparency of methodologies and objectives, which can lead to confusion about what a rating is aiming to assess and how. Hence, the robustness of ESG ratings methodologies and good quality underlying raw data, are fundamental for high quality ESG ratings.

Likewise, for ESG data products, data collection, frequency and verification will impact data quality. Lack of transparency in the process of developing ESG ratings and ESG data products could make it difficult for users to understand and interpret providers' outputs.

There are also concerns pertaining to whether and how an ESG rating provider interacts with the rated entity. For example, there may be potential for conflicts of interest where an ESG rating provider also provides advice to the rated entity on how to improve that rating; or scenarios where the dialogue between a rating provider and rated entity could eventually lead to improvements in the quality and reliability of a rating (e.g., by drawing attention to any factual errors or omissions). These issues can affect market confidence and are applicable to a wide range of complex ESG data products.

3.2.2. Scope of ESG ratings and data products providers

Formulating distinct definitions for ESG ratings, ESG data products, and ESG data is difficult and leads to challenges in setting the scope of policy interventions – particularly mandatory regulation.

The IOSCO's 2021 ESG Ratings Report noted that the term "ESG ratings" can refer to the broad spectrum of rating products in sustainable finance and include ESG scorings and ESG rankings. ESG ratings, rankings and scorings serve the same objective, namely the assessment of an entity, an instrument, or an issuer exposure to and management of ESG risks and/or opportunities.

However, they differ in the resources and methodologies used. ESG scorings or scores usually result from quantitative analysis whereas most ESG ratings are produced using both quantitative models and qualitative analysis and are accompanied by analyst reports to explain the ratings. On this basis, ratings often incorporate further elements of analytical judgement or opinion. Ratings providers usually select key issues for each ESG component and assess the exposure to these sustainability risks and the way in which they are managed. ESG ratings, scorings, and rankings are usually made relative to a peer group rather than defined in absolute terms (although there are some exceptions).

In a 2020 study, the OECD referred to the discrepancies between company ESG scores by different ESG score providers.[64] The analysis noted that *the mixed results regarding the final*

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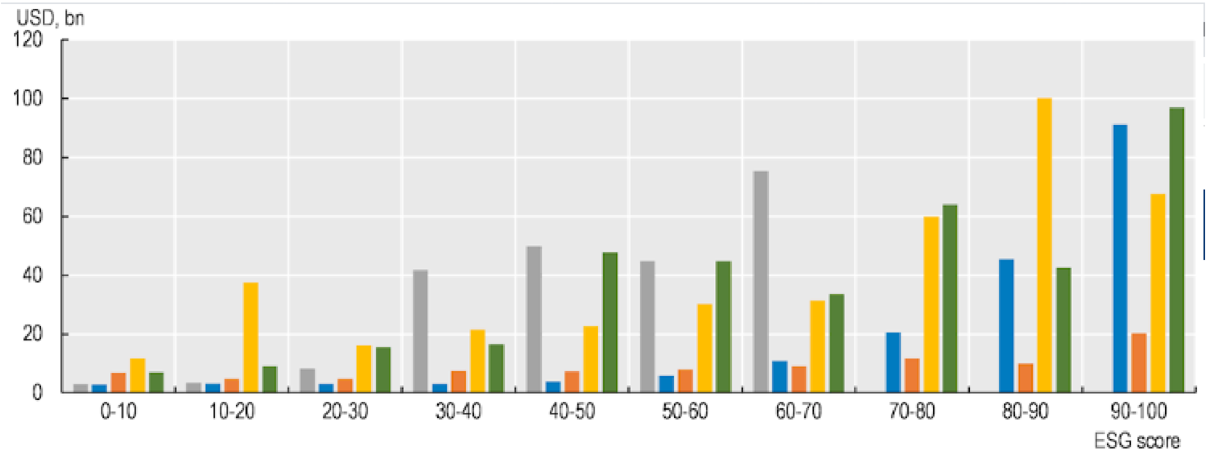
[64] https://www.oecd-ilibrary.org/sites/e9ed300b-en/index.html?itemId=/content/component/e9ed300b-en

ESG score of different providers raise the need for more thorough assessment of how financial materiality is captured in ESG data and ratings.

Currently, the various ESG reporting and ratings approaches generally do not sufficiently clarify either financial materiality or non-financial materiality (e.g., social impact), so investors are not currently able to get a clear picture of whether the measurements suggest a net positive or negative effect on financial performance."

Figure 4: Comparison of company ESG scores by different ESG score providers, 2019



Source: Bloomberg, MSCI, Refinitiv, OECD calculations

Common ESG data products are explained below:

- Raw data is gathered by ESG data products providers from companies' public disclosures or from other publicly available information or collected through questionnaires; if raw data is not available, corresponding data points can be approximated. Feedback suggests that all data products derive from either collected or estimated raw data;
- Screening tools assess the exposure of companies, jurisdictions, and bonds to ESG risks in order to define a portfolio based on ESG criteria; and
- Controversies alerts enable investors to track and monitor behaviours and practices that could lead to reputational risks and affect the company and more broadly its stakeholders. Controversies may be taken into account in ESG ratings or be packaged as a standalone controversy score or rating.

Finally, when looking at other ESG products and services, the IOSCO Report notes that "in addition to the increasing range of ESG ratings and data products, some ESG ratings and data products providers also offer other ESG products and services. These include *inter alia*:

- ESG indices;
- consulting services such as portfolio analysis, advisory services to companies for ESG strategy development;
- provision of certification and second-party opinions;
- regulatory reporting assistance for companies and financial market participants' compliance with new sustainability regulations; and
- advisory services to companies on ESG ratings improvement techniques".

3.2.3. Regulatory approaches for ESG ratings and Data Products Providers

The survey results indicated that the ESG ratings and data products market remains largely unregulated. However, a few jurisdictions are currently developing mandatory and voluntary policy frameworks for ESG ratings and data products providers.

At the time of publication of this Report, there are three legislative initiatives (India, UK and EU) and three "soft law" initiatives (i.e., Codes of Conduct - Japan, UK, and Singapore)). These Codes of Conduct have been created in conjunction with or by industry participants and were shaped by the 2022 IOSCO Call for Action.

While the scope of the legislative initiatives only includes ESG rating providers (albeit with different definitions of what an ESG rating is), the Codes of Conducts apply to both ESG rating and data products providers.

The reason for excluding ESG data and/or ESG data products and their providers from the legislative initiatives (India, UK and EU) is that the biggest risk of harm arises from the presence of an assessment, (both in the form of an opinion and in that of a score or ranking). The methodologies used to create a rating tend to be more complex and opaquer than those of most data products.

While concerns have been raised regarding the quality and robustness of certain ESG data products and ESG data more generally, these might be best addressed through the promotion of a strong ESG data ecosystem with globally consistent sustainability-related corporate reporting and assurance and ethics standards – such as those of the ISSB and those being developed by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA).

Therefore, for reasons of proportionality, the legislative proposals do not cover ESG data and/or ESG data products and their providers. In practice, it may be difficult to define the boundary between complex ESG data products and ESG ratings. This is less important in context of applying a voluntary Code, but crucial when setting the scope of a regulated activity.[65]

For this reason, some jurisdictions are currently proposing different legislative definitions of an ESG rating. Moreover, the UK is considering in parallel both the introduction of a regulatory framework and a voluntary Code.

The following is a brief description of the regulatory initiatives at the date of publication of this Report. **Annex 3** encompasses a detailed description of these initiatives.

65 For instance, there is a degree of judgment involved in the creation of controversy-related products (e.g., data sources used, when does a piece of information become a controversy), and the output can be easily packaged as a list of controversies (i.e., dataset) and/or a final score indicating to which extent a firm is suffering from controversies and the severity of such controversies.

Current legislative initiatives

Jurisdiction	Initiatives
India (SEBI)	SEBI introduced a regulatory framework for ESG rating providers (ERPs in July 2023 [66]. SEBI opted for an enforceable regulatory and supervisory framework for ESG rating providers – instead of a voluntary code of conduct for ESG rating providers - in view of SEBI's experience with credit rating agencies. However, given the nascent nature of the ERPs and to provide for scope for further innovation, SEBI has attempted to follow a principles-based approach. The regulatory framework establishes that no entity shall act as an ESG rating provider in India unless it has been registered by SEBI. Particular attention was given by the regulation to transparency, conflicts of interest, rating process, monitoring of the ESG rating, procedure for reviewing the ESG rating and internal procedure to be developed. The SEBI's approach for ESG ratings and ESG rating providers envisages a detailed disclosures of the rationale behind the assigned ESG rating, to enable stakeholders to assess the reasons behind an assigned ESG rating. The SEBI's regulatory framework provides for an annex ("*seventh schedule*") that set out a succinct code of conduct for ESG rating providers.
UK (FCA)	In March 2023, HM Treasury consulted on a potential regulatory framework for ESG ratings providers, which closed on 30 June 2023. HM Treasury's intention would be to capture a wide range of ESG ratings used in financial markets, regardless of their name or how they are marketed. The approach intends to include any assessments, regardless of their self-identification (i.e., whether they are called "ratings," "scores," "marks," or anything else, including where market participants currently consider these to be data products). On the other hand, HM Treasury's proposed scope excludes data on ESG matters where no assessment is present. As for the territorial scope, HM Treasury proposes to capture the direct provision of ESG ratings to users in the UK, by both UK and overseas firms. The FCA has indicated that any potential future regulatory requirements introduced for ESG ratings providers would be informed by the 2021 IOSCO Recommendations and promote transparency, good governance, management of conflicts of interest, and robust systems and controls.
EU	On 13 June 2023 the EC published a proposal for a regulation of the ESG rating providers[67]. The EC notes that the widely agreed IOSCO definition of ESG ratings would form the basis of the definition of ESG ratings. Namely, for the purposes of the proposed regulation the EC

[66] https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/attachdocs/jul-2023/1689654833388.pdf#page=23&zoom=page-width,-16,578

[67] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52023PC0314

Jurisdiction	Initiatives
	states that "*As to the scope, the definition of ESG ratings by IOSCO would form the basis for the scope of this initiative, covering both scores and ratings, and products which are a mixture of both*". The EC's proposed regulation intends to exclude from its scope the provision of raw ESG data that do not contain an element of rating or scoring and are not subject to any modelling or analysis resulting in the development of an ESG rating. The EC proposed regulation envisages a proper approach dealing with conflicts of interest, which may lead to the establishment of an independent oversight function representing stakeholders, including users of the ESG ratings and contributors to such ratings. A critical and deeply discussed matter is that of disclosure. The EC's proposed regulation envisages two levels of disclosures: a) a minimum level of disclosure of the methodologies, models, and key rating assumptions used in ESG rating activities to the public on their website and through the European Single Access Point (ESAP); and b) an additional level of disclosure that ESG rating providers shall make available to users of ESG ratings and rated entities. In turn, ESMA shall develop draft regulatory technical standards to specify further the elements that are to be disclosed.

Voluntary Codes of Conduct

Jurisdiction	Initiatives
Japan	The FSA Japan's Code of Conduct is designed to be a voluntary code on a "comply or explain" basis, where the FSA calls for organisations to express their support for the Code via public announcement, and the organisations supporting the Code will either comply with the principles and guidelines of the Code or explain the reasons why they do not comply with a particular principle or guideline. The Code of Conduct considers both ESG evaluation (i.e., ESG rating) and data products providers. The Code consists of six principles: 1) securing quality, 2) human resources development, 3) ensuring independence and managing conflicts of interest, 4) ensuring transparency, 5) confidentiality, 6) communication with companies.
Singapore	On 28 June 2023, MAS Singapore published a consultation paper to seek views on a proposed Code of Conduct for ESG Rating and Data Product Providers (Code). The Code is largely modelled on the recommended good practices set out in 2022 IOSCO Call for Action with additional specific requirements. The industry Code applies to both ESG rating and data products providers. Similar to the FSA Japan's Code, the Singapore Code is to be applied by ESG rating and data product providers on a "comply or explain" basis.

Jurisdiction	Initiatives
	The Code encompasses seven principles: 1) policies and procedures to ensure issuance of high quality ESG rating and data products; 2) ensuring independent decisions; 3) manage and disclose conflicts of interest; 4) make adequate public disclosure and transparency; 5) protect non-public information; 6) efficient information procurement processes; 7) address issues raised by the covered entity. Each of them is elaborated by a set of best practices.
UK	On 05 July 2023, the ESG Data and Ratings Working Group (DRWG) - an industry working group led by an industry secretariat appointed by the FCA UK – published for a 3-month consultation the draft of a voluntary Code of Conduct for ESG Ratings and Data Product Providers. In line with 2021 IOSCO's recommendations, the Code is structured around four key outcomes: 1) Good Governance; 2) Systems and Controls; 3) Management of Conflicts of Interest; 4) Transparency. The Code applies both to ESG ratings and to data products providers and is based on six principles: 1) Good Governance; 2) Securing Quality; 3) Conflicts of Interest; 4) Transparency; 5) Confidentiality; 6) Engagement.

CHAPTER 4: SUPERVISORY PRACTICES ADDRESSING GREENWASHING

4.1. Initiatives Regarding Asset Managers

Recommendation 3 of the IOSCO's 2021Asset Management Report covers the requirements for securities regulators and/or policy makers with regard to supervision and enforcement.

Recommendation 3: Supervision and Enforcement. Securities regulators and/or policymakers, as applicable, should have supervisory tools to monitor and assess whether asset managers and sustainability-related products are in compliance with regulatory requirements and enforcement tools to address any breaches of such requirements.

At the same time, Recommendation 1 of the IOSCO's 2021 ESG Ratings Report calls on regulators to examine their existing regulatory regimes and where applicable consider whether there is sufficient oversight of ESG ratings and data products providers.

Recommendation 1: Regulators could consider focusing more attention on the use of ESG ratings and data products and ESG ratings and data products providers that may be subject to their jurisdiction.

This section of the report describes the supervisory and enforcements tools and measures used by securities regulators to supervise and enforce greenwashing.

4.1.1. Supervisory measures and tools

Given the rise of sustainable finance and the associated malpractices, the survey revealed that most jurisdictions have in place supervisory tools and mechanisms to address greenwashing in the area of asset managers and their products. For these jurisdictions, the mechanisms cover entity-level practices, policies, procedures and disclosure relating to material sustainability-related risks and opportunities and product-level disclosure of sustainability-related products (including material sustainability-related risks and opportunities of these products).

Measures at Product Level

Areas	Details
Reviews (thematic or targeted) of product-level disclosure materials and marketing materials	• In Canada, the **OSC Ontario** and **AMF Québec** review prospectuses before a receipt is issued for the prospectus that would permit securities offered under the prospectus to be offered to the public. The **OSC Ontario** has conducted thematic reviews focused on ESG-related investment funds as part of its continuous disclosure review program. If greenwashing is identified in these reviews, staff of the **OSC Ontario** and **AMF Québec** work with the investment fund manager to correct the disclosure in question. depending on the severity of the greenwashing, the investment fund manager and its funds may be referred for enforcement action. In addition, depending on the severity of the issue, the **OSC Ontario** and **AMF Québec** have the

Areas	Details
	ability to take enforcement action against the investment fund manager and its funds. • The **FCA UK** plans to conduct reviews of the characteristics of labelled products once their new labelling rules are in force. The proposed criteria for labelling requires firms to carry out due diligence on any research and analytical resources it relies upon, including third party ESG ratings and data providers. This is consistent with the expectations in our Guiding Principles on the design, delivery and disclosure of ESG/sustainability funds published in July 2021. • **MAS Singapore** collects information from asset managers and uses data from Morningstar to monitor asset managers' sustainability products and practices.
Market-wide studies into sustainability-related disclosures	• **AFM Netherlands** has also conducted market-wide studies into sustainability-related disclosures at the product level, which have led to actions such as letters to individual asset managers informing about applicable standards. It has also recently closed its public consultation of the Guidelines on sustainability claims.[68] In these Guidelines, financial institutions and pension providers will find tools to help them comply with the existing information requirements. In addition, the **AFM Netherlands** has published an exploratory study[69] into the sustainability risk management of management companies of Dutch collective investment companies.

Measures at Asset-Manager Level

Areas	Details
Assessments or review of the asset manager's entity-level policies, procedures, practices, and disclosure. ***This is conducted as part of the licensing or registration process or as part of the ongoing compliance review process for registered entities. Such assessments or reviews may include a focus on sustainability-related issues depending***	• At **CONSOB** Italy the analysis is conducted in the context of the licensing procedure of Management Companies. The analysis is focused, *inter alia*, on the decision-making process taking also into account the funds categories under the SFDR's classification the manager intends to manage. In this context, parameters such as allocation of roles and responsibilities, resources and tools and potential investment strategies are deeply scrutinised to assess the manager's preparedness and to detect potential weaknesses. • The **AMF France** has conducted in 2022 a study and a SPOT inspection campaign (Supervision des Pratiques Opérationnelle et Thématique - operational and thematic supervision of practices) on compliance with non-financial contractual commitments by funds (UCITS and AIFs)

68 https://www.afm.nl/~/profmedia/files/consultaties/2023/consultation-guidelines-sustainability-claims.pdf

69 https://www.afm.nl/nl-nl/sector/actueel/2023/augustus/verkenning-duurzaamheid-risico-management

Areas	Details
on whether the asset manager offers any sustainability-related products.	managed by portfolio asset management companies (AMCs). In practice, the AMF reviewed the systems for defining, managing, and controlling these commitments, in a representative sample of AMCs. The AMF also assessed the level of compliance of these practices with the AMCs' regulatory obligations and identified good and poor practices in this field and published a summary of the result of those inspections in July 2023.[70] • The **SFC Hong Kong** has been conducting reviews on fund managers' compliance with its climate risk management requirements and their sustainability-related disclosures as part of the supervision of licensed corporations since the FMCC requirements came into effect in 2022. • The **OSC Canada** conducts regular compliance reviews of asset managers. • In addition to conducting desk reviews/fund analyses with regard to possible cases of sustainability issue, **FINMA Switzerland** uses onsite reviews and supervisory dialogue to monitor and assess whether asset managers and sustainability-related products comply with regulatory requirements. • **MAS Singapore** conducted a review of the environmental risk management practices of thirty asset managers in 2021 and published an information paper highlighting the good practices observed and the recommendations for improvements.
Inspections	• The **US SEC's** Division of Examinations (EXAMS) carries out examinations and inspections of securities firms under its purview. EXAMS publishes its priorities each fiscal year. For the fiscal years 2021, 2022, and 2023, the consideration of certain ESG and climate-related risks was included. It has also issued a Risk Alert[71] to highlight observations from recent exams of investment advisers, registered investment companies, and private funds offering ESG products and services. While not specifically referenced in its 2024 priorities, EXAMS will continue to examine firms to evaluate whether they are accurately disclosing their ESG investing approaches and have adopted and implemented policies, procedures, and practices that accord with their ESG-related disclosures. • In addition to monitoring disclosure requirements of asset managers and the product by the **FSA Japan**, the Securities and Exchange Surveillance Commission also conducts onsite monitoring of asset management companies and

70 https://www.amf-france.org/sites/institutionnel/files/private/2023-06/Synth%C3%A8se%20SPOT%20Finance%20durable%20VA.pdf
71 https://www.sec.gov/files/esg-risk-alert.pdf

Areas	Details
	cooperates with the FSA's supervisory departments on the results of such monitoring.
Risk-based approach	• Risk assessments are conducted by **SC Malaysia.** ESG risks/concerns, if any, would be considered, subject to SC Malaysia's risk assessment and prioritisation. Generally, the asset managers themselves are expected to undertake a compliance approach, that is, internally have policies and processes to ensure they are in compliance with their "mandate" and to have the necessary governance, risk management and controls to achieve their objectives/mandate. • The risk-based in **CONSOB Italy** covers a sample[72] of Management Companies representative of domestic asset management sector and classified as riskier in terms of compliance for the sample. A deep scrutiny of ESG policies published by these sampled companies on their website is carried out together with the analysis of their official documents. Strategies, parameters, and informational data sources adopted by the companies to assess potential ESG/sustainable investments represent the focus of the analysis, with the objective to identify potential weaknesses in terms of ESG risk and portfolio management.
Reviews (thematic or targeted)	• In the **EU**, ESG disclosures are included in the new Union Strategic Supervisory Priorities (USSPs):[73] As noted in the ESMA Progress Report, the USSP will also foster an integrated approach to supervision across the sustainable investment value chain (SIVC) by considering the most relevant sectors (issuers, investment managers and investment service providers) and the interlinkages among them. In that context, ESMA and the EU's financial markets regulators and supervisors have launched a Common Supervisory Action (CSA) with National Competent Authorities (NCAs) on sustainability-related disclosures and the integration of sustainability risks. The goal is to assess the compliance of supervised asset managers with the relevant provisions in the SFDR, the Taxonomy Regulation and relevant implementing measures, including the relevant provision in the UCITS and AIFMD implementing acts on the integration of sustainability risks, using a common methodology developed by ESMA. • At domestic level, some EU NCAs (such as **FSMA Belgium, AFM Netherlands, CNMV Spain and CONSOB Italy**) perform disclosure supervision. The

72 The identification of Management Companies falling in the sample is based on criteria, including, *inter alia*, product's innovation, marketing activity, complaints and costs charged on funds.

73 https://www.esma.europa.eu/press-news/esma-news/esma-work-esg-disclosures-new-union-strategic-supervisory-priority.

Areas	Details
	disclosure supervision is focused on the ex-ante templates envisaged by the SFDR for art. 8 and art. 9 products.[74] The regulators review regulatory documents (for example prospectus, offering document and Key Information Document) together with overseeing marketing communication such verifying content of the websites of all fund managers managing funds with ESG characteristics and marketing materials of funds with a specific attention to any ESG-related claims. • The **OSC Ontario** conducted a marketing desk review with the objective of ensuring that registrants have an adequate compliance system in place to support claims relating to ESG products and services. This involved reviewing the asset manager's policies and procedures relating to its investment framework, and its internal oversight regime, including oversight of the investment process and the use of external service providers providing ESG analysis. • **MAS Singapore** plans to conduct thematic inspections, which will include reviewing the sustainability frameworks and practices of asset managers against their public claims.
Information/Intelligence Gathering ***Some jurisdictions rely on the collection of data and information as a supervisory tool.***	• The **FSA Japan** uses information collected to issue orders to asset management companies to provide certain reports. • **MAS Singapore** also collects information from asset managers and uses data from Morningstar to monitor asset managers' sustainability products and practices. • The **FCA UK** utilises intelligence gathered on the quality of fund authorisation applications as part of its supervisory approach to greenwashing. • **FINMA Switzerland** also conducts surveys of asset managers to assess greenwashing. • The **SFC Hong Kong** uses intelligence from different sources, including self-reported breaches. • The **CMVM Portugal** conducts its supervision in the ESG area primarily by using the regular information provided on a periodic basis to the CMVM by asset managers, which are then subject to comprehensive analysis.
Complaints monitoring	• **The FCA UK** and the **SFC Hong Kong** adopt such approach.
Interactions with Industry	• The **CNMV Spain** monitors and dialogues with the industry regarding disclosure relating to taxonomy information of listed entities which started in 2023. These disclosures are specifically monitored in relation to both

74 A so-called art. 8 product is a product that – according to the EU SFDR art. 8 - promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices. A so-called art. 9 product is a product that – according to the EU SFDR art. 9 - has sustainable investment as its objective and an index has been designated as a reference benchmark.

Areas	Details
	eligible and aligned activities. Since it is the first year of application, a continuous dialogue is being maintained with issuers in order to channel any doubts that may arise, facilitating consistent criteria for the Spanish market. • In addition to conducting deep dives on sustainability issue, **FINMA Switzerland** also conducts desk reviews/fund analyses regarding possible cases of deception, conducts supervisory dialogue to monitor and assess whether asset managers and sustainability-related products comply with regulatory requirements. • The **SFC Hong Kong** maintains regular interactions with the asset managers that it regulates with a view to identifying and assessing the risks arising from their business activities.
Others	• **Finansinspektionen (FI) Sweden** has a number of tools at its disposal as a supervisory authority namely granting authorisations, conducting supervision, and issuing rules and intervening to address this phenomenon. It also uses more informal or indirect tools, such as preparing guidelines for the industry, offering financial education, communicating about sustainability and cooperating internationally on sustainability. • **AMMC Morocco, FRA Egypt, and CNBV Mexico** are in the process of developing/implementing guidelines or requirements/supervisory tools in the area of sustainability-related practices and disclosure for asset managers and their products.

4.1.2. Technological tools

Some jurisdictions are currently developing, or intend to develop, technological tools and mechanisms to support their general supervisory initiatives. These will extend to supervision around greenwashing, or technological tools and mechanisms that are specific to sustainability, including using ESG data from a third-party provider, public information, and information requested directly from the asset managers, as well as tools to automatically identify funds with potential greenwashing issues.

Technological tools, such as machine learning or Artificial Intelligence, may help regulators in supervising ESG practices, including in terms of monitoring and comparing ESG and climate related risks disclosures of listed companies and funds. Various regulators are seeking to use these technological tools to address greenwashing problems. However, these processes remain putative or experimental and lack concrete feedback after day-to-day use.

Authorities	Examples of Technological Tools in place
ASIC	Technology is being trialled in reviewing prospectuses, in a way that allows for frequent key terms (like ESG, green, net zero, carbon neutral) to be extracted for further supervisory analysis.

Authorities	Examples of Technological Tools in place
MAS Singapore	**MAS Singapore** is also exploring the use of technological tools, such as the use of a social media listening tool to scrape through social media sites and news websites to search for data and online opinions on asset managers and/or funds that are marketed to be green. The data collected from the tool may be used together with the information collected from other sources (such as from asset managers and Morningstar as indicated above) to identify asset managers that could be engaging in greenwashing.
CONSOB Italy	While **CONSOB Italy** does not currently use AI tools, it pointed out that the tools adopted in the perspective of supervisory activity even on ESG/sustainable profiles are substantially represented by internal and external databases. The internal databases are integrated with external databases (for example Morningstar and Sustainalytics) to get insights on sustainability's profile of companies invested by funds. **CONSOB Italy** have internal databases among others (i) for filing of funds prospectus and offering documentation and collects the key information of each fund on structured format (ii) concerning the funds' portfolio composition which includes granular data on financial instruments invested by funds and updated on monthly basis, and (iii) concerning documentation on manager such as annual report, internal audit, website information to keep the sustainability information provided by the managers. CONSOB Italy is exploring further analyses and tools to perform its supervisory activities, including on ESG matters with the aim of detecting greenwashing practices**.**
FSMA Belgium	The **FSMA Belgium** performs systematic reviews of the legal documentation and the marketing materials of funds with a specific attention to any ESG related claims, in addition to the SFDR requirements. The **FSMA Belgium** has developed an automatic tool to identify potential greenwashing funds (portfolio screening with exclusions lists), which will complement the regular controls it performs on the legal documentation and marketing documents.
SFC Hong Kong	**SFC Hong Kong** is exploring the potential use of ESG fintech, including Suptech and Regtech, to assist with supervising the compliance of regulatory requirements and detecting potential greenwashing by asset managers.
FCA UK	On 20 September 2023, the **FCA UK** led the Global Financial Innovation Network's (GFIN) first ever virtual Greenwashing TechSprint.[75] The TechSprint was hosted on the FCA's Digital Sandbox and brought together international regulators, firms, and innovators to address sustainable finance as a collective priority. The objective of the TechSprint was to develop a tool or solution that could help regulators, or the market, more effectively tackle or mitigate the risks of greenwashing in financial services.

[75] https://www.fca.org.uk/firms/innovation/global-financial-innovation-network/gfin-greenwashing-techsprint

4.1.3. Sanctions and other measures taken

Most jurisdictions do not have an approach to sanctions that is specific to greenwashing cases and instead apply the same approach as for cases involving false or misleading claims. This broader, more general approach often involves different levels of sanctions depending on the severity of the issue. Some jurisdictions, such as **Ontario and Québec (Canada)** and **Malaysia**, do not tailor sanction approaches to specific types of offences, as their statutes are sufficiently broad to address different types of offences. **CMVM Portugal** noted that industry awareness of greenwashing is still in the development phase and therefore considers it more appropriate at this stage to focus on an educational approach to address greenwashing rather than take a formal sanctions approach. Similarly, **CNVM Spain** indicated that implementation of ESG rules is in an early stage and therefore it is considered more important to clarify doubts and make financial market participants aware of the new obligation.

The **FCA UK** continues to monitor the market for signs of potential greenwashing and will continue to apply its usual supervisory and enforcement approaches. Any greenwashing concerns prior to its SDR and labelling rules coming into force will be treated under its rules at the time. Its enforcement department could consider opening an investigation against greenwashing or other breaches of serious misconduct where there is consequential or potential for harm.

The survey revealed the following sanctions/enforcement actions in greenwashing instances:

- **Infringement notice** (which involves the payment of a penalty without the acknowledgment that an offence was committed) or litigation for potentially more egregious instances of greenwashing (ASIC Australia). Between 01 July 2022 and 31 March 2023, ASIC achieved 23 total corrective disclosure outcomes, 11 infringement notices issued, and 1 civil penalty proceeding commenced. Measures against the asset managers included (i) negotiating the replacement of sustainability-related references in the product name with references that accurately supported by the product's investment strategy and processes, (ii) infringement notices issued on a number of asset managers and financial penalties paid, and (iii) in one instance to date, the initiation of court action[76] against the asset manager.
- **Revocation of registration, suspension of business, and order for business improvement** (FSA Japan)
- **Supervisory actions**, including administrative investigation and sanctions (FSMA Belgium).
- **Financial penalty** (US SEC).[77]

Some jurisdictions such as **Egypt and Singapore** are in the process of introducing sanctions for breaches in relation to sustainable related issues. **MAS Singapore** is studying the formulation of mandatory requirements for climate-related disclosures by larger asset managers. For ESG funds, MAS has the power to take legal actions against persons making

[76] https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-043mr-asic-launches-first-court-proceedings-alleging-greenwashing/

[77] In November 2022, the SEC charged Goldman Sachs Asset Management, L.P. (GSAM) for policies and procedures failures involving two mutual funds and one separately managed account strategy marketed as ESG investments. To settle the charges, GSAM agreed to pay a USD4 million penalty.

false or misleading statements in offering documents in relation to offers of funds. Similarly, the **FRA Egypt** is in the process of identifying the greenwashing as a main risk within the non-banking financial services (NBFS) and may in the long run consider identifying the fines and sanctions' schemes related to the greenwashing practices within the NBFS. **FINMA Switzerland** is considering whether its existing enforcement tools can, and should be, used to address greenwashing and whether it needs to define a formal approach to sanctions for greenwashing cases, while **CNBV Mexico**, is in the process of setting out ESG or sustainability-specific requirements for asset managers and products, which will result in more tools to impose sanctions in this area.

Cases of greenwashing

While instances of greenwashing were not identified in all jurisdictions, some have conducted analyses and reviews of the market participants and have published reports sharing their findings including both good and poor practices. For example, the **FCA UK** has conducted reviews of how asset managers are implementing the Guiding Principles on the design, delivery, and disclosure of ESG and sustainability-related funds. In France, the **AMF** is monitoring commercial communications (advertisements) from funds to address unbalanced and distorted statements.

However, a few jurisdictions have identified cases of greenwashing in their jurisdictions. For example, **FINMA Switzerland** identified several types of greenwashing that involve a disconnect between the fund's marketing or disclosure and the actual investments or activities of the fund. Some common types of greenwashing identified by **FINMA Switzerland** were:

(i) product fact sheets that referenced active engagement or dialogue as part of the product's sustainable investment approach, despite the absence of such engagement;
(ii) products that referred to sustainability, but their investment policy allowed for a significant portion of the portfolio to hold non-sustainable investments, and
(iii) misleading fund names, such as a "Zero Carbon Fund" that held some investments that were not in fact carbon free.

FINMA Switzerland has identified product documentation that referred to sustainability even though a sustainable investment strategy or policy was not used by the product.

In Italy, **CONSOB** identified the following types of potential greenwashing:

- A lack of coherence between the main asset class of fund's investment policy and fund's classification under SFDR as represented in the offering documentation and in marketing communications. In this area, it was considered not appropriate for funds whose investment policy is focused on generalist government bonds to be classified under art. 9 category (i.e., category having the highest level of sustainability's ambition). This is because it is unanimously recognised that a shared metric to assess the sustainable contribution of generalist government bonds is not available yet. Consequently, the managers were requested to review the funds' classification; and

- Inadequacy in the process adopted by management companies to assess the sustainable investment. Indeed, sometimes such process has turned out to be not robust enough (for instance, in terms of available data or in terms of adopted indicators) to explain the assessment of level of sustainability of potential investments. The managers were required to review the fund' classification to improve coherence with the adopted process.

Both **FINMA Switzerland** and **CONSOB Italy** have corrected these instances of greenwashing by requesting asset managers to adapt their funds to accurately reflect the sustainable features of the products, changing the name of the fund, and removing certain sustainability-related references in disclosure and marketing materials.

In May 2023, **ASIC Australia** published a report[78] of recent greenwashing interventions, including in relation to greenwashing by asset managers of financial products (Report 763). Common types of greenwashing by asset managers included (i) overstatements[79] by asset managers or promoters of the extent that an investment screen applied to underlying holdings, and (ii) the lack of disclosure or support for the use of a specific sustainability-related product label.

The **US SEC** has filed several enforcement actions against asset managers for disclosure and compliance failures in connection with ESG-related investments. For example, in May 2022, the SEC charged BNY Mellon Investment Adviser, Inc. for material misstatements and omissions about ESG considerations in making investment decisions for certain mutual funds that it managed. To settle the charges, BNY Mellon Investment Adviser agreed to pay a USD1.5 million penalty. The US SEC also publishes information about specific enforcement actions related to ESG issues or statements on its website.

4.2.Initiatives Regarding ESG Ratings and Data Products Providers

As far as supervision on information spread to the market is concerned, **CONSOB Italy** is currently developing ad hoc supervisory tools, methodologies, and procedures to address greenwashing in the area of ESG ratings and data providers and their products, as well as in the area of issuers". In fact, even if CONSOB Italy is already monitoring the dissemination of the ESG ratings and their impact on the market, comparing the content of the ratings related to an issuer with the information disseminated by the issuer itself, they are currently analysing and considering the best supervisory tools, methodologies, and procedures to address greenwashing in the above areas. These activities should therefore be finalised.

Namely, CONSOB Italy monitors the dissemination of ESG ratings and its impact on the financial markets. It compares the content of ESG ratings related to an issuer with the information disseminated by the issuer itself (in prospectuses, financial statements, non-financial statements, press releases, etc.), to assess the existence of possible greenwashing phenomena either on the issuers' side or on the side of ESG rating providers. To perform this activity, CONSOB Italy checks the set of information disclosed by issuers, the content of press agencies (both for issuers and ESG rating providers) and the websites of ESG rating providers.

The supervisory activity is conducted in coordination with that on the use of ESG ratings and data products by asset managers/management companies. The findings of CONSOB's supervisory activity show that broadly ESG ratings are used by asset managers as raw information that is then integrated into the internal approaches to assess the sustainability

78 https://download.asic.gov.au/media/ao0lz0id/rep763-published-10-may-2023.pdf

79 This has been the most common type of potential greenwashing identified by ASIC to date - Product disclosure statement, website, or other promotional material.

profile of target companies. That said, as for the adequacy of the supervisory tools to address greenwashing around ESG ratings and data products providers, in responding to the IOSCO's survey, CONSOB Italy highlighted the importance of a uniform legislation on the matter. In the absence of a legislative framework, CONSOB Italy has very limited power towards the ESG ratings and data products providers.

Specifically, CONSOB Italy can address request of information or start investigation only in the context of preliminary investigations of market abuse. It also highlighted that, in the event of future legislation on rating providers by the EU, according to the proposal of the EC the supervision on those providers will be attributed to ESMA but there will be some forms of collaboration with the NCAs, which can enable them to receive information helpful for their remit.

Moreover, CONSOB Italy noted that ESG information (including ESG ratings and data) on issuers is an important supervisory tool for detecting and preventing greenwashing. In the absence of a regulatory framework, the availability of this kind of ESG information will not be complete and exhaustive since there are no binding disclosure obligations for providers at present. Thus, the introduction of a EU's Regulation on ESG ratings and rating providers could improve the level of transparency of ESG information produced by ESG rating providers and, as a result, enhance the effectiveness of the supervisory action by NCAs.

In addition to the above and depending on the content of the future EU regulatory framework on ESG ratings, CONSOB Italy is planning to carry out an integrated supervisory system on ESG issues, which envisages, among others, the exchange of non-financial information among its Departments (Intermediaries, Markets, Issuers, Corporate Governance) dealing with ESG aspects from different perspectives, with the aim to improve and reinforce the contrast to greenwashing.

All the other respondents do not have supervisory tools in place to address greenwashing around ESG ratings and data product providers and their products. Among them, a few jurisdictions indicated they have plans to implement such tools, while other jurisdictions are undertaking further initiatives.

In the absence of a legislative framework on ESG ratings and data products and providers, the **FSA Japan** bases its supervisory activity on its Supervisory Guidelines. The Guidelines adopted by the FSA have been recently revised to clarify points to be noted for ESG investment trusts, which are generally established based on ESG ratings.

The revised guidelines stipulate that when an ESG rating provided by a third party is used in the investment process of publicly offered investment trusts, or when data provided by a third party is used in own ESG assessment by an investment trust management company's own ESG assessment, supervisors will check whether the management company conducts appropriate due diligence, which could include an understanding of the organisational resources of the third party, what is being rated or assessed by its product, the rating or assessment methodology used, and limitations and purposes for which its product is being used.

Furthermore, as discussed above, the FSA Japan published in December 2022 a Code of Conduct for ESG rating and data providers, which encourages many operational improvements, in terms of prevention and management of potential conflict of interest and disclosure of the methodologies used by providers. While the Code of Conduct is designed on a "comply or explain" basis, the FSA Japan expects the code will play as an important role in improving the transparency of ratings providers' assessments and methodologies. The FSA Japan will watch the relevant status of each ratings provider, including the level of compliance or explanation regarding the code.

FRA Egypt is planning to establish a comprehensive regulatory framework that sets clear guidelines and standards for ESG ratings and data products providers. FRA intends to collaborate with other regulatory bodies, industry associations, and international organisations to share information, best practices, and experiences in addressing greenwashing. They plan to conduct risk assessments and examinations to identify potential cases of greenwashing or misleading claims by ESG ratings and data products providers. This step is considered to be a longer-term step after appropriately conducting the previous ones. Moreover, FRA intends to prioritise investor education and awareness programs to enhance the understanding of ESG ratings and data products, thus empowering investors to make informed decisions and differentiate between reliable ESG information and potential greenwashing.

In relation to the 2021 IOSCO's recommendations and the 2022 IOSCO Call for Action, the **SFC Hong Kong** has been taking steps to understand the industry dynamics as well as the practices of asset managers when engaging these providers. As part of this effort, a fact-finding exercise was conducted in 2022 with representatives from the asset management industry and ESG ratings and data product providers.

Based on the fact-finding exercise and further discussions conducted since 2022, the SFC noted the following key concerns raised by market participants:

- Given the emerging and evolving nature of ESG ratings and data products, any expansion of the regulatory remit to cover these providers may have unintended consequences, such as hindering the development of such market or creating further market fragmentation. For example, compliance cost is one of the key concerns, especially for smaller ESG ratings and data products providers or start-up firms, which may not have the same amount of resources to comply with the new regulations as large market players.

- Concerns were also raised that the definitions proposed by jurisdictions, while built upon IOSCO's definitions, do not converge. The scope of regulation may be stricter or broader in different jurisdictions. The nuances observed across jurisdictions pose significant challenges to market players, as the term ESG ratings may bear different meaning in different geographies. This regulatory divergence can lead to market confusion, increase compliance complexities for providers and users of these services, and create fragmentation in the regulatory architecture of ESG ratings and data products.

Given the above, the SFC announced in October 2023 its support and sponsorship of the development of a voluntary code of conduct (VCoC) for ESG ratings and data providers in Hong Kong. The proposed VCoC is expected to provide a streamlined and consistent basis for asset managers to conduct due diligence or ongoing assessment of ESG service providers. The VCoC will align with international best practices as recommended by the IOSCO and relevant expectations introduced in other major jurisdictions.

The **FCA UK's** "Guiding Principles on design, delivery and disclosure of ESG and sustainable investment funds" clarify its expectations that an asset manager should consider due diligence on any data, research and analytical resources it relies upon (including when third-party ESG ratings, data and research providers are used) to be confident that it can validate the ESG/sustainability claims that it makes.

The **AFM Netherlands** is currently conducting an explorative study into the risk management practices around ESG data by asset managers and ESG data providers.

As for the **AMF Québec and OSC Ontario** CSA Staff Notice 81-334 explains how their regulatory requirements apply to ESG-related investment fund disclosure, including how their investment fund sales communication rules (which prohibit sales communications from being misleading) apply to investment fund sales communications that include ESG ratings. This guidance is not directly applicable to the ESG ratings provider itself and is instead applicable to the fund(s) covered by a sales communication.

As regards to **FINMA Switzerland**, it has some expectations towards asset managers referring to their use of ESG data, tools and ratings. For example, when selecting and using external sustainability-related data and analyses, tools and ratings, the asset manager needs to have an adequate understanding of the products and use them appropriately, considering the pursued (investment) objective.

4.3. Challenges in Implementation

The survey results revealed that regulators have undertaken initiatives to meet the IOSCO 2021 Recommendations, both at regulatory and supervisory level. However, challenges remain in implementing these recommendations, both in areas of asset management and ESG ratings and data products providers. Capacity building and investor education remain important activities to support such implementation. This chapter explores the challenges faced in these areas and emphasises 2021 IOSCO Recommendations and 2022 IOSCO Call for Action as applicable.

The survey respondents identified the following challenges while using their supervisory tools to address greenwashing. Some of these challenges were already highlighted in the IOSCO 2021 sustainability reports.

4.3.1. Data gaps at the corporate level

The survey results revealed that based on regulatory interactions with asset managers, the most common difficulty faced in complying with the legal and regulatory requirements in their jurisdiction are data gaps and limitations, both from corporate issuers and third party ESG ratings and data products providers. Incomplete and inconsistent sustainability-related disclosures at the corporate level may have implications at the product level for product design, delivery, and disclosure, as well as ongoing performance reporting, which could lead to investor harm. The lack of reliability and consistency in ESG ratings and data products may be due to lack of transparency in the methodologies behind such products and the need for providers to rely on estimates when relevant data and information are not disclosed by corporate issuers.

The IOSCO's 2021 Sustainability-related Issuer Disclosures Report[80] pointed out that *in the absence of a mandatory common international standard, asset managers see value in investee companies reporting systematically against established framework*. As such, asset managers considered that common international standards, covering the breadth of sustainability topics and leveraging existing principles, frameworks, and guidance, would (i) help to fill important data gaps, (ii) better inform pricing and capital allocation decisions, (iii) address selective disclosures, and (iv) support time series analysis and digitisation and storage of sustainability-related information.

Through the STF, IOSCO has actively engaged with the ISSB over the last two years to promote a global framework for sustainability disclosures. The STF completed a comprehensive and independent review of the General Requirements for Disclosures of Sustainability-related Financial Information (IFRS S1)[81]1 and Climate-Related Disclosures (IFRS S2)[82]2 (ISSB Standards) using the set of criteria published in July 2021.[83]

Based on this review, IOSCO has concluded that the ISSB Standards are appropriate for the purpose of helping globally integrated financial markets accurately assess relevant sustainability risks and opportunities. It has also concluded that they form an appropriate basis for the development of a robust assurance framework to apply to such disclosures.

The IOSCO Board has endorsed[84] the ISSB's final standards on 25 July 2023. The endorsement decision noted that "*recognising that individual jurisdictions have different domestic arrangements regarding the consideration of international standards, IOSCO calls on its members to consider ways in which they might adopt, apply or otherwise be informed by the ISSB Standards, within the context of their jurisdictional arrangements, in a way that promotes consistent and comparable climate-related and other sustainability-related disclosures for investors. IOSCO encourages jurisdictions to consider implementing the ISSB Standards for compulsory application or to allow for companies to voluntary use the ISSB Standards in their jurisdictions in the absence of an existing framework. Where relevant, IOSCO encourages jurisdictions to consider how existing climate-related, or other sustainability-related, disclosure requirements or practices in their jurisdictions will relate to the ISSB Standards so as to support global markets in having access to comparable sustainability information*."

IOSCO also welcomes the IFRS Foundation's *The jurisdictional journey to implementing IFRS S1 and IFRS S2—Adoption Guide overview*[85] which provides an outline of a forthcoming Adoption Guide that will set out pathways for implementation of the ISSB Standards. IOSCO is committed to working closely with the ISSB, other relevant bodies, and IOSCO members to help build capacity to promote consistent and comparable climate-related and other sustainability-related disclosures for investors.

80 https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf
81 https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf
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83 Page 44 - https://www.iosco.org/library/pubdocs/pdf/IOSCOPD678.pdf
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85 https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/cover-note-adoption-guide-overview/

In relation to assurance, IOSCO builds on its support for the ongoing work of the international standard setters – the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) – to develop profession-agnostic assurance and ethics (including independence) standards over sustainability-related information. IOSCO has observed growing demand among investors for high-quality assurance and ethics standards for sustainability-related information. In this vein, IOSCO has published its International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting[86] in March 2023, which welcomes the development of a global assurance framework for sustainability-related corporate reporting and sets out key considerations for stakeholders across the ecosystem.

4.3.2. Determining whether a product is sustainable

Another challenge is difficulty in determining whether a product is sustainable, as it is generally asset managers who define the criteria and methodology used in the investment process of their funds, leading to issues of comparability across funds. Some jurisdictions indicated that more specific sustainability-related disclosure requirements would help prevent greenwashing, with one pointing out that the addition of a requirement for external assurance would help reduce the risk of greenwashing. In EU member jurisdictions, there have been challenges with regard to determining whether a product is a sustainable investment under the SFDR, with some asset managers struggling to classify their products as Article 8 or Article 9 product.

IOSCO would like to re-emphasise **Recommendation 2: Product Disclosure** of the 2021 IOSCO's Asset Management Report which states that *Securities regulators and/or policymakers, as applicable, should consider clarifying and/or expanding on existing regulatory requirements or guidance or, if necessary, creating new regulatory requirements or guidance, to improve product-level disclosure in order to help investors better understand: (a) sustainability-related products; and (b) material sustainability-related risks for all products.*

Regulatory requirements or guidance relating to product-level disclosure for sustainability-related products are intended to promote consistency, comparability, and reliability in disclosure to help prevent greenwashing at the product level. The requirements for product-level disclosure covering nine areas namely Naming, Labelling and classification, Investment objectives disclosure, Investment strategies disclosure, Proxy voting and shareholder engagement disclosure, Risk disclosure, Marketing materials and website disclosure, Monitoring of compliance and sustainability-related performance, and Periodic sustainability-related reporting were also elaborated.

Additionally, IOSCO previously noted in connection with the **Good Practice 3** of the 2022 IOSCO Call for Action, *market participants should consider coalescing around a set of globally consistent sustainability-related terms. The issue of terminology is distinct from the issue of labelling and classification, as terminology covers broader concepts beyond product types, such as ESG approaches (e.g., ESG integration, negative screening, best-in-class) and definitions of commonly used sustainability-related terms such as "green". While there are existing initiatives in different jurisdictions addressing the issue of what is "sustainable" or*

86 FR04/23 Report on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting (iosco.org) - https://www.iosco.org/library/pubdocs/pdf/IOSCOPD729.pdf

"green", for example, there is a particular need for the development of common terms and definitions for ESG approaches.

4.3.3. The extent to which ESG Factors are considered in investment processes

The survey pointed out that another challenge faced by asset managers is the need to determine the extent to which ESG factors are considered by their funds and thus in providing accurate disclosure about the extent to which ESG factors are considered. Some asset managers have indicated that the importance of ESG factors in the investment process may change on a case-by-case basis, making it difficult to accurately describe the weight given to ESG factors in disclosure documents and marketing materials.

As such, the Call for Action (**Good Practice 5**) states that there are *clear expectations regarding due diligence and/or the gathering and reviewing of information on the ESG ratings and data products that asset managers use in their internal processes and* **Recommendation 7** of the IOSCO's 2021 ESG Ratings Report points out that *Market participants could consider conducting due diligence, or gathering and reviewing information on the ESG ratings and data products that they use in their internal processes. This due diligence or information gathering and review could include an understanding of what is being rated or assessed by the product, how it is being rated or assessed and, limitations and the purposes for which the product is being used.*

Hence, market participants could consider evaluating the published methodologies of any ESG ratings or data products that they refer to in their internal processes. This evaluation should cover:

- the sources of information used in the product, the timeliness of this information, whether any gaps in information are filled using estimates, and if so, the methods used for arriving at these estimates;
- an evaluation of the criteria utilised in the ESG assessment process, including if they are science-based, quantitative, verifiable, and aligned with existing standards and taxonomies, the relative weighting of these criteria in the process, the extent of qualitative judgement and whether the covered entity was involved in the assessment process; and
- a determination as to the internal processes of the financial market participant for which the product is suitable.

4.3.4. Regulatory Approaches

Some jurisdictions noted that a major challenge is the lack of legislative or regulatory requirements or prohibitions relating to greenwashing specifically and therefore, the need to adapt traditional supervisory and enforcement tools that are used to address generally misleading and deceptive conduct or claims in this context. Some of these jurisdictions indicated that the introduction of specific greenwashing-related penalties or sanctions would enable them to target greenwashing more effectively, as it would create clearer standards on what constitutes greenwashing.

Some survey respondents noted that the lack of cohesive ESG regulations across jurisdictions and the need to stay updated on guidance and regulations both domestically and regionally or internationally add complexity and create further difficulty for asset managers. For asset managers operating in the EU, there is a further challenge in navigating and understanding the SFDR, which is made up of multiple complex legal documents that have been implemented in multiple phases.

4.3.5. Supervisory Approaches

Most of the survey respondents consider their supervisory tools to be adequate in addressing greenwashing around asset managers and their products. In some cases, the supervisory tools are considered to be sufficiently broad, such that they can be used to address different types of issues, including greenwashing. One jurisdiction mentioned that while its current ESG-related requirements were set out as an initial supervisory step and included clear expectations and requirements for asset managers, those requirements do not address all the key issues relating to greenwashing risks, such as relying heavily on ESG ratings, whose quality and reliability can be uneven.

One challenge is taking corrective action using current supervisory tools where the instance of greenwashing is more subtle and not obviously egregious. Some jurisdictions indicated the need for easier and more comprehensive access to sustainability-related information through data providers, which would help the regulator better understand how asset managers take sustainable factors into consideration in their investment decisions and how they monitor sustainability-related performance. Some regulators also indicated the need for technology that would help process data and identify greenwashing in a timely manner. A number of jurisdictions indicated that they are exploring the use of other tools, including advanced technology, to optimise their work in this area, as well as expanding supervisory work to include more risk assessments and compliance monitoring.

One regulator indicated support for collaboration with other regulators to share issues and supervisory approaches in order to help improve supervisory tools in this area, with another regulator already embarked on collaborative work in this area of greenwashing. It is thus important to foster an integrated approach to supervision across the whole sustainable investment value chain.

4.3.6. Necessary Skillsets and Financial Education

Some regulators cited a lack of the necessary sustainability or ESG-related expertise and skills within their organisations to comply with complex and detailed disclosure requirements, especially for jurisdictions that are still in the early stages of development in the field of sustainable finance.

Based on information collected through the survey, most of the financial education initiatives from regulators have been focused on asset managers rather than on ESG ratings and data product providers. This is a relevant gap that would merit further attention, considering that greenwashing can occur throughout the investment value chain and any market participant (e.g., issuers, asset managers, financial advisers, ESG rating and data products providers, etc.) can engage in this behaviour, as explicitly highlighted by the Call for Action.

A small number of authorities have indicated that they are not planning to conduct any capacity building initiatives beyond their own staff. Although financial education initiatives are to be undertaken subject to the mandate of the respective authority, the 2021 IOSCO

Recommendations and the 2022 IOSCO Call for Action clearly signal the expectation for regulators to promote financial education initiatives for staff, industry, and investors.

Some of the challenges observed with financial education initiatives included:

1. Lack of universal and consistent definition/certification of green and sustainable investments and financial products;
2. Difficulty for retail investors to assess a green or sustainable financial product's positive impact on the environment and climate, and to understand disclosures at product level;
3. General investors giving more weight to financial performance than to ESG performance; and
4. Difficulty to explain the sustainability related topics in a clear and simple manner to potential retail investors and to companies.

Promoting financial and investor education initiatives relating to sustainability or, where applicable, enhancing existing sustainability-related education initiatives remains a priority for securities regulators in preventing and addressing greenwashing.

4.3.7. Lack of regulatory frameworks for ESG Ratings and Data Products Providers

The main challenge that both industry and regulators face for preventing greenwashing around ESG rating and data products providers is the absence of clear legislative or regulatory frameworks. Some of the challenges raised by users of ESG ratings as well as the rated entities include the lack of transparency of methodologies and objectives, which could lead to confusion about what a rating is aiming to assess and how. There are also concerns about whether and how an ESG rating provider interacts with the rated entity.

According to some of the survey respondents, the absence of regulations establishing supervisory powers vis-à-vis ESG ratings and data products providers makes it difficult to take supervisory actions in general towards these providers, including actions focused on identifying, preventing, monitoring, and eliminating greenwashing in this area.

Some survey respondents highlighted that any potential legislation should consider the following:

1. The fact that most ESG ratings and data products providers are based and operate cross-border;
2. The fact that the market for ESG ratings and data products is nascent, and innovation can ensure that the increased, diverse, and ever-changing investor demands are met as the sustainable finance market continues to evolve; and
3. Resources constraints in light of the actual and potential expansions of regulatory remit in various jurisdictions to cover ESG ratings and data products providers. In addition, the nuanced differences on the definition of ESG ratings and ESG data products and in the scope of regulation may cause additional challenges to the providers and users of these products.

Given the above, some survey respondents said that interoperability among the various regulatory framework is important in order to avoid material disruptions in the development of the ESG ratings and data products industry, which is still at an infancy stage. While legal and regulatory requirements have yet to be introduced for ESG rating and data product providers in most jurisdictions, some providers have shared their concerns on potential fragmentation of global approaches to regulations, as well as the need for global interoperability of standards and regulatory requirements that they would be subject to across different jurisdictions.

Some survey respondents pointed out that when introducing new legislation, one of the difficulties that ESG rating providers have highlighted is the ability to reach a good balance between fulfilling the requirements of the proposed regulatory framework in terms of transparency of ESG ratings, their methodologies and criteria, and preserving the economic value of their assessments on the sustainability of an issuer or a financial instrument.

The survey revealed that the availability and quality of data was also considered to be a critical issue. ESG ratings and data products heavily rely on data availability and quality. Providers may face challenges in accessing reliable and consistent ESG data, especially for smaller or non-publicly traded companies. Respondents noted that ensuring the accuracy and reliability of data can be a significant hurdle, highlighting that the ESG data sets provided, and the underlying data sources are numerous, and it is not always easy to gain a comprehensive understanding of specific methods used to ensure data quality.

Consequently, this Report emphasises the recommendations set out the IOSCO's 2021 ESG Ratings Report. Regulators are encouraged to consider focusing more attention on the use of ESG ratings and data products as well as the providers that may be subject to regulation in their jurisdiction. Regulators could also examine their existing regulatory regimes and where applicable consider whether there is sufficient oversight of ESG ratings and data products providers, such as through a regulatory regime or voluntary code of conduct.

CHAPTER 5: INDUSTRY PRACTICES AND INITIATIVES ADDRESSING GREENWASHING

Asset managers have also taken steps to respond to the demand of investors by incorporating ESG considerations in their investment decisions. This has potentially led to a greenwashing practice whereby a fund's disclosure or marketing intentionally or inadvertently misleads investors about its ESG-related aspects. These malpractices are misleading investors to invest in funds that do not necessarily meet their objectives or needs, resulting in investor confusion and negatively impacting investor confidence in ESG investing.

To contribute to this Report, the AMCC sustainability taskforce[87] gathered a roundtable in September 2023 to assess the ongoing or planned initiatives by asset managers to implement the 2022 IOSCO Call for Action; other initiatives carried out (or planned) by the asset managers to combat greenwashing; and current challenges that the asset management industry face in implementing the 2022 IOSCO Call for Action.

The responses received identified significant action being taken at national, regional and global level to respond to the Call for Action regarding IOSCO's five Good Practices. Particularly, initiatives to improve consistency in terminology have been launched as evidenced by the work conducted by Chartered Financial Analyst Institute (CFA Institute)) in collaboration with the UN Principles for Responsible Investment (UN PRI) and Global Sustainable Investment Alliance (GSIA) to categorise fund strategies; or ANBIMA[88] particularly in establishing terms in use through surveys and subsequently in introducing rules around fund registration and naming, etc.

In some cases, these efforts have then transitioned from self-regulatory initiatives to implementing regulation as evidenced by ANBIMA. In Europe, as described by European Fund and Asset Management Association (EFAMA), regulation left less room for efforts by industry. However, the need to address improvements in terminology has led to a review of the legislation with the consultation launched by the EC in September.

All respondents described significant efforts to adapt professional training for market participants and additional webinars or seminars and training sessions etc. to support market participants. Some have also developed guides (such as ANBIMA, Japan Securities Dealers Association (JSDA) and more recently EFAMA and CFA Institute).

Through the Call for Action, IOSCO asked all voluntary standard setting bodies and industry associations operating in financial markets to promote good practices among their members to counter the risk of greenwashing related to asset managers and ESG rating and data products providers.

In particular, the 2022 IOSCO Call for Action covered five good practices for asset managers regarding:

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87 https://www.iosco.org/members_area/about/?subsection=display_committee&cmtid=2&subSection1=task_forces_documentation

88 Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais - Brazilian Financial and Capital Markets Association

i. Clear expectations for asset managers regarding: (a) the development and implementation of practices, policies and procedures relating to material sustainability-related risks and opportunities; and (b) related disclosure.
ii. Clear expectations regarding product-level disclosures to help investors better understand: (a) sustainability-related products; and (b) material sustainability-related risks and opportunities for all products.
iii. Common sustainable finance-related terms and definitions, including those related to ESG approaches, to ensure consistency throughout the global asset management industry and comparability among sustainability related products.
iv. Promoting or participating in financial and investor education initiatives relating to sustainability.
v. Clear expectations regarding due diligence and/or the gathering and reviewing of information on the ESG ratings and data products that asset managers use in their internal processes.

5.1. Responding to IOSCO's Call for Action

At both an international and national level, steps are being taken by AMCC members to improve the consistency of terminology, which could lead to better classification of funds and labelling. Further work has also been done on both investor and asset manager education.

For example, seminars and webinars have also been used to supplement training or to increase understanding amongst market practitioners about the risks and opportunities in this area. In some regions, such as Europe, where regulations in this area have been proposed or implemented, there has been greater focus on educational initiatives.

Challenges faced by asset management industry in implementing the call for action have been summarised as follows:

i. The reliability and scarcity of ESG data;
ii. The fragmentation of terminology;
iii. Frequency of regulatory change and divergence, making it challenging for asset managers to keep pace with regulatory standards and requirements; and
iv. The proliferation of ESG ratings and lack of confidence in the ratings.

Finally, the AMCC sustainability taskforce members noted that IOSCO had already made valuable contributions in this area. However, further actions from regulators or industry as appropriate to build momentum on this progress could include:

i. Recognising good practice from industry and regulators;
ii. Exploring further work on labelling and classification; and
iii. Expanding on IOSCO Good Practice 1 [Clear expectations for asset managers regarding the: (a) development and implementation of practices, policies and procedures relating to material sustainability-related risks and opportunities; and (b) related disclosure] and Good Practice 3 [Common sustainable finance-related terms and definitions, including those related to ESG approaches, to ensure consistency throughout the global asset management industry and comparability among sustainability related products].

5.2. Examples of international and regional initiatives

Chartered Financial Analyst Institute (CFA Institute). The CFA Institute has taken different initiatives that are related to the recommendations of the IOSCO Call for Action, including:

Producing the Global ESG Disclosure Standards for Investment Products[89]: these aim to facilitate fair representation and full disclosure of an investment product's consideration of ESG issues in its objectives, investment process, or stewardship activities. The Standards focus narrowly on disclosure of the ESG approaches used in an investment product.

The second initiative is a collaboration with UN PRI and GSIA[90], which addresses terminology for five different ESG/responsible investment approaches. This did not include unnamed approaches such as tilt, overlay, active ownership, and engagement.

CFA Institute, GSIA, and UN PRI came together to harmonise definitions for responsible investment terms such as screening, ESG integration, thematic investing, stewardship, and impact investing. This culminated into a report[91] on definitions for responsible investment approaches was published in November 2023.

CFA Institute has also been working on a new report on greenwashing in investment fund disclosures in the United States and Europe. This research identifies forms of misrepresentation that frequently lead to allegations of greenwashing —e.g., exaggeration, omission, unsubstantiated claims, inconsistency; gains a directional understanding about which are most prevalent and in which kinds of communications; and illustrates with examples.

European Fund and Asset Management Association (EFAMA). In Europe, several of the IOSCO Good Practices for Asset Managers are already largely reflected in regulation, often in a great level of detail, leaving little room for additional guidance to be developed by the industry. The key EU initiative aimed at tackling green washing is the SFDR.

In so far as the IOSCO Good Practices for ESG ratings and data products providers are concerned, the EU Commission published a proposal for the Regulation on the transparency and integrity of ESG rating activities in June 2023. The proposal does not cover ESG data providers (unlike IOSCO's Good Practices), as well as raw data, so EFAMA plans to advocate for broadening the scope of the proposal. Also excluded are private ESG ratings not intended for public disclosure or distribution, ESG ratings produced by regulated financial undertakings in the EU for internal use, ESG ratings produced by Union or Member States' public authorities, ESG ratings provided by authorised ESG rating providers and made available to users by third parties, and ESG ratings issued by certain central banks.

The Regulation applies to both EU providers and third-country providers operating in the EU. Third-country providers must comply with an equivalence decision or obtain endorsement from ESMA. Non-EU ESG rating providers need a legal representative in the EU, or endorsement

[89] https://rpc.cfainstitute.org/-/media/documents/ESG-standards/Global-ESG-Disclosure-Standards-for-Investment-Products.pdf

[90] https://www.cfainstitute.org/-/media/documents/support/ethics/exposure-draft-cfa-institute-esg-disclosure-standards-for-investment-products.ashx

[91] https://rpc.cfainstitute.org/-/media/documents/article/industry-research/definitions-for-responsible-investment-approaches.pdf

by an ESMA-authorised EU-based provider within the same corporate group, subject to ESMA's approval. EFAMA's lobbying action around this proposal has just begun (September 2023).

As training for financial service professionals, EFAMA has hosted on 04 October 2023 a webinar on SFDR together with Simmons & Simmons LLP and will conduct on 08 November 2023 a webinar on ESG preferences explored the introduction of ESG preferences tests in Europe and the implications in terms of investor education.

Furthermore, for investors, a brochure on sustainable finance will be published in October that will outline the key concepts that investors should be acquainted with when factoring ESG considerations in their investment strategies. The brochure will be distributed through our national associations, and we expect that it will be of particular use in smaller Member States where the industry has less resources to provide such financial education.

5.3.Examples of national initiatives

The Brazilian Financial and Capital Markets Association (ANBIMA). Work had begun as early as 2015 with the organisation of local market surveys in 2016 and 2018 and following the formation of a consultative working group initiatives were launched in three areas information, education, and regulation (self-regulation).

On information: ANBIMA's enhanced survey edition expanded on previous surveys carried out in 2016 and 2018 and included quantitative and qualitative aspects of the evolution of the ESG agenda in the local funds' industry. The data and related information drove further work by the Brazilian Asset Management sector and provided a map with the different definitions, methodologies, and disclosure practices in place. The findings[92] guided ANBIMA's action to foster common terminology and with regards to greenwashing risks described under self-regulation measures.

On education: Drawing on the experience of dedicated experts, the Association developed contents which were integrated into the existing course materials required for Certifications from the end of 2021. The contents of these are regularly updated. Initially, introductory contents were included, such as definitions, features, strategies, among other basic concepts; further standards and (local) rules were aggregated in a second step. These leveraged on international recommendations such as those from the TCFD and IOSCO.

On regulation: rules were approved under ANBIMA's self-regulation for the identification of Sustainable Investment Funds, that are funds that can be named as such, but also to Investment Funds that inform in their marketing materials that they are integrating ESG issues in its policies and risk management. The self-regulatory rules were developed to establish the necessary documented commitments regarding naming or marketing, the ongoing policies and procedures, and disclosure requirements.

Regarding self-regulation of Sustainable Funds: the first rules were approved at the end of 2021 and applied to multimarket funds and fund of funds for private equity and real estate fund. In developing these, ANBIMA leveraged the 2021 IOSCO recommendations to enhance its rules

92 https://www.anbima.com.br/data/files/9D/11/CC/94/B1A8F710F62888F76B2BA2A8/A_landscape_of_sustainability_in_the_brazilian_capital_market.pdf

and to orient market professionals in the best procedures and practices. Rules from the securities regulator (CVM) were enacted in 2022 and will come into force in October 2023. The self-regulatory measures adopted were then re-aligned to support this regulatory initiative. An ESG Guide[93] was launched in 2022, with several references to the practices and procedures recommended by IOSCO.

ANBIMA's is developing supervision tools and standard procedures to support the registration and monitoring of such funds and correspondent documentation. A dedicated page and templates orient this process and contribute to the disclosure of the adequate policies and marketing information to investors. ANBIMA has identified that further work was necessary to address challenges in four key areas: climate change and biodiversity, fair transition and human rights and governance and leadership and was moving forward in these areas.

Japan Securities Dealers Association (JSDA). Whilst the JSDA is a Self-Regulatory Organisation (SRO) and trade association for broker dealers in Japan, not for asset managers, it has conducted some activities related to the Call for Action issued by IOSCO, in particular addressing implementation of IOSCO's Good Practice related to training for financial professionals and investors.

The first measure has included the creation (and update) of the Guidebook on Financial Instruments Contributing to the SDGs and launch of a website for individual investors on sustainable investments. The Guidebook[94] describes financial products that contribute to the SDGs, such as Green Bonds, Social Bonds, Sustainability Bonds, and Sustainability-linked Bonds, with the aim of educating investors as well as other stakeholders on these products.

In addition, the JSDA has launched a dedicated website for individual investors which provides explanations on the SDGs and ESG investments. With these measures, the JSDA seeks to further promote proper understanding of these sustainable investments and products. The JSDA has also hosted various seminars and training sessions on Green Bonds, Social Bonds, and Transition Finance. In collaboration with the International Capital Market Association (ICMA), which serves as Secretariat to important standards such as the Green Bond Good Practice Principles, etc., the JSDA co-hosts seminars on Green Bonds, Social Bonds, and Transition Finance, etc.

The JSDA has also conducted more specialised training sessions on products (described above) for market participants. The JSDA has also held study sessions on the sector-specific roadmaps presented by the Japanese government regarding Transition Finance. Through these seminars and training sessions, the JSDA works toward further promotion of proper understanding of these products and sustainable finance, in line with global Good Practice Principles and national government guidelines.

Sustainable finance has also been added to the qualification examination for sales representatives of securities companies. The topics covered in the sales representatives' examination were expanded to require examinees to demonstrate an understanding of sustainable finance, including ESG investments and related sustainable financial products, from the perspective of investor protection. In the same vein, the scope of the qualification

93 https://www.anbima.com.br/data/files/08/E7/AC/BC/8B54181056C3B2186B2BA2A8/ESG_Guide_II.pdf

94 Original guidebook (April 2019) - https://www.jsda.or.jp/en/activities/SDGs/files/SDGGuidebook.pdf

renewal training sessions also has been expanded to include topics related to sustainable finance.

CHAPTER 6: FINANCIAL EDUCATION AND CAPACITY BUILDING

Financial and investor education are essential tools to support sustainable finance and protect investors against greenwashing and sustainability-related risks. Securities regulators have an important role to play in this regard.[95] Asset managers and financial advisors have a key role in educating investors regarding sustainable products.

Investors of all sizes are increasingly seeking out sustainable investments for a variety of reasons (and there is also a growing number of sustainable finance products available to retail). While regulations may require the disclosure of information and the observance of suitability requirements for the protection of retail investors, this should be complemented with investor education and financial literacy initiatives. Such initiatives can enhance the ability of retail investors to understand the disclosed information and help them ask intermediaries or providers of information the appropriate questions that would allow them to make better financial choices.[96]

The IOSCO's 2021 Asset Management Report sets out one recommendation targeting the promotion of financial and investor education initiatives relating to sustainability.

> **Recommendation 5: Financial and Investor Education.** Securities regulators and/or policymakers, as applicable, should consider promoting financial and investor education initiatives relating to sustainability, or, where applicable, enhance existing sustainability-related education initiatives.

The explanatory text of the recommendations notes that financial education is not limited to retail investors. The recommendation takes a more holistic approach by indicating that financial education initiatives may also address the professional and licensing obligations of industry participants.

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95 IOSCO "Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation" in relation to Principle 3 of the IOSCO Objectives and Principles of Securities Regulation: "*The regulator should play an active role in the education of investors. Investor education may enhance investors' understanding of the role of the regulator and provide investors with the tools to assess the risks associated with particular investments and to protect themselves against fraud (and other abuses). Investor education and financial literacy programs can also be useful tools for the securities regulators in supporting their regulation and supervision. For example, investor education programs can complement regulations that enforce conduct standards, require financial institutions to provide clients with appropriate information, strengthen legal protections for consumers, or provide for redress. IOSCO recognizes that there is no one-size fits-all model for investor education and financial literacy programs*." See the last paragraph on page 30 of the IOSCO Methodology at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD562.pdf. Interestingly, the Key Issue 6 under Principle 3 expands the statement by saying: "6. Regulators should play an active role in promoting the education of investors and other market participants."

96 According to the OECD, informed and financially literate individuals are better equipped to deal with the growing complexity of the financial market, which may improve not only their own well-being, but also market efficiency, as well as contributing to financial inclusion and protecting against fraudulent practices. See OECD (2017), *OECD/INFE Policy Framework for Investor Education*, available at: http://www.oecd.org/daf/fin/financial-education/OECD-INFE-policy-framework-investor-edu.pdf (accessed on 26 February, 2021) and OECD (2013), *Advancing National Strategies for Financial Education*, available at https://www.oecd.org/finance/financial-education/G20_OECD_NSFinancialEducation.pdf (accessed on 26 February, 2021).

Along this line, the Good Practice 4 of the 2022 IOSCO Call for Action[97] states that voluntary standard setting bodies and industry associations should develop and promote guidance among their members for "*Promoting or participating in financial and investor education initiatives relating to sustainability*." The explanatory guidance under the Good Practice 4 indicates the following:

- *Financial and investor education initiatives may include promoting sustainability-related risk awareness and improving investor comprehension about, and enhancing transparency of sustainability-related products, which would improve comparability and informed decision-making as well as prevent greenwashing. In emerging markets, such initiatives may also promote the importance of sustainable finance and expand the market for sustainability-related products.*

- *Financial education initiatives may also address the professional and licensing obligations of industry participants, including financial advisors, to ensure that industry participants have the necessary knowledge and skills to provide advice and services relating to sustainable finance.*

- *Financial and investor education initiatives could include tools, methodologies, guidelines and orientations that focus on retail investors as well as the larger public. These initiatives should seek to overcome barriers to access, mainly using the internet and, where applicable, could include partnerships with other institutions*.

Likewise, the IOSCO's Report on "Retail Investor Education in the Context of Sustainable Finance Markets and Products" (August 2022) indicates that *regulators should consider encouraging and/or facilitating training that would provide financial advisors with a greater understanding of greenwashing and how to guide investors to protect them against unsubstantiated or misleading sustainability claims*.[98]

The increasing emphasis on combating greenwashing demonstrates the evolving awareness and accountability among financial institutions and stakeholders concerning sustainable and responsible investment practices. The fact that a vast majority of jurisdictions are either already implementing measures to address greenwashing or contemplating doing so indicates a collective effort to promote transparency and authenticity in sustainable finance.

The fact that more jurisdictions are taking concrete steps to address greenwashing, signals a positive shift towards a more responsible and sustainable financial landscape. By addressing this concern head-on, the financial sector is taking an active role in promoting genuine sustainability, making informed investment decisions, and contributing to a greener and more resilient and sustainable global economy. The survey results emphasised the importance of continued vigilance and collaboration among stakeholders to ensure that sustainable finance truly aligns with its intended goals of promoting positive environmental and social impact.

Securities regulators have recognised the importance of financial education in building a strong and sound ecosystem for sustainable finance and have been working on financial and investor

97 See "IOSCO Good Sustainable Finance Practices for Financial Markets Voluntary Standard Setting Bodies and Industry Associations", 7 November 2022, available at https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf

98 See report available on https://www.iosco.org/library/pubdocs/pdf/IOSCOPD711.pdf, page 16.

education initiatives around sustainable finance. Most supervisors[99] have developed sustainability-related financial education initiatives devoted to retail investors with the aim of enhancing awareness and understanding of sustainable finance related topics.

Some supervisors have integrated sustainable finance within their financial education programs; have made available for investor different resources at their webpages; and have carried out seminars, public appearances, or talks to disseminate knowledge among the public. Additionally, some jurisdictions are cooperating at regional and international levels to develop educational materials for retail investors and consumers.

Some regulators[100] are encouraging financial education initiatives for market participants in order to help them understand and implement the regulatory framework, as well as encouraging skill-mapping exercises for developing skilled industry professionals in sustainable finance. Capacity building programmes for their own staff are also undertaken by regulators.

Overall, regulators acknowledge that they need capacity building to address greenwashing. Therefore, they are taking different steps to develop and share knowledge among their staff across the different divisions or units of the regulator, as well as externally with fellow regulators. Regulators have launched different investor education initiatives around sustainable finance, including in relation to greenwashing.

In line with Recommendation 5 (Financial and Investor Education) of the IOSCO's 2021 Asset Management Report and the Good Practice 4 of the 2022 IOSCO Call for Action, several regulators have undertaken activities to support or enhance sustainability related education initiatives for intermediaries and other market participants. A summary of the initiatives taken by various regulators is presented in **Annex 4**.

[99] ASIC-AU, FSMA-BE, OSC-Ontario, AMF-Québec, SFC-HK, Consob-IT, MAS-SG, FSA-JP, AMMC-MA, CNMV-ES, and FRA-Egypt.

[100] ASIC-AU, AMMC-MA, FRA-EG, CMVM-PT, FINMA-CH, SC-MY, CNMV-ES.

Annex 1: Members of the STF Promoting Good Practices Working Group

1. Comissão de Valores Mobiliários (BRAZIL)
2. Financial Regulatory Authority (EGYPT)
3. European Securities and Markets Authority (EUROPEAN UNION)
4. Autorité des marchés financiers (FRANCE)
5. Bundesanstalt für Finanzdienstleistungsaufsicht (GERMANY)
6. Securities and Futures Commission (HONG KONG)
7. International Organization of Securities Commissions (INTERNATIONAL)
8. Commissione Nazionale per le Società e la Borsa (ITALY)
9. Financial Services Agency (JAPAN)
10. Autorité Marocaine du Marché des Capitaux (MOROCCO)
11. Ontario Securities Commission (ONTARIO)
12. Monetary Authority of Singapore (SINGAPORE)
13. Comisión Nacional del Mercado de Valores (SPAIN)
14. Finansinspektionen (SWEDEN)
15. The Dutch Authority for the Financial Markets (THE NETHERLANDS)
16. Financial Conduct Authority (UNITED KINGDOM)
17. Securities and Exchange Commission (UNITED STATES OF AMERICA)

Annex 2: Compilation of Relevant IOSCO Publications

- IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards (25 July 2023)
- IOSCO sets out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting (28 March 2023)
- Monitoring Group Welcomes Important Step in Implementing its Recommendations with the Establishment of the International Foundation for Ethics and Audit (27 March 2023)
- IOSCO welcomes the ISSB decision to enter into the finalisation phase of its inaugural corporate sustainability reporting standards (17 February 2023)
- IOSCO encourages standard-setters' work on assurance of sustainability-related corporate reporting (15 September 2022)
- Report on Retail Investor Education in the Context of Sustainable Finance Markets and Products (31 August 2022)
- IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets (27 July 2022)
- IFRS Foundation Monitoring Board welcomes strong momentum towards establishing IFRS Sustainability Disclosure standards (01 July 2022)
- IOSCO welcomes ISSB's publication of sustainability standards exposure drafts (31 March 2022). A separate press release was published by the IFRS Foundation Monitoring Board (31 March 2022)
- Environmental, Social and Governance (ESG) Ratings and Data Products Providers (23 November 2021)
- Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management (2 November 2021)
- Report on Sustainability-related Issuer Disclosures (28 June 2021)
- Report on Sustainable Finance and the Role of Securities Regulators and IOSCO (14 April 2020)
- Report on Sustainable Finance in Emerging Markets and the Role of Securities Regulators (05 June 2019)

Annex 3: Regulatory Initiatives on ESG Ratings and Data Products Providers

Current legislative initiatives

SEBI India: Regulatory Framework for ESG rating Providers (ERPs) in Securities Market

On January 24, 2022, SEBI published a Consultation Paper on ESG rating providers (ERPs) for Securities Market, which contained proposals on regulation/accreditation of ERPs and sought public comments on the various issues, including scope of regulations, entities eligible to act as ERPs, conditions for accreditation, ESG rating products, standardisation of ESG rating scales, transparency, governance, and business models of ERPs.

Based on the responses received on the aforesaid consultation paper, discussions held with various stakeholders, and global regulatory developments, SEBI proposed to introduce a regulatory framework for "ESG Rating Providers" or "ERPs" in a subsequent paper published for consultation in February 2023.[101]

The SEBI's consultation paper draws reference to 2022 IOSCO call for action for financial markets voluntary standard setting bodies and industry associations to promote good practices to counter the risk of greenwashing in ESG ratings. In this context, SEBI recommended that ESG rating providers, who wish to operate in the Indian securities market, to form an industry association and play an active role in the development of a regulatory framework for ERPs in the Indian securities market and engage with SEBI at its ESG advisory committee.

Finally, in July 2023 [102] SEBI introduced a regulatory framework for ESG rating providers.

SEBI opted for an enforceable regulatory and supervisory framework for ERPs – instead of a voluntary code of conduct for ERPs - in view of SEBI's experience with credit rating agencies. However, given the nascent nature of the ERPs and to provide scope for further innovation, SEBI has attempted to follow a principles-based approach.

The SEBI's approach for ESG ratings and ESG rating providers envisages a detailed disclosures of the rationale behind the assigned ESG rating, to enable stakeholders to assess the reasons behind an assigned ESG rating.

Therefore, it is mandated that the ESG report drafted by the ESG rating provider shall contain the current ESG rating/score; any changes in rating/score from the previous evaluation; the last review date; a summary of key drivers (both qualitative and quantitative) considered for arriving at the overall ESG rating; pillar wise E, S and G scores key drivers (both qualitative and quantitative being considered for carrying out such assessment); weights of E, S and G scores in the assigned ESG rating; a brief explanation of rating intent to clarify if it represents unmanaged risks/ performance against risks/ impact; summary or link to methodology used.

As for the transition scores, rating providers are advised to provide two additional ratings: 1) ESG transition score, to reflect the incremental changes that the company has made in its

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101 https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-regulatory-framework-for-esg-rating-providers-erps-in-securities-market_68337.html

102 https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/attachdocs/jul-2023/1689654833388.pdf#page=23&zoom=page-width,-16,578

transition plan and transition ambition over recent years; and 2) a combined score, combining ESG rating and transition rating, i.e., measuring both the status and the ability to transition.

With regards to business models, it is mandated that either an issuer-pays or a subscriber-pays business model be allowed for ERPs in India. However, hybrid business models shall not be allowed for ERPs, to mitigate potential conflict of interests.

The regulatory framework establishes that no entity shall act as an ESG rating provider in India unless it has been registered by SEBI. The framework envisages two kinds of registered ESG rating providers, with specific and adequate capital and organisational requirements and knowledge and experience of the personnel employed.

Particular attention was given by the legislative initiative to transparency,[103] conflicts of interest,[104] rating process,[105] monitoring of the ESG rating, procedure for reviewing the ESG rating and internal procedure to be developed.

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103 Accordingly, every ESG rating provider shall: 1) make adequate levels of public disclosure and transparency a priority for its ESG ratings products; 2) disclose its rating methodology for all ESG ratings on its websites, while maintaining a balance with respect to proprietary or confidential aspects of the methodologies and include category-wise weightages of environmental, social, and governance factors in ESG ratings; 3) use relevant terminologies for the ESG rating products offered and, if an associate or subsidiary of a credit rating agency, prominently display that ESG ratings are different from credit ratings through website and ESG rating reports; 4) disclose any change in ESG rating methodology and consequential change in ESG ratings in its website; 5) disclose the extent to which a change in ESG rating is due to a change in the provider's ESG rating methodology; (6) maintain and disclose archives of earlier ESG rating methodologies and ESG ratings on its website; (7) disclose ESG rating, type of ESG rating (whether risk-based or impact-based or otherwise), and scores on environmental, social and governance parameters, and any other parameter forming a part of overall ESG rating, on their websites for public access and provide a hyperlink to the methodology placed on website; 8) publish their average one-year ESG rating transition rate on their respective websites; 9) disclose, on their website, the general nature of compensation arrangements with clients and whether the ESG ratings assigned were solicited or unsolicited; 10) take any other measure that the SEBI may consider material for a true and fair understanding of the ESG rating.

104 An ESG rating provider shall: 1) identify, disclose, and to the extent possible avoid, or appropriately manage, mitigate, and disclose potential conflicts of interest; 2) formulate policies and internal codes for dealing with the conflicts of interest, which shall also be prominently disclosed on its website; 3) identify, disclose and to the extent possible, mitigate potential conflict of interest that may arise between ESG rating provider and its clients or client groups, or among multiple clients, or between the rated entity and clients or client groups, or between the provider and any other sources; 4) ensure the ESG ratings would not be affected by the existence of, or potential for, a business relationship between the ESG rating provider or their affiliates and any entity for which it provides ESG ratings, or associates of such entity; 5) structure reporting lines for their staff and their compensation arrangements to eliminate or appropriately mitigate actual and potential conflicts of interest related to their ESG ratings; 6) not provide consulting or advisory on ESG ratings or areas related to ESG; 7) adopt and implement written policies and procedures designed to ensure that its decisions are independent and appropriately address potential conflicts of interest.

105 An ESG rating provider shall 1) have appropriate resources to assign an ESG rating; 2) ensure that the ESG rating suitably incorporates the environmental, social and governance aspects that are contextual to the Indian market; however, the provider can also offer additional ESG rating products that may not incorporate such contextual aspects; 3) disclose to the stock exchange(s) where the rated entity is listed, as well as through press release and websites for general investors, the ESG rating assigned to such entity or its securities, after periodic review; 4) have written policies, procedures and internal controls designed to ensure the processes and methodologies are rigorous, systematic, and applied consistently and periodically reviewed and updated; 5) have efficient systems to keep track of material ESG-related developments to ensure timely and accurate ESG ratings; 6) attempt to continually improve information

The SEBI's regulatory framework provides for an annex ("*seventh schedule*") that set out a succinct code of conduct for ESG rating providers.

FCA UK: UK consultation on future regulatory regime for ESG ratings providers

In March 2023, HM Treasury consulted on a potential regulatory framework for ESG ratings providers, which closed on 30 June 2023.

In its Roadmap to Sustainable Investing,[106] the UK Government recognised the growing use of ESG ratings and data in the UK and noted that they would consider bringing these products within the scope of the FCA's regulatory perimeter.

That decision was moreover fostered by the responses to an FCA consultation paper's discussion chapter[107] - with market participants agreeing with the areas of potential harm identified by the FCA and largely supporting regulatory intervention.[108] Recognising the benefits to be gained from improving the transparency of ESG ratings' methodologies, governance, and processes, and the role regulation could play in fostering such improvements, HM Treasury decided to consult on bringing ESG ratings providers within the FCA's regulatory perimeter.

HM Treasury's intention would be to capture a wide range of ESG ratings used in financial markets, regardless of their name or how they are marketed. As such, HM Treasury proposes that an ESG rating in the context of a new regulated activity would cover an assessment regarding one or more environmental, social, and governance factors, whether it is labelled as such.

The proposed approach is deliberately broad and includes any environmental, social, or governance characteristics. The approach intends to include any assessments, regardless of their self-identification (i.e., whether they are called "ratings," "scores," "marks," or anything else, including where market participants currently consider these to be data products). The scope intends to include ESG assessments which are directly produced by analysts, as well as assessments which are generated through an algorithm. A broad scope would help ensure the regulatory framework applies to new products which may be developed in the future.

HM Treasury's proposed scope excludes data on ESG matters where no assessment is present. As such, raw data that is unprocessed is not included. This scope should not include data which is only minimally processed, for example by formatting or summarising, so long as there is no separate assessment provided.

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gathering process with entities / securities covered by its products; 7) respond to, and address issues flagged by entities covered by its ESG rating products while maintaining the objectivity of these products; 8) share a draft of the ESG rating report with the rated entity before publication of the same. The provider shall also grant such entity an opportunity of appeal and representation before the provider, if so requested.

106 See the UK Government's Greening Finance: A Roadmap to Sustainable Investing (October 2021) - https://assets.publishing.service.gov.uk/media/61890e64d3bf7f56077ce865/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

107 See the FCA's consultation paper CP21/18 - https://www.fca.org.uk/publication/consultation/cp21-18.pdf

108 See the FCA's feedback statement FS22/4 - https://www.fca.org.uk/publication/feedback/fs22-4.pdf

According to HM Treasury's proposal, the new regulated activity would cover providing an ESG rating to be used by persons in the UK in relation to a specified investment. This proposal requires ESG ratings providers to understand how the ESG rating they are providing is being used.

HM Treasury's proposal would not involve: a) the provision of ESG ratings by not-for-profit entities; b) ratings created by an entity solely for use by that entity (as it may be, for example, for asset managers who may create their own ratings for internal use only); c) credit ratings which consider the impact of ESG factors on creditworthiness, as these are already regulated; d) investment research products; e) external reviews, including second-party opinions, verifications, and certifications of ESG-labelled bonds; f) proxy advisor services, such as voting or recommendations to shareholders of firms; g) consulting services, even where these relate to ESG matters; h) academic research or journalism, even where that relates to ESG matters. HM Treasury has also indicated that the future regulatory regime for ESG ratings providers should be proportionate for smaller providers, and the consultation sets out a couple examples of how this could be ensured.

As for the territorial scope, HM Treasury proposes to capture the direct provision of ESG ratings to users in the UK, by both UK and overseas firms. This includes direct provision to both institutional and retail users in the UK. This would not capture the provision of ESG ratings by any UK or overseas firm to any user outside the UK. HM Treasury has indicated it will consider recognising overseas regimes for ESG ratings providers, if other jurisdictions introduce similar regulation.

According to HM Treasury's proposal, "direct provision" intends to capture where an ESG rating is provided to a UK user who has paid for that rating. It does not intend to capture scenarios where a UK user accesses a free rating.

The FCA has indicated that any potential future regulatory requirements introduced for ESG ratings providers would be informed by the 2021 IOSCO Recommendations and promote transparency, good governance, management of conflicts of interest, and robust systems and controls[109].

EU: EC's proposal for a Regulation of the European Parliament and of the Council on the transparency and integrity of ESG rating activities

On 13 June 2023 the EC published a proposal for a regulation of the ESG rating providers. The EC's legislative initiative is one of the measures proposed by the EC to contribute to the objectives of the European Green Deal by improving the flow and quality of information on which investors, businesses and other stakeholders' base decisions.
To that end, the EC highlights how the ESG ratings play an important role in the proper functioning of the EU sustainable finance market, by providing sources of assessments that can be used by investors and financial institutions for investment strategies, risk management and internal analysis. Companies use these ratings to better understand sustainability risks and opportunities linked to their activities.

[109] HM Treasury expects that any requirements would be developed considering international developments, in particular the recommendations provided by IOSCO.

The EC recognises that users' and rated companies' needs regarding ESG ratings are not being met and confidence in ratings is being undermined, due to lack of transparency as to the methodologies and objectives of ESG ratings and lack of clarity on the operations of ESG rating providers, how they manage potential conflicts of interest.

Consequently, ESG ratings do not serve their purpose and do not sufficiently enable users, investors and rated companies to make informed decisions about ESG-related risks, impacts and opportunities.

For the ESG rating products and providers to contribute to market integrity and investor protection, the EC notes that it is necessary to increase clarity around: (1) objectives, characteristics, methodologies and data sources used to obtain them; and (2) operations of ESG rating providers including prevention and mitigation of risks arising from conflicts of interest within providers.

As to the scope of the legislative initiative, the EC notes that the widely agreed IOSCO definition of ESG ratings would form the basis of the definition of ESG ratings.

The EC initiative would target entities providing ESG ratings or scores to the public or to subscribers and would not cover financial institutions or other market participants developing ESG ratings for their own purposes.

The EC proposal envisages rules both for ESG rating providers (including rules on authorisation, organisational requirements and supervision) and ESG rating products (including minimum transparency disclosures on methodologies and objectives of ratings to the general public and more comprehensive disclosures to users of ESG rating providers and rated companies).

The following elements of the EC's legislative "package" are of relevance:

1. A general recognition of the different types of ESG ratings currently developed by the market;
2. The definition of rating at legislative level and the legislative recognition of 2 types of ESG ratings (i.e., a] scores and b] ratings *strictu sensu*);
3. To consider in scope of the legislative proposal only the ESG rating products and providers, with ESG data products and providers being out of scope, in line with the above-mentioned UK legislative initiative;
4. The indication of the matters and entities out of scope;
5. A thorough regulation of the conflicts of interest; and
6. The regulation of specific different levels of disclosure, depending to the recipient of the disclosure.

As for the recognition of the different types of ESG ratings currently developed by the market, the impact assessment report accompanying the document proposal recognises that ESG ratings and scores can be grouped into several categories based on what they are measuring.

The assessment report noted that the most common and widely used form is ESG risk ratings, which measure a company's exposure to ESG risks and management practices. There are also ESG ratings considering impact from companies on the environment and society (so-called 'double materiality principle'): these measure the impact of an entity on the environment in general, on society and/or on some given metrics.

Beyond those two groups there are several other ESG ratings that measure aspects like disclosure or assess compliance with international principles and guidelines or a specific issue, for example supply chain. The most prevalent issue-focused ESG ratings are climate-related ratings.

The EC's impact assessment report highlights that diversity in offerings of ESG ratings is not a problem and is welcomed by users of ratings, but users need clarity and certainty as to the objective of ratings they buy, since they may mistakenly believe that they are buying ESG ratings that assess impacts on the environment or society, while in reality, such ratings only analyse the financial risks to a company.

As regards the definition of ESG rating for the purposes of the proposed regulation, in the impact assessment part of the explanatory memorandum the EC states that "*As to the scope, the definition of ESG ratings by IOSCO would form the basis for the scope of this initiative, covering both scores and ratings, and products which are a mixture of both*".

The EC's establishes that 'ESG rating' means an opinion, a score or a combination of both, regarding an entity, a financial instrument, a financial product, or an undertaking's ESG profile or characteristics or exposure to ESG risks or the impact on people, society and the environment, that are based on an established methodology and defined ranking system of rating categories and that are provided to third parties, irrespective of whether such ESG rating is explicitly labelled as 'rating' or 'ESG score'[110]

In turn, the EC's establishes that "*opinion*" means an assessment that is based on a rules-based methodology and defined ranking system of rating categories, directly involving a rating analyst in the rating process or systems process; "*score*" means a measure derived from data, using a rule-based methodology, and based only on a pre-established statistical or algorithmic system or model, without any additional substantial analytical input from an analyst.

The EC's proposed regulation intends to exclude from its scope the provision of raw ESG data that do not contain an element of rating or scoring and are not subject to any modelling or analysis resulting in the development of an ESG rating. The proposed regulation does not apply to any of the following: (a) private ESG ratings which are not intended for public disclosure or for distribution; (b) ESG ratings produced by regulated financial undertakings in the Union that are used for internal purposes or for providing in-house financial services and products; (c) credit ratings issued by credit rating agencies subject to Regulation (EC) No 1060/2009; (d) ESG ratings produced by Union or Member States' public authorities; and (e) ESG ratings produced by central banks that fulfil specific conditions.

The EC proposed regulation envisages a proper approach dealing with conflicts of interest, which may lead to the establishment of an independent oversight function representing

110 The EC's definition sticks on the IOSCO's Report notion, which defines the ESG ratings as referring *"to the broad spectrum of ratings products that are marketed as providing an opinion regarding an entity, a financial instrument or product, a company's ESG profile or characteristics or exposure to ESG, climatic or environmental risks or impact on society and the environment, that are issued using a defined ranking system of rating categories, whether or not these are explicitly labelled as "ESG ratings".* Explicit and specific reference to the IOSCO recommendations published in November 2021 is made for the proposed regime for the equivalence decision, the endorsement, and the recognition of the third country ESG rating providers.

stakeholders, including users of the ESG ratings and contributors to such ratings. Where a conflict of interest cannot be adequately managed, ESMA[111] may require the ESG rating provider to cease the activities or relationships that create the conflict of interest or may require the ESG rating provider to cease providing the ESG ratings.

Moreover, rules are established for the management of potential conflicts of interests from employees.

A critical and deeply discussed matter is that of disclosure. The EC's proposed regulation envisages two levels of disclosures: a) a minimum level of disclosure of the methodologies, models, and key rating assumptions used in ESG rating activities to the public on their website and through the ESAP[112]; and b) an additional level of disclosure that ESG rating providers shall make available to users of ESG ratings and rated entities.[113] In turn, ESMA shall develop draft regulatory technical standards to specify further the elements that are to be disclosed.

Voluntary Codes of Conduct

In the absence of a uniform and mandatory legislation or regulation on ESG ratings and data products and providers, the main initiatives set up for and/or by the industry are voluntary

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111 According to the EC's proposed regulation, ESMA is entitled of the supervisory remit on ESG rating providers.

112 The concerned information and data should comprise, at the minimum, (a) high level overview of the rating methodologies used (and changes thereto), including whether analysis is backward-looking or forward-looking; (b) high level overview of data processes (data sources, including if they are public or non–public, and if they are sourced from sustainability statements required by Directive (EU) 2022/2464, estimation of input data in case of unavailability, frequency of data updates); (c) information on whether and how the methodologies are based on scientific evidence; (d) information on the ratings' objective, clearly marking whether the rating is assessing risks, impacts or some other dimensions; (e) the rating's scope – i.e., is it an aggregated rating (aggregating E and S and G factor), or a rating of individual factors or specific issues (e.g., transition risks); (f) in the case of an aggregated ESG rating, weighting of the three overarching ESG factors categories (e.g., 33% Environment, 33% Social, 33% Governance), and the explanation of the weighting method, including weight per individual E, S and G factors; (g) within the E, S or G factors, specification of the topics covered by the ESG rating/score, and whether they correspond to the topics from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU; (h) information on whether the rating is expressed in absolute or relative values, (i) where applicable, reference to the use of Artificial Intelligence (AI) in the data collection or rating/scoring process; (j) general information on criteria used for establishing fees to clients, specifying the various elements taken into consideration, such as the involvement of data analysts, IT equipment, purchasing data; (k) any limitation in data sources used for the construction of ESG ratings.

113 The concerned additional information should include (a) a more granular overview of the rating methodologies used (and changes thereto), including: (1) where applicable, scientific evidence and assumptions on which the ratings are based, (2) whether the analysis is backward-looking or forward-looking, (3) which metrics have been selected as relevant, (4) the relevant KPIs per E, S and G factor, and weighting method, (5) any potential shortcomings of methodologies, (6) policies for the revision of methodologies, (7) last date of the revision; (b) a more granular overview of data processes, including: (1) more detailed explanation of data sources used – including whether public or non-public, mentioning whether derived from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU /Taxonomy/SFDR], (2) where applicable the use of estimation and industry average and explanation of the underlying methodology, (3) the policies for updating data and revising historical data, date of last updates of data, (4) data quality controls, (5) any steps taken to address limitations in data sources, where applicable; (c) where applicable, information about engagement with rated entities; (d) where applicable, an explanation of any AI methodology used in the data collection or rating process; (e) in case of a major new information on a rated entity that has the possibility to affect the result of an ESG rating, ESG rating providers shall inform how they have taken that information into account and whether they have amended the corresponding ESG rating.

Codes of Conduct shaped by the 2021 IOSCO Recommendations and 2022 IOSCO Call for Action.

FSA Japan: Code of Conduct for ESG Evaluation and Data Providers

After the public consultation of the IOSCO 2021 ESG Ratings Sustainability Report, the FSA Japan published the finalised version of a Code of Conduct for ESG Evaluation and Data Providers.

The FSA Code of Conduct is principles-based, encouraging further improvements in ESG evaluation and data provision services based on their own initiatives and ensuring flexibility in response to future business model changes.

The Code of Conduct is designed to be a voluntary code on a "comply or explain" basis, where the FSA calls for organisations to express their support for the Code via public announcement, and the organisations supporting the Code will either comply with the principles and guidelines of the Code or explain the reasons why they do not comply with a particular principle or guideline.

The Code of Conduct considers both ESG evaluation (i.e., ESG rating) and data products providers and applies to both potential business model set up by providers i.e., the "subscriber pay model" and the "issuer pay model." It stipulates that any differences between each business model should be specified, and that each institution should be able to consider its application based on differences in business models.

The Code consists of six principles: 1) securing quality, 2) human resources development, 3) ensuring independence and managing conflicts of interest, 4) ensuring transparency, 5) confidentiality, 6) communication with companies.

As for the "quality" principle, the Code establishes that it would be useful for each institution to define quality according to its own service as necessary.

As regards the human resources development, the Code states that providers should secure necessary professional human resources to ensure the quality of the evaluation and data provision services they provide.

On the matter of conflicts of interest, the Code envisages that ESG evaluation and data providers should establish effective policies so that they can independently make decisions and appropriately address conflicts of interest that may arise from their organisation and ownership, business, investment and funding, and compensation for their officers and employees. The specific nature of potential conflicts of interest may vary depending on the evaluation methodology and business model. In the subscriber pay model, the Code identifies a typical example of conflicts of interest when an ESG evaluation and data provider provides paid consulting services to the company subject to the evaluation, since it could incentivize the provider to give a relatively good evaluation to such company.

On the other hand, since the issuer pay model basically receives compensation from the company subject to evaluation, it has a structure in which conflicts of interest may occur due to the nature of business. For this reason, it is important to implement detailed procedures such as strict ethical walls (for example, separation of persons in charge of evaluation and sales) or require inspections by expert or upper committee in individual evaluations.

As for the "transparency" principle, the Code states that - while considering intellectual property - ensuring transparency leads to improving the reliability and understanding of data and evaluation among market participants and ensures the quality of ESG evaluation and data.

To ensure transparency, in addition to evaluation methodologies and processes, it is important to publicly clarify the basic approach, including the methodologies used for the evaluations and to disclose the details of any major updates of the methodologies. In the case of improving evaluation methodologies, it would be useful to disclose the reasons for the revisions so that the relevant parties can easily understand the evaluation issues and points for improvement.

The Code differentiates between two types of information to be disclosed: information that should be disclosed to the public and information that should be disclosed or explained only to customers or companies subject to evaluation. General matters, such as evaluation objectives, basic methodology, and evaluation procedures, may be made generally transparent to a wide range of stakeholders, while specific matters, such as details of data used for evaluation, may be disclosed only to the parties concerned.

The principle of confidentiality ensures data protection: providers "should establish policies and procedures to appropriately protect non-public information obtained in the course of business."

According to the principle relating to communication with companies, the Code recommends establishing a dedicated contact point through which companies can send inquiries and raise issues regarding ESG evaluation and data, and which would allow companies to assess the accuracy of the underlying data when companies subject to evaluation ask questions or raise important or reasonable issues regarding the basis of evaluation and data.

MAS Singapore: Singapore voluntary draft Code of Conduct for ESG Rating and Data Product Providers

On 28 June 2023, MAS Singapore published a consultation paper[114] to seek views on a proposed Code of Conduct for ESG Rating and Data Product Providers (Code). The Code was jointly developed with ESG rating and data product providers including key global players and MAS through a soft consultation exercise.

It was also set out in the consultation paper that MAS will monitor the implementation of the Code and observe global developments before taking further steps to formalise a regulatory framework for ESG rating providers.

The Code[115] is largely modelled on the recommended good practices set out in the IOSCO's Call for Action with additional Singapore specific requirements. The industry Code applies to both ESG rating and data products providers.

[114] https://www.mas.gov.sg/-/media/mas/news-and-publications/consultation-papers/consultation-paper-on-proposed-code-of-conduct-for-esg-rating-and-data-product-providers.pdf

[115] annex-i-draft-code-of-conduct-for-esg-rating-and-data-product-providers.pdf (mas.gov.sg)

A key thrust of the Code is to require disclosures on how transition risks and opportunities have been factored into ESG rating and data products. This is to allow users of the products to better consider transition risks and opportunities when making decisions on capital allocations.

Similar to the FSA's Code, the Singapore Code is to be applied by ESG rating and data product providers on a "Comply or Explain" basis. Providers will comply with the principles and best practices set out in the Code or explain why they do not comply with the Code (or specific principles/best practices). MAS encouraged ESG rating and data product providers to publish their assessment of compliance.

The Code also provides exclusions from the scope of ESG data products, ESG data products providers, and ESG rating products[116].

The Code encompasses seven principles, and each of them is elaborated by a set of best practices.

Principle 1: The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to ensure the issuance of high quality ESG rating and data products based on publicly disclosed data sources where possible, and other information sources where necessary, using transparent and defined methodologies.

Principle 2: The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to ensure its decisions are independent, free from political or economic interference, and appropriately address potential conflicts of interest that may arise from, among other things, its organisational structure, business or financial activities, financial interests, and personnel.

Principle 3: The ESG Rating and Data Product Provider should identify, avoid or appropriately manage, mitigate and disclose potential conflicts of interest that may compromise the independence and objectivity of its operations.

Principle 4: The ESG Rating and Data Product Provider should make adequate levels of public disclosure and transparency a priority for its ESG rating and data products, including their methodologies and processes to enable the users of the ESG rating and data products to understand what the product entails and how it is produced, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

116 Namely, "ESG data product" does not include (and, therefore, the Code does not apply to) 1) raw data or aggregated raw data which does not entail added estimations, calculations or analysis; 2) an ESG rating; 3) a credit rating that takes into account any environmental, social or governance profile or characteristics of a rating target in the assessment of the credit worthiness of the rating target; 4) research analyses or research reports concerning any investment product that is issued or promulgated by a licensed or exempt financial adviser under the Financial Advisers Act 2001; or 5) financial benchmarks, as defined by the IOSCO. "ESG Data Product Provider" does not include 1) academic or research institutions solely providing specialised knowledge and data on ESG for academic purposes; 2) an entity solely providing consulting services to companies on improvements from an ESG perspective; 3) an entity solely providing information aggregation that compiles ESG data on a general website or subscription-based model; 4) an entity solely providing data in respect of general surveys on ESG factors; or 5) an entity solely providing news reporting services. Lastly, "ESG rating" does not include 1) a credit rating that takes into account any ESG profile or characteristic of a rating target in the assessment of the credit worthiness of the rating target; or 2) research analyses or research reports concerning any investment product that is issued or promulgated.

Principle 5: The ESG Rating and Data Product Provider should adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to it by any entity, or its agents, related to its ESG rating and data products, where appropriate in the circumstances.

Principle 6: The ESG Rating and Data Product Provider should ensure that information gathering processes with the covered entity, where relevant, is done in a manner that leads to efficient information procurement for it and these entities.

Principle 7: Where feasible and appropriate, the ESG Rating and Data Product Provider should respond to and address issues raised by the covered entity while maintaining the objectivity of these products.

FCA UK: UK voluntary draft Code of Conduct for ESG Ratings and Data Product Providers

On 05 July 2023, the ESG Data and Ratings Working Group (DRWG) - an industry working group led by an industry secretariat appointed by the FCA UK – published for a 3-month consultation the draft of a voluntary Code of Conduct for ESG Ratings and Data Product Providers. The Code of Conduct aims to foster a trusted, efficient and transparent market, by introducing clear standards for ESG ratings and data products providers and clarifying how such providers can interact with wider market participants.

The Code is based on IOSCO's recommendations and aims to (i) improve the availability and quality of information provided to investors at product and entity levels; (ii) enhance market integrity through increased transparency, good governance and sound systems and controls, and (iii) improve competition through better comparability of products and providers.

In line with IOSCO's recommendations, the Code is structured around four key outcomes: 1) Good Governance; 2) Systems and Controls; 3) Management of Conflicts of Interest; 4) Transparency. By basing the Code heavily on the IOSCO recommendations for ESG ratings and data products providers, the Code is intended to be internationally interoperable, with the hope of promoting a globally consistent regulatory framework.

The Code applies both to ESG rating and to data products providers. It is not primarily intended to be applied to 1) Credit Rating Agencies in respect of their offering of credit ratings (including those credit ratings that include consideration of ESG factors). Where Credit Rating Agency groups own entities that offer ESG rating/scores or ESG data products, those entities would fall within the intended scope; 2) entities who produce ESG ratings/scores or ESG data products that are used or consumed only within the same corporate group of affiliated companies and are therefore not provided or marketed to third parties; and 3) entities whose commercial activities involve ESG consulting services, but that do not involve the provision of any ESG rating/score or ESG data product.

The Code is based on six principles: 1) Good Governance; 2) Securing Quality; 3) Conflicts of Interest; 4) Transparency; 5) Confidentiality; 6) Engagement.

Principle 1 on Good Governance: ESG ratings and data products providers should ensure appropriate governance arrangements are in place that enable them to promote and uphold the Principles and overall objectives of the Code of Conduct.

Principle 2 on Securing Quality: ESG ratings and data products providers should adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG ratings and data products.

Principle 3 on Conflicts of Interest:

1) ESG ratings and data products providers should adopt and implement written policies and procedures designed to help ensure their decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, the ESG ratings and data products providers' organisational structure, business or financial activities, or the financial interests of the ESG ratings and data products providers and their officers and employees.
2) ESG ratings and data products providers should identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ESG ratings and data products providers' operations.

Principle 4 on Transparency: ESG ratings and data products providers should make adequate levels of public disclosure and transparency a priority for their ESG ratings and data products, including their methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest and while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

Principle 5 on Confidentiality: ESG ratings and data products providers should adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to them by any entity, or its agents, related to their ESG ratings and data products, in a manner appropriate in the circumstances.

Principle 6 on Engagement:

1) ESG ratings and data products providers should regularly consider whether their information gathering processes with entities covered by their products leads to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, ESG ratings and data products providers should consider what measures can be taken to implement them.
2) Where feasible and appropriate, ESG ratings and data products providers should respond to and address issues flagged by entities covered by their ESG ratings and data products while maintaining the independence and integrity of these products.

Annex 4: Summary of Financial and Investor Education Initiatives

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
ASIC Australia	• Taking advantage of both its pipeline of greenwashing surveillance work and its staff with existing experience and knowledge to provide training and guidance to newer staff members. • Established a Sustainable Finance Hub to coordinate its sustainable finance activities across different teams, has allocated (and plans to increase) specific resourcing to target greenwashing (for example, there are enforcement teams at ASIC with a greenwashing focus) and regularly holds knowledge sharing training about greenwashing/sustainable finance for staff. This capacity building is assisted by a grant of USD4.3 million by the Australian Government to continue greenwashing surveillance and enforcement work for the financial year ended 2024.	• Published guidance to investors on ESG investing on ASIC's investor-focused 'Moneysmart' website.[117]	• Provided direct feedback to industry (for example the Financial Services Council) and asset managers and product issuers about disclosures for sustainability-related products and highlighted the guidance provided in ASIC's information sheet 271. • Presented at several conferences, including but not limited to, the annual conference of the Australian Council of Superannuation Investors and the Australian Financial Report ESG Summit.
FSMA Belgium		• Developed an interactive financial education centre (Wikifin lab) which is focused on financial education of secondary school students. • Developed a website focused on financial literacy information for consumers that includes sustainable finance topics. • Member of the Joint Committee	

117 https://moneysmart.gov.au/

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
		workstream for developing educational material aimed towards consumers and is a member of IOSCO's Committee on Retail Investors (C8) which has worked on sustainable finance	
ESMA	• Planning to conduct trainings on greenwashing for both the NCAs and ESMA's own staff. • Conducted a survey in 2022 and identified the specific training needs of NCAs' in sustainable finance. • In the process of implementing its Sustainable Finance training plan. The aim is to build capacity among the NCAs and ESMA's own staff to prevent, detect and address greenwashing in financial markets better. • launched another survey in September 2023 to identify further training needs and create a list of training initiatives to take place in 2024.[118]		
AMF France	• set up a *Sustainable Finance Task Force*[119] (January 2019) which is backed by a multidisciplinary team. • Members of the task force contribute actively to the work of the AMF's Climate and Sustainable Finance Committee. • A training program for this Task Force was also set up. Since 2022, this program has been extended to all the staff	• Implemented a number of initiatives which ranges from the objective of informing a wide audience of the existence of sustainable finance products to content for more advanced investors who can be critical about sustainable finance	• In 2021, the **AMF France** revamped the certification in sustainable finance for professionals. The AMF decided on the proposal of the Financial Skills Certification Board (HCCP), to create a new module to test the

[118] https://www.esma.europa.eu/sites/default/files/2023-06/ESMA30-1668416927-2498_Progress_Report_ESMA_response_to_COM_RfI_on_greenwashing_risks.pdf

[119] One of the duties of this taskforce is to work on the operational implementation of the AMF's sustainable finance action plan, share knowledge and exchange views about future trends and issues. It enables better coordination and the consistency of the AMF's messages on this issue.

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
	of the AMF, on a voluntary basis and with different modules based on the respective roles of the staff members.	and need to know how to find relevant information before investing.120 This includes social media materials, such as videos on Facebook, YouTube and Instagram.[121]	knowledge of professionals on green and responsible finance, and to give greater weight to these questions in the general exam for AMF certification. The first training organisations have been certified to organise the sustainable finance exam in September 2021 and the first exams were held in early 2022. This module, which is open to all, is particularly aimed at professionals working as salespeople, who are required to collect their clients' preferences in terms of sustainable investment from August 2022 for Investment Service Providers (ISP) and January 2023 for Financial Investment Advisers (FIA).[122]
CVM Brazil		• Prepared content on general sustainable finance concepts, providing an overall view of the	

120 The main point of access to this content is the website https://www.amf-france.org/fr/espace-epargnants/lamf-et-vous.

121 For example: https://www.youtube.com/watch?v=87a04orOgNo and https://www.instagram.com/tv/CUxkbblgtX5/?hl=fr

122 https://www.amf-france.org/en/news-publications/news-releases/amf-news-releases/amf-tightens-professional-certification-requirements-sustainable-finance

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
		importance in considering ESG risks into investment analysis, and the awareness of impact investments and its positive socio-environmental results (beyond financial returns).[123]	
FRA Egypt	• Planning to provide investors with the necessary knowledge and tools to empower them to make informed decisions and differentiate between reliable ESG information and potential greenwashing.		• Planning to issue guidelines on ESG associated risks, including greenwashing. • Aiming on designing a sectoral-based capacity building program for all the sectors under its regulatory scope (i.e., insurance, capital market, mortgage, factoring and leasing, microfinance, and consumer finance) to be provided by its Regional Centre for Sustainable Finance
BaFin Germany	• Set up a Centre for Sustainable Finance (ZSF) which provides for an internal cross-sectoral coordination (banking, securities, Insurance) networking and policy function. The ZSF develops and coordinates strategic Sustainable Finance (SF) issues within BaFin as well as with the participation of the sectors. In addition, the ZSF supports the sectors or the supervision in specific SF issues as well as in the implementation or application of (European)		

[123] The main point of access to this content is the website https://www.investidor.gov.br/

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
	legal acts, if required. The ZSF supports communication with market participants and participates in testing suitable training activities regarding SF issues (for BaFin staff) and plans to analyse together with the BaFin education centre a training plan on SF issues for BaFin staff.		
EU	• There is currently a workstream under the Joint Committee of the ESAs that will develop a factsheet for consumers providing information on investing sustainably, including key tips to keep in mind before investing in products with sustainability features.		
CONSOB Italy	• Established in 2019 a Steering Committee on Sustainable Finance to coordinate ESG matters, as well as to encourage the exchange of knowledge and information among different CONSOB Departments and Offices. • Organised "internal seminars", among others, around ESG ratings and data products providers and asset management, with the aim of improving the knowledge of ESG issues while promoting the exchange of information on the activities carried out by different CONSOB departments. • Interacting with other European Authorities to promote exchanges of views on the regulatory and supervisory framework in progress and on the greenwashing phenomena observed.	• Member of the Subgroup on Financial Education established at the ESAs JC SG CPFI which has agreed to deliver a task on the development of interactive factsheets on sustainability. • CONSOB and the Bank of Italy have organised a webinar on "Sustainable finance: be aware of risks!". This mini course (organised with the collaboration of the Associations of consumers within the framework of the Financial Education Month and of the IOSCO World Investor Week (WIW)) is aimed at disseminating basic knowledge on the topics of sustainable finance. The initiative is part of	• Has promoted meetings, seminars and workshops with market operators, including ESG ratings and data products providers, aimed at learning about their ESG valuation models and criteria and collecting their views on the possible introduction of a regulatory framework, its benefits and challenges.

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
		those of the Sustainable Development Festival promoted by the Italian Alliance for Sustainable Development.	
FSA Japan	• uses the capacity building programs offered by international organisations such as Network for Greening the Financial System and the International Monetary Fund. • exchanges opinions and information on ESG investment trusts, ESG ratings, and greenwashing, with industry associations and authorities of other countries on an ad-hoc basis.	• Supporting private initiatives, such as the development of a sustainability-related qualification examination and of courses and teaching materials on sustainable finance for finance-related courses at universities.	• Developed "The JFSA Strategic Priorities July 2022-June 2023", in which it identifies the development of skilled professionals in sustainable finance as a whole, not only in the areas of greenwashing of asset management and/or ESG ratings and data products providers, as one of the priorities of sustainable finance policies. To this end, the FSA will collaborate with related parties (such as finance-related associations) to support the development of a sustainability-related qualification examination in the private sector. For example, industry associations have developed various training programs and qualification tests on knowledge of sustainable

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
			finance, including ESG ratings. • Published a skill map for developing skilled professionals in sustainable finance and conducted survey on financial industries to ascertain the actual situation in areas where human resources are particularly in short supply and the methods used to train them.
CNBV Mexico	• Partnered with some institutions to train supervisors to evaluate good practices and to identify greenwashing in mutual funds. • Currently working with Global Green Growth Institute for staff training, as well as working on a roadmap for issuer and mutual fund supervisors that seeks to develop the formation[124] of an ESG regulation and supervision working group with members of the CNBV. • Developed an e-learning platform that seeks to develop ESG capabilities among its staff and other key stakeholders. The platform includes an introduction to the ESG financial ecosystem and general training on ESG frameworks and standards elaborated by FSB TCFD, Sustainability Accounting		

124 (i) training on sustainable taxonomy, (ii) the preparation of a technological tool that systematizes ESG information disclosed by investment funds and issuers and facilitates their supervision (based on issued regulation), and (iii) the training on IFRS, to be issued by the IFRS Foundation in 2023 and subject to review by the CNBV.

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
	Standards Board, Global Reporting Initiative and Science Based Targets. CNBV's staff will receive a certification to acknowledge completion of the training.		
AFM Netherlands	• Providing internal education, specifically aimed at supervisors, to increase knowledge to address greenwashing.		
SC Malaysia	• Introduced InvestSmart® in 2014, its flagship education program where it incorporates sustainable investment topics as part of its agenda. Through InvestSmart®, SC Malaysia has been actively carrying out various initiatives to reach a wide spectrum of the public throughout the nation, educating them on a range of investment-related topics. Initiatives include the annual flagship investor education event InvestSmart® Fest, Bersama InvestSmart®@Borneo, SC-in-the-Community, talks, as well as the InvestSmart® website, mobile application and online educational game Jump2Invest. InvestSmart® has a notable presence in social media platforms including Facebook and Instagram.		• Launched the NaviGate: Capital Market Green Financing Series to create greater awareness and connectivity between companies and capital market financing for green and sustainability purposes. The target audience for NaviGate includes corporate entities, and financial institutions, as well as partnerships and collaboration with industry players, e.g. fund managers, investment banks, rating agencies, issuers.
CMVM Portugal	• Delivering internal training sessions on the EU Sustainable Finance legal framework and discussing supervision cases to enhance their capacity building.	• Carried out, and will continue to carry out, a campaign dedicated to sustainable finance to enhance financial literacy of retail investors, comprising a brochure and animation on the concepts of ESG and greenwashing, videos for TV, webinars and a conference.	

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
		• Has an area of its website dedicated to sustainable finance Depending on the type of initiative, the target audience covers retail investors, teachers, trainers, business owners, and members of Small and Medium Enterprise's Boards	
AMMC Morocco	• Finalising SRI guidelines to be published. In addition to guidance and requirements for asset managers on the creation, management and disclosure of ESG funds, the guidelines include recommendations for investors on what to look for, verify, and require before investing in ESG labelled-funds. • Planning to conduct conferences and awareness raising events around the guidelines.		• Planning to conduct capacity building initiatives to address greenwashing around asset management. The main audience would be asset managers, but other stakeholders would also be targeted (e.g., investors, financial advisors). More broadly, the AMMC has organised several trainings, conferences and awareness raising events, and added sustainable finance components to the professional licensing curricula. The target audiences of these *financial and investor education initiatives relating to sustainability* are asset managers, investors, general public,

Authority	Initiatives for Regulators	Initiatives for Investors	Initiatives for Industry
			professionals, students, etc. For the best implementation of these initiatives, AMMC partners with various entities such as professional associations (asset managers association, brokers association, issuers association…), international organisations and universities.
MAS Singapore	• Conducted a course for its staff in 2021 comprising live training session and multiple video recordings[125] and in 2022 on the fundamentals of ESG investing[126]	• Planning for an in-person public seminar in October 2023 in which sustainable finance and greenwashing will be covered. The target audience covers working adults between 36 and 54 years old. The seminar is part of a joint retirement planning campaign between MAS and the Central Provident Fund Board (which oversees Singapore's retirement savings programme).	• Developed together with the Institute of Banking and Finance Singapore (IBF) a set of 12 Sustainable Finance Technical Skills and Competencies (SF TSCs)[127] required for sustainable finance professionals in the financial sector of Singapore. • Worked to anchor sustainable finance centres of excellence (CoE) to spearhead research and

125 Topics included: Environmental risks – risks and dependencies for businesses and the wider economy; Best practices for banks in managing climate related financial risks; Understanding the uses and limitations of ESG ratings and data; and Key design parameters and methodological approaches to consider in developing stress tests.

126 Topics covered place of ESG investing in the investment landscape, ESG issues, Opportunities, benefits, and challenges of ESG investing; The principles of integration into the investment process; and The ESG market and developing trends.

127 The SF TSCs are part of the IBF Skills Framework for Financial Services, which provides information on occupations, job roles, career pathways and training programmes for skills upgrading and mastery. The SF TSCs set out robust common standards of proficiency, knowledge and abilities needed to perform various job roles in sustainable finance and cover a range of thematic and functional knowledge topics.

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			training, tailored for Asia. A relevant CoE to highlight is the Sustainable and Green Finance Institute (SGFIN), established by the National University of Singapore, which shapes sustainability outcomes and policy making across the real economy and financial sectors, in collaboration with NUS faculties, corporates and financial institutions. SGFIN will be launching a course on sustainability reporting, either by end 2023 or early 2024. Their Masters in Sustainable and Green Finance will cover the corporate governance aspect of sustainability.
Ontario and Québec	• In **Ontario**, the Investor Office Education and Outreach Team has created an ESG hub[128] to help educate retail investors about ESG investing and the risks to watch out for. • In **Québec**, the Financial Education Programs Team has developed specific content on responsible/sustainable investing on the general		• The OSC Ontario's Investor Office Research and Behavioural Insights Team (IORBIT) has conducted a behavioural science study on ESG, which sought to better understand ESGs factors within retail investing and

128 https://www.getsmarteraboutmoney.ca/invest/investment-products/esg-investing/

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	public section of the AMF website.[129] • The educational materials are delivered through online articles on getsmarteraboutmoney.ca and on lautorite.qc.ca/en/general-public, as well as through news releases and website publications.		its influence on retail investing behaviours. The report will be published in the second half of 2023. Further research is planned for the 2023-2024 fiscal year by IORBIT including (i) a retail investor qualitative and quantitative survey on ESG and (ii) a second BI experiment in Q3 and Q4. The target audience includes retail investors, the asset management industry, issuers, and other stakeholders.
CNMV Spain	• Organised in 2022 a course intended to all staff on the regulatory framework of sustainability so that they can understand the implications of the new legislation and market practices. • Internal training provided by departments with expertise in the supervision of non-financial information, while staff working directly in the area of sustainability have access to trainings programs organized by ESMA and other institutions. • quarterly sustainable finance newsletter directed to the staff. • set up an Internal Sustainability Committee, which aims to facilitate the necessary coordination of matters related to sustainable finance between	• Started developing resources around sustainability in 2021, and since then has promoted information campaigns for investors in ESG products in order to train and facilitate the understanding of these products and the new regulation. CNMV organised the course "*Towards more sustainable finance: challenges and opportunities*" in collaboration with the Menéndez Pelayo International University (UIMP), which took place on 26-28 June 2023 at the UIMP's headquarters in Santander. The course was aimed at	• Organised several seminars and webinars. In 2020 CNMV carried out an online Conference on Sustainable Finance. Managers and technical staff of the CNMV explained the new regulations on sustainable finance, their impacts on the market and the supervisor's activities in the field of sustainable finance. In 2022 CNMV carried out the conference "Towards more sustainable finance" where

129 https://lautorite.qc.ca/en/general-public/investments/responsible-or-sustainable-investing

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	the different General Directorates and Departments of the CNMV. Among other functions this Committee is responsible for identifying and analysing possible internal initiatives of the CNMV on matters related to sustainable finance.	anyone with an interest in developing their knowledge in this area, including undergraduate or master's degree students with basic financial knowledge, working professionals in the financial world, auditors, consultants, academics, and staff of public bodies. Furthermore, CNMV took part in the ESG Investment and Finance - Summer Program of Deusto University. • CNMV actively collaborates at the European and international levels in the promotion of investor education, including in the area of sustainable investing. Two factsheets will be published in the last quarter of the year (“What do you need to know if you want to make an investment, take out a loan or get an insurance policy with a sustainable focus?” and “key tips to keep in mind before choosing financial products with sustainability features”). The resources are available at CNMV website and at “Finanzas para todos website.”[130] Furthermore, the resources have been disseminated through social media and	experts from the sector discussed recent developments in the field of sustainable finance. • Promoted dialogue in the area of sustainable finance. In doing so, CNMV has organised meetings with the asset management sector, as well as with interest groups such as investors, auditors, consultants, rating agencies and representative association of the sector, among others. • Actively engages with the industry through public communications on sustainable finance and its legal framework in industry forums.

[130] https://www.finanzasparatodos.es/305-videos-didacticos-sobre-inversion-sostenible

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		targeted at general public/retail investors	
FI Sweden	• prioritising general capacity building on sustainable finance among retail investors and financial advisors (including greenwashing).		
FINMA Switzerland	• has continuously built capacity in its authorisation and supervision teams over the past years in the area of asset management in order to address greenwashing.	• Conducting public appearances (including presentations, asset management symposium, media relations, publications, and interviews) as well as publishing guidance, thus raising awareness, and enhancing understanding or greenwashing. The target audience includes investors	• Communicated its expectations to the industry the FINMA Guidance 05/2021[131] and through various channels (such as presentations, asset management symposium, media relations, publications, interviews). The target audience includes market participants (such as issuers, market associations, asset managers, investors)
FCA UK	• Established an ESG internal online training programme, covering various topics including climate-related disclosures, transition to net zero, and ESG ratings, supporting regulatory staff to build their ESG knowledge. • Live workshops are being co-designed and co-delivered with local teams to support staff with more bespoke ESG training and knowledge needs. External subject matter experts have also attended internal ESG awareness sessions.	• Will support implementation of the SDR and labelling rules. This includes developing web-based materials for consumers to understand what the labels and wider regime are. • Will continue to engage with consumer groups to support their consumer education initiatives.	• Will carry out engagement on the final SDR and labelling rules in different forms, e.g., webinars, roundtables, etc. to support industry's implementation of the regime. • Will support industry-led guidance and tools. • Training and competence on sustainability in regulated firms has also been a key topic in the FCA's

131 https://www.finma.ch/en/~/media/finma/dokumente/dokumentencenter/myfinma/4dokumentation/finma-aufsichtsmitteilungen/20211103-finma-aufsichtsmitteilung-05-2021.pdf?sc_lang=en&hash=7F911020E829EA5910FF903AF851B2F3

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			Discussion Paper 23/1132 published on 10 February 2023. The paper sought to encourage an industry-wide dialogue on firms' sustainability-related governance, incentives, and competence. It has gathered useful insights from respondents on including knowledge gaps, whether further regulatory measures are necessary to help deal with them, and whether misrepresentation of ESG credentials among ESG professionals occurs. • Engaging with the UK's Sustainable Finance Education Charter and other stakeholders to discuss developments in sustainable finance and joined sector-specific roundtables to discuss sustainable finance skills and training with the industry.
SFC Hong Kong	• Organised over 10 hours of live training courses featuring practitioners from the sustainable finance industry in 2022-2023 for	• The Investor and Financial Education Council[133], a subsidiary of the SFC Hong Kong, has	• Has been conducting several different multiple capacity building initiatives to

132 DP23/1: Finance for positive sustainable change: governance, incentives, and competence in regulated firms (fca.org.uk)

133 The IFEC is a public organisation dedicated to improving investor and financial education. https://www.ifec.org.hk/web/en/index.page

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	internal staff, aiming to raise their awareness of the ESG investment landscape, current ESG risk trends, and the latest policy developments on sustainable finance.	published educational online content[134] and social media posts[135] to address greenwashing. The materials' target audience is the public and general investors.	address greenwashing. For example, the Green and Sustainable Finance Cross-Agency Steering Group, which is co-chaired by the SFC and the Hong Kong Monetary Authority, administers the Hong Kong Special Administrative Region (HKSAR) Government's Pilot Green and Sustainable Finance Capacity Building Support Scheme which provide subsidies for ESG-related training courses. • Participates in various industry events to share its regulatory expectations. Following the publication of the SFC climate risk requirements and the SFC ESG funds Circular, the SFC organised webinars[136] as well as industry workshops on ESG Funds[137] to provide an overview of the regulatory framework, some illustrative

134 Webpage articles: All about green; The label of green bond
135 IFEC's Facebook and Instagram
136 Webinars on SFC climate risk requirements were conducted on 7 and 12 October 2021.
137 Industry Workshops on ESG funds were conducted in March 2022 and January 2023.

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			examples as well as Q&A sessions. • Released in June 2021 its consultation conclusions[138] on proposals to update its ongoing competency standards for corporations and individual practitioners, where ESG would be included as a relevant topic for training under the Guidelines for Continuous Professional Training. The amended guidelines became effective in January 2022.[139]
US SEC		• Conducting financial and investor education initiatives to address greenwashing. In its regular role of informing and educating investors regarding developments in the investment space, the SEC's Office of Investor Education and Advocacy (OIEA) published on February 26, 2021 an Investor Bulletin titled "*Environmental, Social and*	

[138] Consultation Conclusions on Proposed Enhancements to the Competency Framework for Intermediaries and Individual Practitioners, June 2021. (https://apps.sfc.hk/edistributionWeb/api/consultation/conclusion?lang=EN&refNo=20CP8)

[139] Guidelines on Continuous Professional Training, January 2022. (https://www.sfc.hk/-/media/EN/assets/components/codes/files-current/web/guidelines/guidelines-on-continuous-professional-training/Guidelines-on-Continuous-Professional-Training.pdf)

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		Governance (ESG) Funds." The bulletin provides a general overview about ESG funds and what to consider when investing. In addition, OIEA maintains a glossary section on its Investor.gov website that provides definitions for various terms that a retail investor may come across when investing. OIEA has included an entry for "greenwashing.[140]"	

[140] Both the bulletin and the glossary are targeted to retail investors and are available on https://www.investor.gov/