

CFE ON GREENWASHING – ADDITIONAL COMMENTS ON FI

Association Française de Gestion (AFG)

The AFG federates the asset management industry for 60 years, serving investors and the economy. It is the collective voice of its members, the asset management companies, whether they are entrepreneurs or subsidiaries of banking or insurance groups, French or foreigners. In France, the asset management industry comprises 680 management companies, with €4355 billion under management and 85,000 jobs, including 26,000 jobs in management companies.

The AFG commits to the growth of the asset management industry, brings out solutions that benefit all players in its ecosystem and makes the industry shine and develop in France, Europe and beyond, in the interests of all. The AFG is fully invested to the future.

Question F1 of the ESMA part of the consultation

Please see below our additional comments with regards question F.1 of the ESMA part of the questionnaire.

F.1. Which of the elements listed below, do you consider to be the main driver(s) of greenwashing risks? Please provide a short explanation of your answer: [multiple answers allowed]

- a) New / innovative ESG products in rapidly evolving ESG markets
- b) Entry of new participants such as issuers of ESG products, ESG rating or data providers, etc.
- c) Lack of ESG expertise and skills of market participants
- d) A rapidly evolving regulatory framework
- e) Differing interpretations of the regulatory framework
- f) Desire to exaggerate the sustainability profile at entity/product or service level
- g) Competition (wanting to be better than a comparable issuer/product)
- h) Lack of reliable data
- i) Mismatch between retail investors' expectations and market participants' ability to deliver real-world impact
- j) Other : Financial literacy

For d) and e):

As previously explained in question A.1., **we fully support the efforts of European co-legislators towards financing a more sustainable economy and in particular legislative and regulatory initiatives to ensure greater transparency with regard to sustainable investments and sustainability risks.** The Sustainable Finance framework (SFDR, Taxonomy, CSRD,...) has **been designed to foster investments towards a “green” (and sustainable”) economy and provide further transparency on the matter.**

While the objectives are clear and well recognized, some provisions are still unclear for market participants.

Indeed, **some inconsistencies exist between the different pieces of the Sustainable Finance framework** (e.g. different DNSH for the Taxonomy and SFDR, MIF ESG preferences and SFDR). Moreover, **some definitions are still not clear** (e.g.

“sustainable investment” definition or “promotion” definition) **and have led market participants to have their own understanding of the rules.**

Finally, multiple communications from the authorities interpreting the regulation (Q&As, clarifications,...) after the market participants having been forced to follow their own interpretation can lead to different understandings. Such misalignment should not be considered as “a risk of greenwashing”.

We believe that a clear and stable framework will significantly help in addressing greenwashing risk.

For h):

The Sustainable Finance regulations are interconnected by design and lead to several inconsistencies with regards the sequencing of their entry into application. **Such issues result in data unavailability and impede a robust implementation of these regulations.**

Indeed, **pending the CSRD implementation, non-financial data is not always available and harmonized. Financial market participants have to rely on data providers, that are not regulated, to fulfil their own regulatory requirements.**

While we believe that the reliability of sustainable data will tend to improve in the coming years (implementation of the CSRD and upcoming ESAP), **we also believe that data providers using a lot of estimations should be properly regulated to increase such reliability.**

The EU should create a holistic regulatory framework for data providers (for both financial and non-financial information) that will notably address the need for further transparency from data providers.

For i):

Understanding finance can be complex for retail investors, and the notion of sustainable investment may add to the challenge. The perception of what is “sustainable” in a financial product can vary significantly among investors.

Moreover, **the new concepts introduced in the sustainable finance framework may be difficult to grasp for retail investors:** “sustainable investment as per SFDR”, “taxonomy aligned investment”, “take into consideration PAI”.

Retail investors tend to have **high expectations when it comes to sustainability characteristics while the market is still developing** (e.g. very few products with a “high” level of taxonomy alignment).

To avoid frustration and possible mismatches between retail investors’ expectations and products’ availability, we believe that “sustainable finance education” is essential.

Finally, **it is also important to give to retail investors an overview of the market:** explain where the market is in terms of taxonomy alignment and sustainable investment; and what kind of products are available. Indeed, it should be reminded that our economy is in transition and expectations from investors, the society and regulators should be aligned with the evolution of our economy. In this regard, **we**

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believe that investing in transition is essential to increase the reorientation of capital towards sustainable finance (Objective of the EU Green Deal and UN SDG). It is hence essential to explain how investing in activities in transition can meet “sustainable” objectives.

For j):

This one is linked to the previous one. And financial literacy is key in the ESG space as it will allow to have expectations correlated with the development/maturity level of sustainable finance.