

# Greening your financial products and the regulatory tsunami: Greenwishing or greenwashing

EMBA GENEVA SCHOOL OF ECONOMICS AND MANAGEMENT

Dr. Antonios Koumbarakis / March 2022



# Attention on greenwashing or greenwashing is increasing

DWS probes spark fears of greenwashing claims across investment industry

Poor data and conflicting standards on ESG open up asset managers to potential claims misleading clients

Credit Suisse ESG Head Wants 'More Pressure' on Rating Firms

Finance

**Regulators Intensify ESG Scrutiny as Greenwashing Explodes**

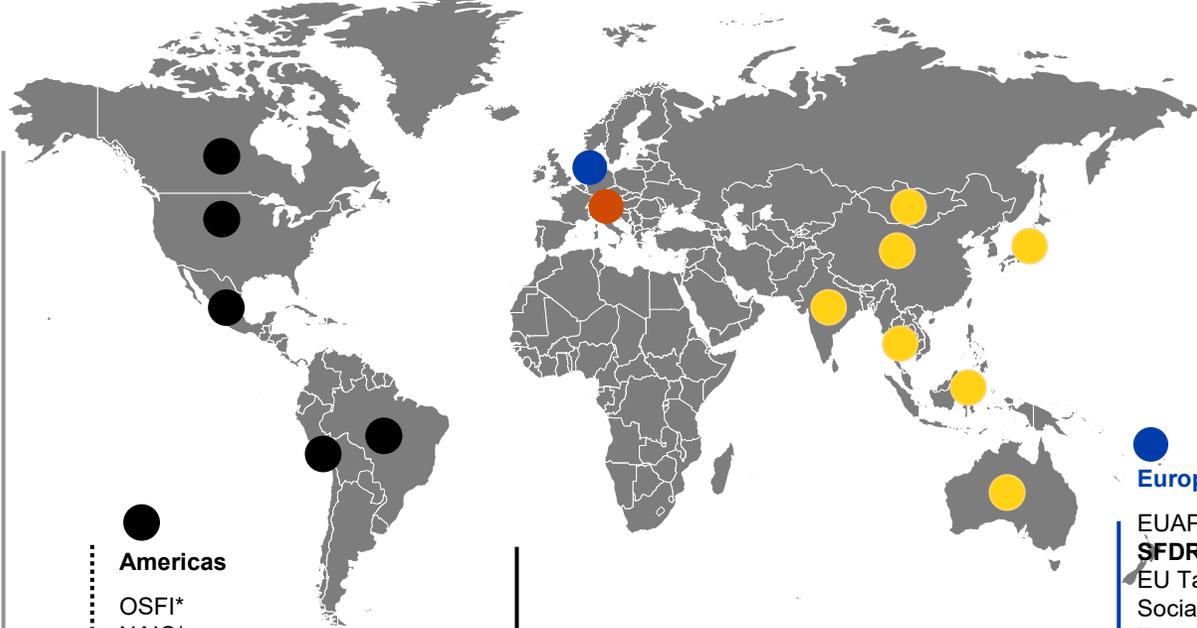
Pressure is increasing on fund managers to show they're being truthful with customers about what they're selling.

**Pitfalls of green finance: why credentials of some sustainability-linked bonds don't stand up to closer scrutiny**

New draft guideline in Germany to prevent greenwashing



# And regulation becomes more important to mitigate the risk of greenwashing



- Global
- SDG\*
- TCFD\*
- NGFS
- IFRS Sustainability Reporting\*
- WEF IBC\*
- UN Global Compact\*
- UNEP FI\*
- PRI\*
- PRB
- PSI
- GRI
- SASB
- CDSB
- CDP\*
- NZIA\*
- NZ AOA\*
- Climate Bonds Standards
- Climate Bonds Taxonomy
- Equator Principles
- Common Ground Taxonomy
- Green Loan Principles
- Sustainability Linked Loan Principles
- Climate Action 100+
- Green Bond Principles
- Social Bond Principles
- ISO Standards
- Helsinki Principles
- Green Bond Pledge

- Americas
- OSFI\*
- NAIC\*
- FIO\*
- DJSI\*
- Santiago Action Plan
- Canada's Greenhouse Gas Pollution Pricing Act
- US National Climate Assessment
- Canadian Transition Taxonomy
- Mexican Taxonomy
- Chilean Taxonomy
- Colombia's taxonomy
- Green Bond Transparency Platform
- Brazil Green Finance Initiative
- Brazil Green Bond Guidelines

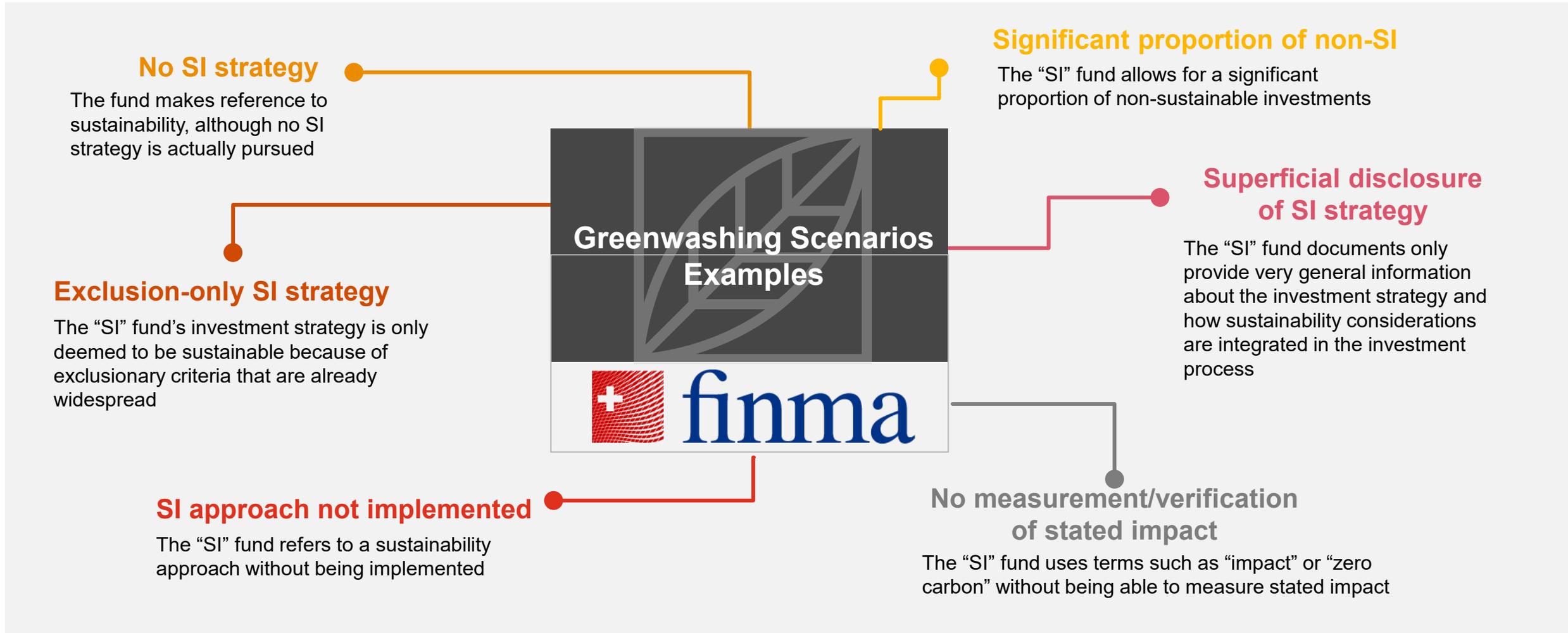
- Switzerland
- FINMA Greenwashing Guidance\***
- Counterparty proposal CO2 Act\*
- FINMA "Disclosure – banks"
- FINMA "Disclosure – insurers"
- SBA Guidelines on ESG integration
- SFAMA recommendations
- SBA self-regulation**

- Europe
- EUAP
- SFDR**
- EU Taxonomy
- Social Taxonomy
- Extended Taxonomy
- Own Risk & Solvency Assessment (ORSA)\*
- CSRD\*
- MiFiD II
- CRR
- AIFMD
- UCITS
- Solvency II\*
- IDD
- ECB Loan Origination Guidelines
- EU Due Diligence Act
- European green bond standard
- EU Ecolabel

- APAC
- ASEAN Taxonomy
- MAS Guidelines\*
- APRA Guidance\*
- SFC Circular on ESG funds
- China Green Bond Endorsed Projects Catalogue
- SDG Finance Taxonomy
- Mongolian Green Taxonomy
- Malaysia Climate Change & Principle-based Taxonomy
- Bangladesh Sustainable Finance Policy
- SGP Taxonomy
- Indian Taxonomy
- Chinese Green financial bond rules
- Malaysia SRI Sukuk Framework
- Philippines Green Bond Standards
- Japanese Transition Taxonomy
- Japan Social Bond Guidelines
- Japan Green Bond Guidelines

# FINMA Guidance 05/2021 – greenwashing or greenwashing

## Preventing and combating greenwashing



# Preventing greenwashing and ensuring comparability



The regulatory pressure is increasing



- 1 The two key aspects are the **EU Taxonomy Regulation** and the **Regulation on Disclosures** (referred to as the '**Disclosure Regulation**' or the '**SFDR**').
- 2 The SFDR aims to provide **more transparency** on **sustainability** within the financial markets in a **standardised way**, thus **preventing greenwashing** and **ensuring comparability**.

# Overview of the Disclosure Regulation

The new Sustainable Finance Disclosure Regulation (SFDR) introduces various **disclosure-related requirements** for financial market participants and financial advisors at **entity, service and product level**.

## Entity-level disclosure



### Sustainability risk

- Transparency on the integration of sustainability risk in investment process/investment and insurance advice



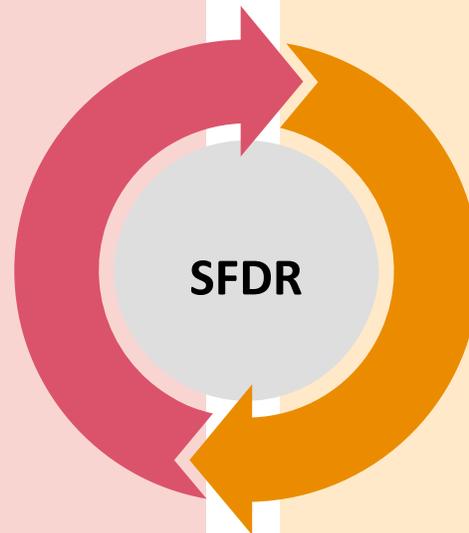
### Remuneration

- Transparency of remuneration policies in relation to the integration of sustainability risks



### Principal adverse impact

- Transparency of adverse sustainability impacts at entity level



## Product disclosure



### Pre-contractual disclosure

- Integration of sustainability risks
- Principal adverse impacts
- Additional disclosures for ESG products



### Website

- Further information supplementing ESG disclosures for ESG products



### Periodic reports

- Reporting on principal adverse impacts indicators
- Additional disclosures for ESG products

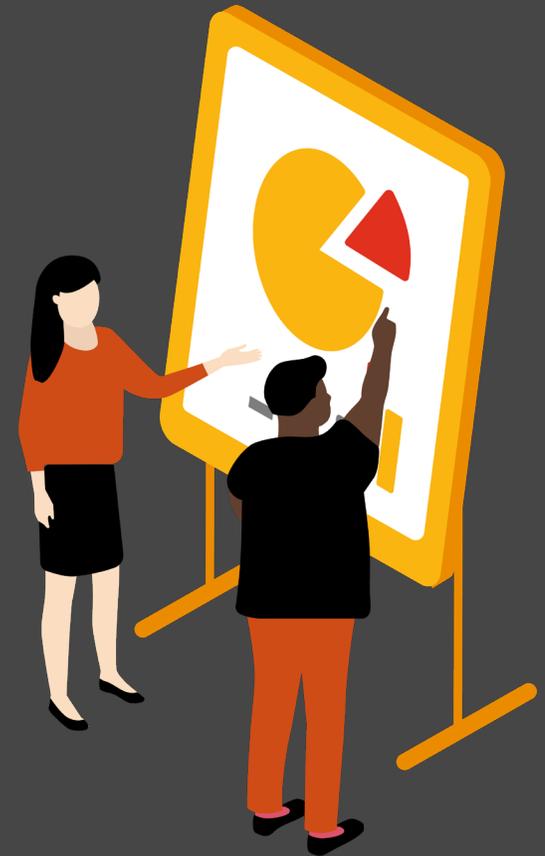
# Study on light and dark green financial products

## About the study

The study analyzes **more than 220 ESG-related funds** distributed in the EU from **20 providers** based in Switzerland, EU and internationally. **Typical patterns** and characteristics of ESG funds are identified and **best practices** with regard to ESG investment strategies and other ESG elements are discussed.

## Approach

- ❑ Analysis based on **publicly available legal documentation** (primarily fund prospectuses and factsheets)
- ❑ About  $\frac{3}{4}$  of the sample products are Art. 8 products (“light green”),  $\frac{1}{4}$  are Art. 9 products (“dark green”)
- ❑ Examination of **typical characteristics of ESG-related products**, in line with the expectations of SFDR for Article 8 and Article 9 products



# Study on light and dark green financial products

## Investigated aspects

- Product's name and general characteristics
- Ease of finding of ESG-related information
- Sustainability features of the fund (ESG characteristics / sustainable investment objective)
- ESG investment strategy followed and implemented, including related aspects such as methodological limits, binding elements and monitoring
- Sustainability indicators
- Information on data sources and ratings
- Adverse sustainability impacts
- References to EU Taxonomy

## Sample of institutions

ROBECO



BNP PARIBAS



UNION BANCAIRE PRIVÉE



Swisscanto

Nordea

Schroders

BLACKROCK

J.P.Morgan

CREDIT SUISSE



UBS

Vontobel



HSBC



Capital Partners  
your partner for alternative investments

DWS

# Areas of findings

Our findings are generally **consistent** with those of other studies conducted in the market but also shed light on unexplored **detailed aspects**.

1

ESG product  
elements

2

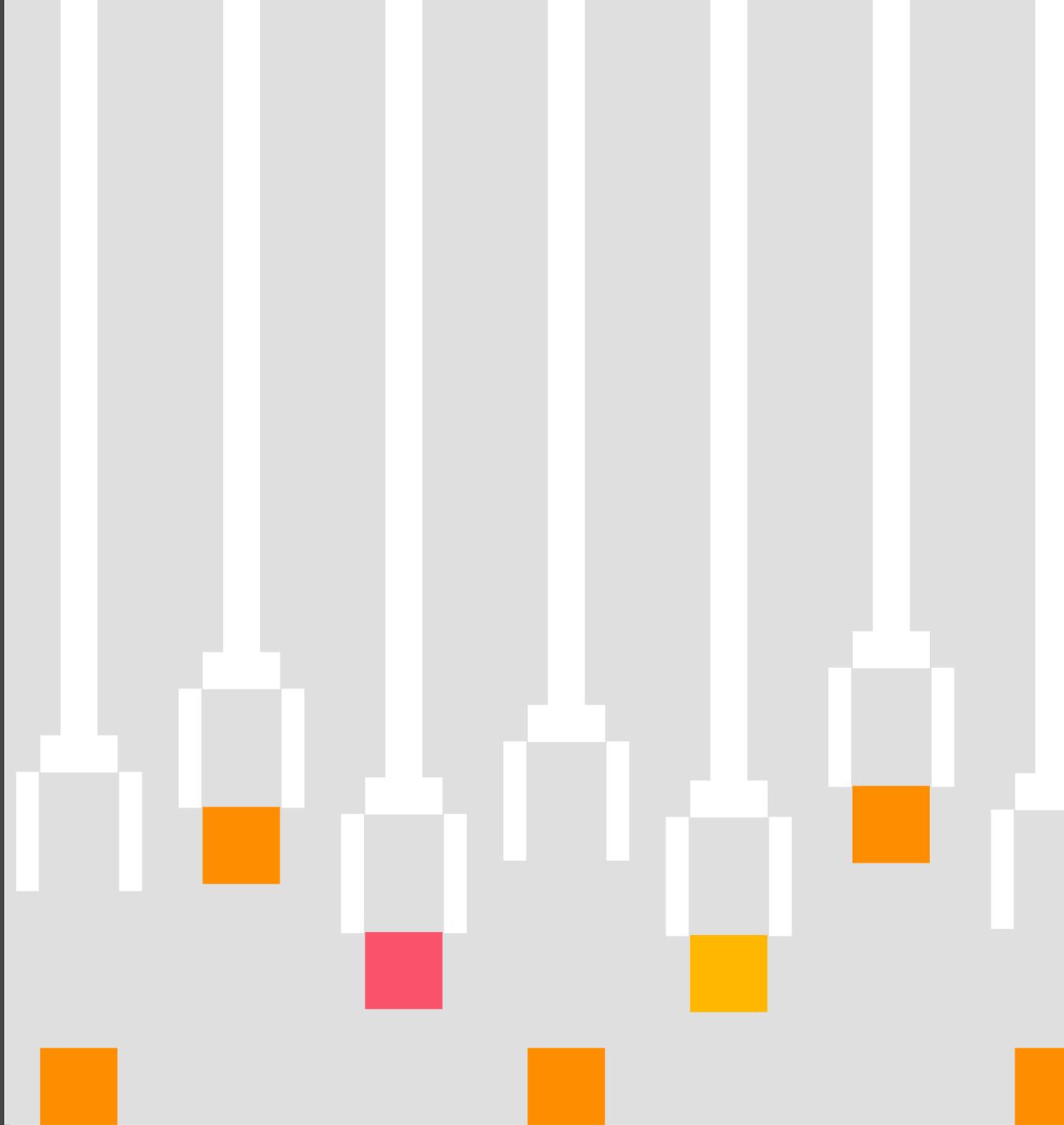
ESG  
disclosure

3

ESG data  
and ratings

4

ESG  
investment  
strategies



# Findings – ESG product elements

## Typical characteristics of ESG funds



**Strong focus on light green products** within the market



**Equity funds** form by far the largest group (around 70%), followed by **bonds**



**Actively managed portfolio outweigh** passively managed ones in both product categories



Most funds apply **exclusions** in combination with **other ESG investment strategies**



**Similar ESG investment strategies** between light green and dark green products

## Particularities of light green funds

Art. 8

- ❑ “**ESG**” term is only found in Art. 8 fund names in the sample
- ❑ 3 out of 4 products follow a **broad-themed ESG approach** without specifying the **concise and concrete ESG characteristics**, e.g. “the fund seeks to promote environmental or social characteristics by integrating ESG criteria in the investment process”

## Particularities of dark green funds

Art. 9

- ❑ “**Impact**” term is solely represented in Art. 9 fund names
- ❑ Often more **concrete** sustainable investment objectives, mostly related to **climate topics** (e.g. low-carbon, clean tech)
- ❑ More **thematic and impact investing** compared to light green products

# Findings – Disclosures and data

## Overall major disclosure deficiencies



Disclosures are **often too general, vague and superficial**



**No, or weakened, ESG binding elements or KPIs** in the majority of the sample, mainly through the use of open wording



More than 1/3 of the products **do not indicate a minimum asset allocation to ESG investments**



Little **critical reflection on methodologies**, mostly no, or little, information on **controls and monitoring** of the ESG elements



Disclosures are often **unstructured and not always easy to find** - difficult and time-consuming to understand which rules apply to which (sub-)funds in case of umbrella structures

## Data and ratings

- ❑ Almost all institutions in scope **rely on external data and rating providers**, mostly MSCI and Sustainalytics
- ❑ Only about **30% provide information** about the third-party ESG research providers used
- ❑ Merely **1 out of 3 products discloses the use of internal ratings**



# Findings – ESG strategies



## Confusion around terms

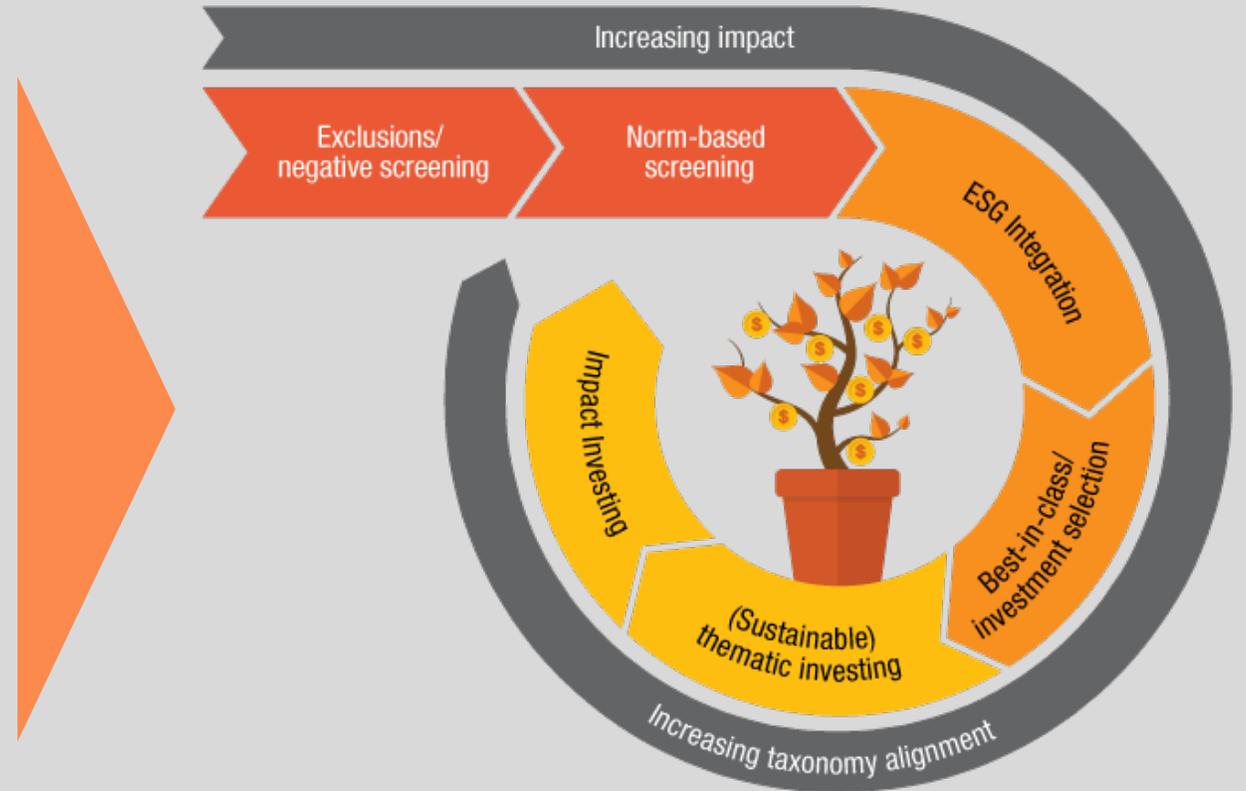
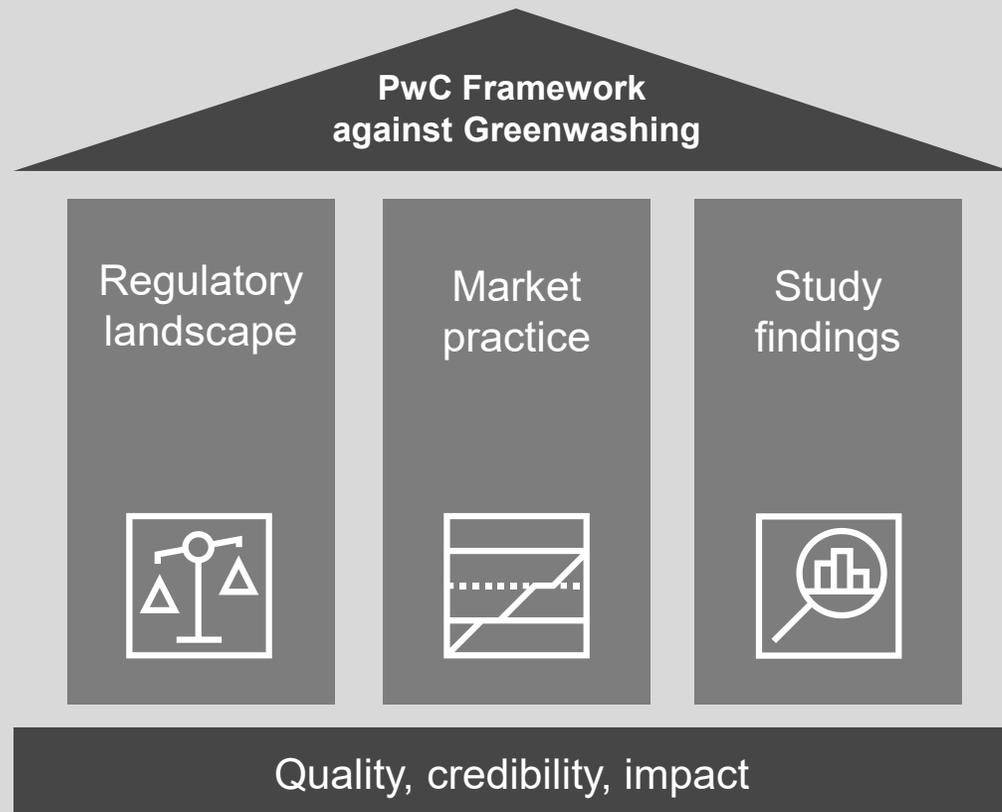
- ❑ General **inconsistencies** regarding the meaning of different **investment strategies** varying from bank to bank but also within the documentation of the same financial institution
- ❑ Strong confusion arises around the term “**ESG integration**” referring to:
  - ❑ **general consideration** of ESG aspects in the investment process
  - ❑ **separate investment strategy** based on bottom-up research
  - ❑ own **product categories** (“ESG integrated”)

## Questionable impact

- ❑ Investment strategies often combine **different approaches** but are not necessarily suited to **generate true impact** as crucial elements are missing
- ❑ Many products merely aim at having a better sustainability performance than their oftentimes **not-ESG related benchmarks**
- ❑ The vast majority of products does not provide **specific or only very low thresholds for best-in-class approaches** to eliminate only the worst companies per sector from the investment universe
- ❑ ESG research / criteria are often applied to **significantly less than 100%** of the portfolio

# Our framework against greenwashing

Building on our **unique three-pillar framework against greenwashing** we screen and green your product portfolio in order to achieve regulatory alignment and impact



# Here for you today



Dr. Antonios  
Koumbarakis

Sustainability & Strategic  
Regulatory Leader

PwC Switzerland

[antonios.koumbarakis@pwc.ch](mailto:antonios.koumbarakis@pwc.ch)



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