APPENDIX I

ESMA's Final Report on the 2023 - 2024 CSA on the Integration of Sustainability Risks and Disclosures

(the "**Sustainability Report**")

On **30 June 2025**, ESMA published the Sustainability Report following its CSA to assess the compliance of supervised entities, including FMCs, with a number of elements of the SFDR framework.

The CSA specifically sought to assess whether FMCs: (i) comply with the organisational requirements set out in the UCITS Directive with regard to the integration of sustainability risk; (ii) comply with the disclosure requirements at both entity and product level as set out in SFDR; and (iii) adhere to the principles of ESMA's 2022 supervisory briefing on sustainability risks and disclosures in the area of investment management, a copy of which can be found here.

The Sustainability Report identifies the following as the "*main issues and vulnerabilities*" detected during the CSA:

1. **Disclosures** – ESMA, though the national competent authorities that carried out the CSA on its behalf, found that disclosures use vague and overly general language, are missing, or contain inadequate detail, in particular highlighting that the environmental and/or social characteristics promoted by Article 8 funds were not clearly disclosed. ESMA also observed inconsistencies between pre-contractual, periodic reporting, and website disclosures.

2. **PAI Statements** – ESMA found that entity level PAI statements contained an inadequate level of detail and unsatisfactory explanation of non-consideration of PAIs.

3. **Integration of Sustainability Risk** – ESMA found that there was a lack of properly documented policies in relation to the integration of sustainability risk, and a lack of escalation procedures for breaches of such policies.

4. **Resources** – ESMA identified cases of a low number of dedicated employees for sustainability tasks, and unsatisfactory knowledge of sustainability matters from the relevant employees.

5. **Remuneration Policies** – ESMA found that remuneration policies lacked specific criteria and indicators to measure how remuneration policies are consistent with the integration of sustainability risk.

6. **Controls and Processes** – ESMA found that there was a lack of processes to ensure that the description of funds' ESG strategies is substantiated by the ESG metrics/data used or consistent with environmental and/or social characteristics and good governance principles.

7. **ESG Data** – ESMA identified a lack of verification or review process of data from third parties, data sometimes incomplete or inaccurate, information obtained by an ESG-provider without further checks.

8. **Audit** – ESMA identified a lack of audit of the implementation of internal policies.

The Sustainability Report goes on to detail particular examples of issues and vulnerabilities under each of the eight headings referred to above, and to provide examples of good practice in certain areas.

For more on the Sustainability Report, please see our previous update.

ESMA's Final Report on Greenwashing

(the "**Greenwashing Report**")

On **4 June 2024**, ESMA published the Greenwashing Report following a request from the European Commission for input on "*greenwashing risks and the supervision of sustainable finance policies*".

The Greenwashing Report investigates the role of supervision in mitigating greenwashing risks and provides a view of how supervision could be enhanced, and details several key findings:

1. National competent authorities ("**NCAs**") are taking steps to prioritise the supervision of sustainability-related claims by scrutinising documentation and exercising professional judgment;

2. NCAs are implementing a risk-based approach to supervision;

3. Greenwashing can be captured by existing EU rules prohibiting misleading information, as well as via specific sustainability-related requirements that have been introduced in recent years;

4. NCAs have detected only a limited number of actual or potential occurrences of greenwashing, such that formal enforcement decisions are limited;

5. NCAs and ESMA have started building sustainability-related capacities and expertise;

6. Effective supervision requires access to relevant, high quality and comparable which is unanimously identified as a challenge

In addition to setting out recommendations to NCAs, the Greenwashing Report sets out recommendations for market participants, including but not limited to FMCs, to ensure that sustainability claims are substantiated and that sustainability information is communicated in a manner that is fair, clear, and not misleading. These recommendations are as follows:

Topic	**REMEDIATION ACTIONS TO MITIGATE GREENWASHING RISKS**
General	• **Substantiate sustainability-related claims** and communicate sustainability information in a manner that is fair, clear, and not misleading. • Consider **high-risk areas** identified by the Progress Report.
Upgrading firms' governance, processes, skills, IT systems	• Invest in **building capacities and expertise, IT systems** fit for managing the new flow of sustainability information. • Implement **monitoring processes** and report regularly on progress, where relevant. • Further integrate **ESG risks into risk management systems and controls**. • Adapt **governance structures and processes** to mitigate greenwashing risks (e.g., committees and guidance). • Fulfil **due diligence responsibilities on ESG data** with the same level of ambition and care as for financial information.

Establishing reliable, comprehensive sustainability data	• Where relevant, increase the recourse to **external verification**. • Enhance transparency regarding **ESG data methodologies, the use of estimates**.
Supporting comprehensibility for retail investors	• **Contribute to addressing financial and sustainability literacy gaps among retail investors** (e.g., through providing **contextual disclosures**). • Exercise caution with the use of aspirational **language in advertising**.

For more on the Greenwashing Report, please see our previous update.