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ESMA GUIDELINES FOR FUNDS MARKETING WITH ESG AND SUSTAINABILITY RELATED TERMS

The transition period for existing funds to comply with the European Securities and Markets Authority ("**ESMA**") guidelines on funds' names using environmental, social and governance ("**ESG**") or sustainability-related terms (the "**Guidelines**") ends on 21 May 2025. This is relevant to EU fund managers and managers who market their funds in the EU. The purpose of the Guidelines is to enhance investor protection in the EU by addressing greenwashing risk stemming from ESG or sustainability related terms being used inappropriately in investment fund names.

Subject to any amendments made by National Competent Authorities, the Guidelines will apply from 21 May 2025 to existing funds (the Guidelines have been in force since 21 November 2024 for new funds).

The specific requirements for compliance correlate to three distinct categories of funds, based on the type of ESG or sustainability related terms used in their name, as set out in the table below.

It is expected that local regulators in EU Member States will apply the Guidelines to both EU-domiciled alternative investment fund managers and non-EU domiciled alternative investment fund managers which market funds in their jurisdiction. Fund managers that do not comply may be subject to regulatory investigation in the relevant EU Member States. As a result of this, over 300 ESG funds have already been renamed during the first quarter of 2025.

Key Requirements

Name Categories	Examples of relevant terms*	Must meet	Must Exclude
"Transition, social and governance related terms ("**Category 1**")	▪ Transition: any term derived from the word "transition" and those from: "improve", "progress", "evolution", "transformation", "net-zero" ▪ Social: any terms related to words that give the impression of the promotion of social characteristics, e.g., "social", "equality" ▪ Governance: any terms giving the investor any impression of a focus on governance, e.g., "governance", "controversies"	80% threshold linked to the proportion of investments used to meet environmental or social characteristic or sustainable investment objectives in accordance with the binding elements of the investment strategy.	Investments in: ▪ companies involved in any activities related to controversial weapons; ▪ companies involved in the cultivation and production of tobacco; and ▪ companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

*Note that the Guidelines have not provided further detail on what is understood as gaseous fuels and whether this would include biogas.

Name Categories	Examples of relevant terms*	Must meet	Must Exclude
Environmental or impact related terms ("**Category 2**")	▪ Environmental: any terms giving the investor any impression of the promotion of environmental characteristics, e.g. "green", "climate" ▪ Impact: any terms derived from the base word "impact", e.g. "impacting"	As per category 1 above.	Exclusions as per Category 1, plus: ▪ companies deriving 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; ▪ companies deriving 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels; ▪ companies deriving 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels*; and ▪ companies deriving 50% or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.
Sustainability-related terms ("**Category 3**")	Any term derived from the base word "sustainable", e.g. "Sustainability".	▪ As per category 1 above, plus ▪ Commit to investing meaningfully in 'sustainable investments' (at least 50% of investments) referred to in Article 2(17) of SFDR.	As per Category 2 above.

* There is no specific list of all the words which trigger compliance with the Guidelines, and competent authorities havealready noted that the list of the Guidelines should not be exhaustive.

NATIONAL COMPLIANCE

All but one EU National Competent Authorities have declared that they intended to comply with the Guidelines since the Guidelines were published. Only Czech Republic regulator has noted that it is not intending to comply, having asserted that the existing legal order lacks sufficient legal basis to require fund managers to meet Guideline thresholds.

ESMA has confirmed that on and from 21 May 2025, national regulators will be non-compliant until they publish their "comply or explain" Statements. Bulgaria and Hungary, whilst preparing to implement the Guidelines, are expected to miss this deadline.

NEXT STEPS FOR FUND MANAGERS

- New and existing funds should ensure that if an ESG or sustainability related term is to be used in the fund name, the investment strategy requirements of the Guidelines are complied with.
- Fund managers should be aware that while National Competent Authorities may not have implemented the Guidelines, there is scope for different application in different jurisdictions. There may be a discrepancy in application depending on where the fund is being marketed.

RELATED DEVELOPMENTS

- As part of the UK Sustainability Disclosure Requirements (the "**UK SDR**"), the FCA introduced a number of restrictions around the naming and marketing of unlabelled UK products from 31 July 2025 (those which don't fall within one of the four voluntary product labels) which are promoted to retail investors by UK managers and use sustainability-related terms. These restrictions entered into force in December 2024. Please see our separate briefing: ESG Alert - UK SDR v EU SFDR for further information.

For More Information

For further information, including how Weil can support with next steps and compliance and / or to be notified of future Weil ESG publications, please contact any of the authors below.

MARC SCHUBERT

+44 20 7903 1128
marc.schubert@weil.com

AMY WADDINGTON

+44 20 7903 1469
amy.waddington@weil.com

BRYONY PEARSON

+44 20 7903 1683
bryony.pearson@weil.com

KATE BYSTRYK

+44 20 7903 1171
katarzyna.bystryk@weil.com

Sustainability & ESG Contacts

M&A, PE AND CORPORATE:

MURRAY COX
murray.cox@weil.com

SIMON LYELL
simon.lyell@weil.com

BRENDAN MOYLAN
brendan.moylan@weil.com

AMY WADDINGTON
amy.waddington@weil.com

SUSTAINABILITY AND IMPACT FUNDRAISINGS (INCL. ENERGY TRANSITION):

JAMES BROMLEY
james.bromley@weil.com

JAMES SARGENT
james.sargent@weil.com

JACQUELYN VOLPE
jacquelyn.volpe@weil.com

SOPHIE SMITH
sophie.smith@weil.com

MARC SCHUBERT
marc.schubert@weil.com

HANNAH LAURIE
hannah.laurie@weil.com

SUSTAINABILITY LINKED / GREEN FINANCE:

ALEX EAGLE
alex.eagle@weil.com

ANDREW HAGAN
andrew.hagan@weil.com

ALASTAIR MCVEIGH
alastair.mcveigh@weil.com

SIMON CARIDIA
simon.caridia@weil.com

JACKY KELLY
jacky.kelly@weil.com

STEVEN ONG
steven.ong@weil.com

MICHAEL MCDONALD
michael.mcdonald@weil.com

DISPUTES AND ANTITRUST:

JENINE HULSMANN
jenine.hulsmann@weil.com

CHRIS MARKS
christopher.marks@weil.com

HAYLEY LUND
hayley.lund@weil.com

NAFEES SAEED
nafees.saeed@weil.com

CHRIS CHAPMAN
chris.chapman@weil.com

SARAH CHAPLIN
sarah.chaplin@weil.com

OTHER SUBJECT MATTER EXPERTISE:

BARRY FISHLEY
Intellectual Property
barry.fishley@weil.com

JENNY DOAK
Tax
jenny.doak@weil.com

KEVIN DONEGAN
Tax
kevin.donegan@weil.com

LAURA MURRAY
Real estate & Environmental
laura.murray@weil.com

THOMAS WEATHERHILL
Employment
thomas.weatherhill@weil.com

GLOBAL KEY CONTACTS:

ANNEMARGARET CONNOLLY
annemargaret.connolly@weil.com

LYUBA GOLTSER
lyuba.goltser@weil.com

REBECCA GRAPSAS
rebecca.grapsas@weil.com

ROBERT STERN
robert.stern@weil.com

MATTHEW MORTON
matthew.morton@weil.com

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