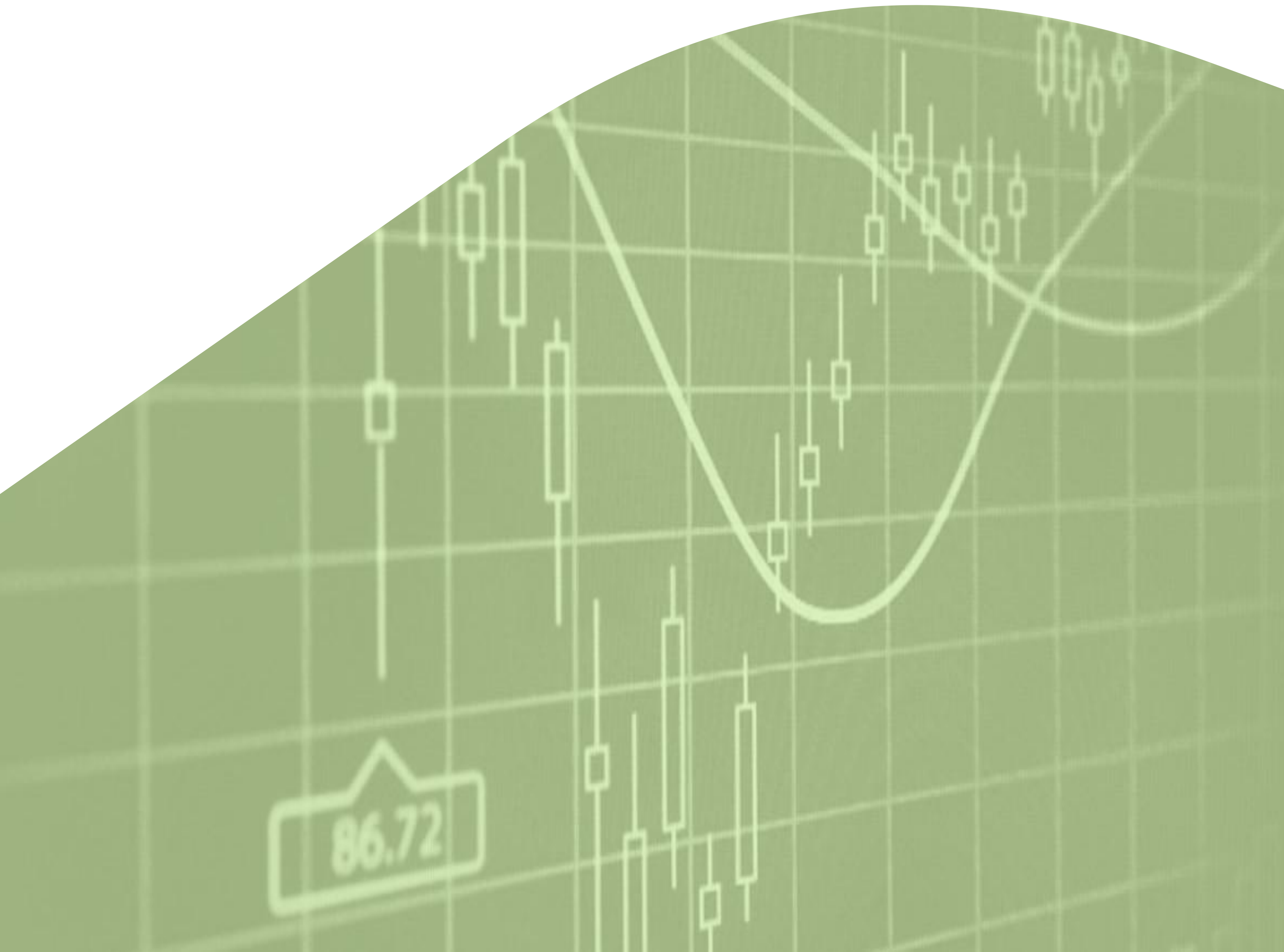
17 December 2025
ESMA50-801628861-4423

ESMA TRV Risk Analysis

Sustainable Finance

Impact of ESMA Guidelines on the use of ESG or sustainability-related terms in fund names



ESMA Report on Trends, Risks and Vulnerabilities Risk Analysis

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Sustainable Finance

Impact of ESMA Guidelines on the use of ESG or sustainability-related terms in fund names

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Summary

In recent years an increasing share of EU investment funds started using ESG terms in their names. Fund names play a crucial signalling role for investors but, in the absence of rules or criteria, possible misalignment between names and portfolios also raise greenwashing concerns. To address these risks, ESMA published in May 2024 a set of Guidelines introducing criteria for funds using ESG or sustainability-related terms in their name.

This article examines the impact of the ESMA Guidelines on the EU fund market. Based on nearly 1,000 shareholder notifications from the 25 largest EU managers with assets under management of EUR 7.5 trillion, we observe that two thirds of the funds reacting to the guidelines changed their name and more than half updated their investment policy – mainly by introducing fossil-fuel related exclusions. The majority of name changes involved removing all ESG terms, with half of these funds adopting alternative terminology in their name.

We then focus specifically on the impact of the Paris-Aligned Benchmark criteria excluding companies involved in fossil-fuel related activities. Our portfolio analysis of 4,000 EU funds using ESG terms in their names with EUR 2 trillion in assets under management shows that funds with higher fossil fuel exposures were more likely to remove ESG terminology, highlighting the role of portfolio composition in compliance choices. The effects are particularly pronounced for fund managers headquartered in the US, suggesting that regional factors also affected the decision to rename or not. Meanwhile, since the publication of the guidelines, funds retaining ESG terms in their names have reduced their portfolio share of fossil-fuel holdings more than all other funds, suggesting efforts to green their portfolios.

These results indicate that the ESMA Guidelines have driven convergence in the use of ESG terms by improving the alignment of fund names with their respective investment strategies. The Guidelines have also enhanced investor protection by reducing greenwashing risks: funds with less ambitious ESG strategies have removed ESG terms from their names, and funds retaining ESG terminology appear to be greening their portfolio relatively faster than other funds.

[1] This article was written by Maximilian Ludwig, Julien Mazzacurati and Federico Piazza, with comments and suggestions kindly provided by Patrik Karlsson and Adrien Amzallag.

Introduction

The market for ESG and sustainability funds has expanded rapidly over the past decade, accompanied by a notable increase in the use of ESG-related terms in fund names. A fund's name is often the first piece of information available to investors and can serve as a key signal of the fund's investment strategy and objectives. However, in the absence of criteria on the use of ESG-related terminology, concerns have emerged that fund names may not always reflect underlying investments, creating potential risks of greenwashing and undermining investor trust.

Previous ESMA analysis documented a sharp rise in the share of UCITS funds with ESG-related terms in their names, from 5 % in 2019 to 15 % by mid-2024 (Amzallag et al., 2025). The study also found that funds adopting ESG terminology attracted additional inflows in quarters following the name change relative to other funds. This highlights both the investor appetite for ESG-related funds and the incentives for managers to adopt such terminology.

Against this background, ESMA published on 14 May 2024 a set of Guidelines on funds' names using ESG- or sustainability-related terms, which aim to ensure that such names are neither unfair, unclear nor misleading. The deadline for funds to comply with the guidelines was 21 May 2025.

Market observers reported significant 'fund rebranding' activity ahead of the compliance deadline (Morningstar, 2025a), highlighting the decision by many funds to remove ESG terminology rather than adopting the portfolio criteria from the ESMA Guidelines. Therefore, this article aims to perform a comprehensive assessment how fund managers reacted to the ESMA Guidelines and to assess the policy outcomes. By examining publicly available shareholder notifications from the largest EU fund managers' websites, we observe differences in compliance choices, including changes to fund names and to investment policies. The article then turns to the impact of the ESMA Guidelines on the portfolio of funds using ESG-related terms in their names, focusing specifically on the exclusion provisions for fossil fuel-related activities.

In doing so, the article supports ESMA's wider risk assessment work, provides evidence on the effectiveness of a key EU regulatory policy tool, and contributes to strengthening the credibility of sustainable finance in EU markets.

Policy background

ESMA released its final report on *Guidelines on funds' names using ESG or sustainability-related terms* (hereafter 'ESMA Guidelines')[2] on 14 May 2024 to specify the circumstances where the fund names using ESG- or sustainability-related terms are unfair, unclear or misleading. The ESMA Guidelines set criteria for funds using ESG- or sustainability-related terms ('ESG terms' henceforth) in their name.[3] They distinguish between different types of ESG terms, creating an implicit hierarchy between those terms reflecting the more or less strict criteria with respect to investment thresholds and exclusions (see Table 1 below).

Common to all three groups of terms is the minimum 80 % threshold. This threshold is linked to the proportion of investments used to meet environmental or social characteristics or the sustainable investment objective (in line with the binding elements of the investment strategy). Additionally, funds using sustainability-related terms are expected to invest at least 50% in sustainable investments[4].

Aside from investment thresholds, different guidance for investment exclusions from the EU Benchmarks Regulation apply across the groups of terms:[5]

— Climate Transition Benchmarks (CTB): Exclusion of companies involved in any activities related to controversial weapons, tobacco, or in violation of the UN Global

[2] ESMA Guidelines establish harmonised criteria for the use of ESG and sustainability terms in fund names

[3] Under Article 16(3) of the ESMA Regulation (Regulation (EU) 1095/2010) national competent authorities and financial market participants shall make every effort to comply with guidelines.

[4] Clarification on the practical application of the guidance to 'meaningfully invest' in sustainable investments was provided in the December 2024 Q&As on the application of the Guidelines on funds' names

[5] See Article 12(1)(a) to (g) of Commission Delegated Regulation (EU) 2020/1818.

Compact principles or the OECD Guidelines for Multinational Enterprises.[6]

— Paris-Aligned Benchmarks (PAB): Exclusion of companies that fall under the CTB exclusions above, as well as companies that derive specific revenues from fossil fuels.[7]

Table 1
ESMA Guidelines groups and criteria
Implicit hierarchy of ESG terms

	Criteria
No ESG term	None
Transition-, social-, or governance-related terms	- Minimum 80% of investments used to meet 'E' or 'S' characteristics or sustainable investment objective - CTB exclusions: exclusion of controversial weapons, tobacco and companies violating social safeguards - For 'transition' terms: clear and measurable path to transition
Environmental- or impact-related terms	- 80% of investments (as above) - PAB exclusions: CTB exclusions and exclusions of some fossil fuel activities - For 'impact': positive and measurable impact
Sustainability-related terms	- 80% of investments and PAB exclusions (as above) - Minimum 50% in sustainable investments

Note: 'CTB exclusions' refer to exclusions applying to the EU Climate Transition Benchmarks, 'PAB exclusions' refer exclusions applying to the EU Paris-Aligned Benchmarks.
Source: ESMA.

Both CTB and PAB exclusions set out criteria based on which companies should be excluded. However, they do not explicitly identify companies that meet or do not meet the criteria. Fund managers thus compile their own lists of companies to be excluded from their portfolios or rely on third parties to do so; the companies excluded may therefore differ based on the source or methodology employed.[8] To identify relevant companies, fund managers rely on internal research, ESG controversies, reports from Non-Governmental Organisations, or commercial data providers.

Funds using social- or governance-related terms are expected to apply CTB exclusions, while funds using environmental-, impact-, or sustainability-related terms are expected to apply the PAB exclusions.

Fund managers' communication in reaction to ESMA guidelines

As of May 2024, there were around 4,900 EU funds using ESG terms in their names (based on Morningstar data).

Fund managers finding themselves not in compliance with the ESMA Guidelines faced two main options with respect to their public communication (Chart 1, next page): (i) change the funds' name to avoid the new criteria, and/or (ii) notify investors about updates to the funds' investment policy to comply with the criteria.

On the one hand, changing a fund name might lead investors to divest from the fund. Additionally, the change in name could create reputational damage, as reflected in recent greenwashing accusations.[9] Meanwhile, updating the investment policy[10] may reduce the investable universe of assets and limit the funds manager's flexibility, potentially impacting portfolio returns and volatility.

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6 The Ten Principles | UN Global Compact and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct | OECD

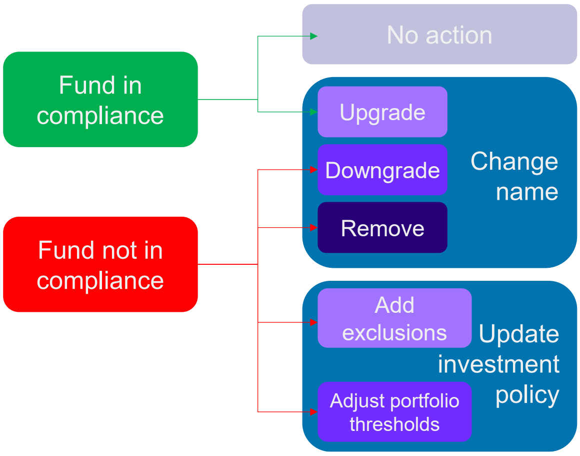
7 See Article 12(1)(d) to (g) of Commission Delegated Regulation (EU) 2020/1818; exclude companies that derive:
(d) 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
(e) 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
(f) 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
(g) 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.

8 In the context of PAB indices, such differences can lead to different tracking errors relative to the same the parent index. See for example Ossiam: Paris-Aligned Benchmarks Explained (March 2024).

9 See for example Finanzwende e.V., *Aus „sustainable" wird „screened": 674 Fonds umgehen Klimavorgaben durch gezielte Umbenennung*, 28 May 2025.

10 The investment policy is a binding pre-contractual document reviewed by the fund supervisor and used to regularly check for consistency with the fund's portfolio holdings.

Chart 1
Fund managers' communication on ESMA Guidelines
Non-compliant funds face two main options



Note: This diagramme provides a simplified illustration of fund managers' communication (through shareholder notifications) in reaction to the ESMA Guidelines. To comply with the provisions, a fund not in compliance may change its name, update its investment policy, or both. 'Upgrade' denotes funds changing name to a group of ESG terms in the Guidelines with more stringent criteria attached, 'Downgrade' denotes changing to a group of ESG terms with less stringent criteria and 'Remove' denotes removing any ESG terms.
Source: ESMA.

Yet, some managers may already have applied exclusion criteria without making an explicit reference to the CTB and/or PAB exclusions in their investment policy – implying no or limited impact of the Guidelines on their portfolio. Meanwhile, managers retaining ESG terms in fund names may also benefit from a smaller universe of ESG-branded funds, as other managers choose to remove ESG terms.

To gain a more detailed understanding of fund managers' reaction to the ESMA Guidelines, we manually collected a sample of shareholder notifications from the largest 25 EU fund managers with combined assets worth EUR 7.5 trillion. Fund managers must notify shareholders of any material changes to the prospectus by issuing notifications. Our sample covers notifications published on fund managers' websites between the publication of the ESMA Guidelines on 14 May 2024 and the end of the application deadline for existing funds on 21 May 2025. Our dataset only includes notifications with an explicit reference to the ESMA Guidelines and relevant to its key criteria. The sample collected from the shareholder notifications covers 924 EU funds. These funds have a combined EUR 840 bn in assets under management. More than half of the funds in the sample are equity funds, another quarter are fixed income funds, and the remaining ones are mixed funds.

Within our sample, 600 funds changed their name (64 % of funds mentioned in the shareholder notifications), while 530 funds updated their investment policy (56 % of the sample).[11] This confirms that changing names was only one of the options available to fund managers to comply with the ESMA Guidelines. Even among the funds changing name, one third also decided to update their investment policy.

Focus on name changes

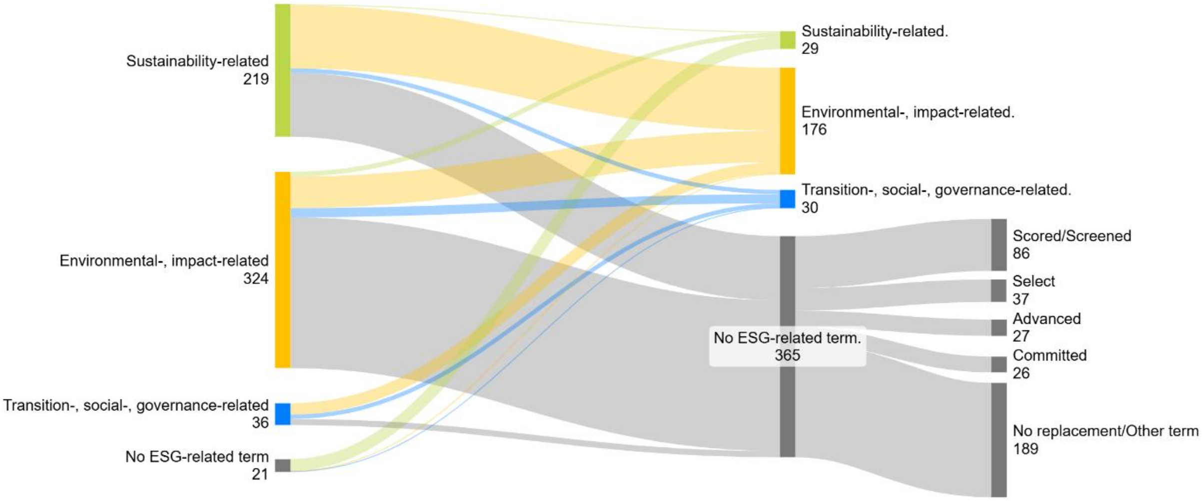
The most frequently observed name changes were ESG term removals or 'downgrades' and largely concerned funds using environmental or sustainability-related terms (Chart 2 below). 61 % of the funds changing name removed all ESG terms and an additional 21% of funds moved to using an ESG term with less stringent criteria attached (e.g. from 'Sustainable' to 'ESG'). Two thirds of the funds using 'sustainability'-related terms changed their name, either by dropping the term altogether or by replacing 'sustainable' with 'ESG'. However, the majority of funds removing all ESG terms previously used environmental terms, including 'ESG' itself.

The observed behaviour differed between actively managed and index-tracking funds. Among actively managed funds, a relatively higher share of funds only 'downgraded' their name to a group of terms with less stringent criteria, instead of removing ESG terms. Meanwhile, a large majority of index-tracking funds dropped ESG terms altogether, often reflecting the change in the name of the tracked benchmark index. This also led to the emergence of a new terminology for fund names: almost half of the funds removing all ESG- terms replaced them with the following words: *Scored*, *Screened*, *Select*, *Advanced*, or *Committed*.

The emergence of alternative terminology could be problematic for supervisors if these terms are intended to signal ESG-related features (e.g. through positive screening using ESG ratings). ESMA will monitor evolving sustainability-related terminology in fund names.

[11] According to Morningstar (2025b), an estimated 1,450 funds have been renamed since January 2024, which represents 30 % of funds in scope of the ESMA Guidelines.

Chart 2
Focus on fund name changes
Move away from environmental- and sustainability-related terms, emergence of new terms



Note: Nodes to the left split funds by ESMA Guidelines group of terms before name change, nodes to the right split funds by ESMA Guidelines group of terms after name change. Flows are coloured according to ESMA Guidelines group of terms of the new fund name. 'No replacement/Other term' mostly includes ESG term removals with no replacement.
Sources: Shareholder notifications, ESMA.

Focus on investment policy updates

Regarding their investment policy, fund managers mainly added an explicit reference to exclusions in response to the ESMA Guidelines, which applies to 475 funds. Most investment policy changes were made by funds using sustainability- or environmental-related terms, thus expected to comply with the PAB exclusions. This supports the view that fund managers reacted to the Guidelines in more than one way, including in many cases by strengthening their pre-investment criteria.

Minimum investment thresholds were also updated for 179 funds, most frequently to include an explicit reference to the 80 % guidance for investments to pursue 'E' or 'S' characteristics or sustainable investment objectives. In a few cases the 50 % sustainable investment provision for funds using sustainability-terms was also mentioned. Additional investment policy changes concerned screening methodologies for identifying and ranking sustainable investments, as well as the calculation of their share within the funds' total investments.

Lastly, most of the observed updates to funds' investment policies were made by actively managed funds. This is consistent with the above-mentioned finding that actively managed funds more frequently opted for 'downgrades' to an ESG term with less stringent criteria, while index-tracking funds more frequently removed all ESG terms.

Determinants of fund managers' decisions

With a view to gaining a better understanding of fund managers' reaction to this specific policy intervention, this section explores some of the possible drivers behind a fund's decision to change name or update investment policy. Our main hypothesis is that the higher the compliance gap (i.e. the larger the share of non-compliant investments within the fund portfolio) prior to the application of the ESMA Guidelines, the more likely it is that the fund manager will choose to change the fund name, as opposed to adjusting the investment policy.

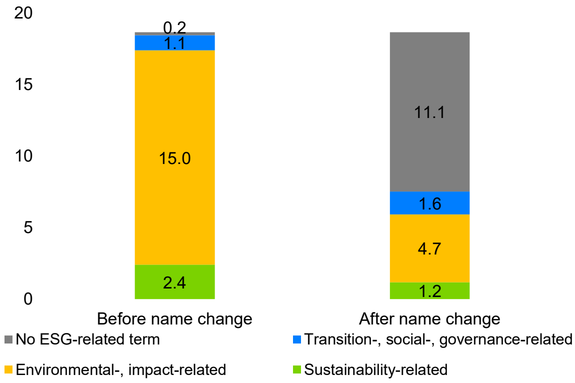
Our analysis focuses specifically on the provisions related to the fossil fuel-related PAB exclusions. Indeed, the PAB exclusions were one the main provisions against which the investment management industry tried to push back, while Non-Governmental Organisations made repeated greenwashing allegations against the fund industry because of their fossil fuel investments.[12] An analysis of French fund portfolio investments in fossil fuel industries also concluded that the existing disclosure-based rules could result in a divergence between the expectations expressed by investors and actual practices (Darpeix and Demartini, 2023).

We thus use funds' portfolio exposure to companies involved in fossil fuel activities breaching the PAB revenue thresholds as a proxy for the compliance gap. We identify relevant companies involved in fossil fuel activities based on Urgewald's Global Oil & Gas and Coal Exit Lists.[13] Both lists include an assessment on breaches of the specific PAB thresholds at company-level, based on which we derive a list of excluded firms. The coverage of instruments issued by relevant companies is then enriched with data on bond issued by the same entities, from which we exclude green bonds.[14]

For this part of the analysis, we extend the sample to include all EU UCITS funds using ESG terms in their names, based on Morningstar data. We obtain a portfolio snapshot for 4,017 funds managing assets worth EUR 1,995bn as of 2Q25, representing more than 80 % of the funds using ESG terms in May 2024 and around 13 % of all EU UCITS funds (15 % of total AuM). As Chart 3 shows below, the name changes induced by the ESMA guidelines led to enhanced alignment between fund names and portfolio composition. Funds with a higher compliance gap have either replaced the 'sustainability'- or 'environmental'-related term in their name with another ESG term not subject to PAB exclusions or removed all ESG terms from their name.

Therefore, through fund name changes only, the fossil fuel exposure of funds using sustainability- or environmental-related terms decreased from EUR 17.4 bn to EUR 5.9 bn (Chart 3). As the next section shows, funds retaining ESG terms in their names are gradually divesting from their remaining portfolio exposure to companies involved in fossil fuel activities.

Chart 3
Fossil fuel exposures of funds using ESG terms
More exposed funds removed ESG terms



Notes: Aggregate value of financial instruments issued by companies involved in fossil fuel activities breaching PAB revenue thresholds and held by funds in the sample, in EUR bn. The sample consists of 4,017 funds with portfolio data available that use ESG terms either before or after changing their name.
Sources: Morningstar, Urgewald, ESMA.

We also examine whether the manager's decision to change fund names is influenced by external factors by modelling the probability of a name change using a logistic regression (see Annex for more details)[15] We first assess whether a fund's fossil-fuel exposure affects its propensity to change name and find that funds with non-zero exposure to fossil fuel are about 60% more likely to change name compared to funds with no such exposure, holding other variables constant.

We then consider whether other factors further shape fund managers' decision. In particular, the growing anti-ESG sentiment and policies in the US has made it challenging for ESG fund managers headquartered there to operate funds in different jurisdictions. Broader changes in group strategy and policies in reaction to this challenging environment appear likely to

[12] See New NGO research uncovers massive greenwashing in European ESG funds, urgewald e.V.

[13] See Global Coal Exit List 2025 and Global Oil and Gas Exit List 2025.

[14] Based on data from Global Legal Entity Identifier Foundation. The approach for green bonds is in line with the December 2024 Q&As on the application of the Guidelines on funds' names

[15] The probability that a fund changes its name is estimated using a logistic regression model of the form:

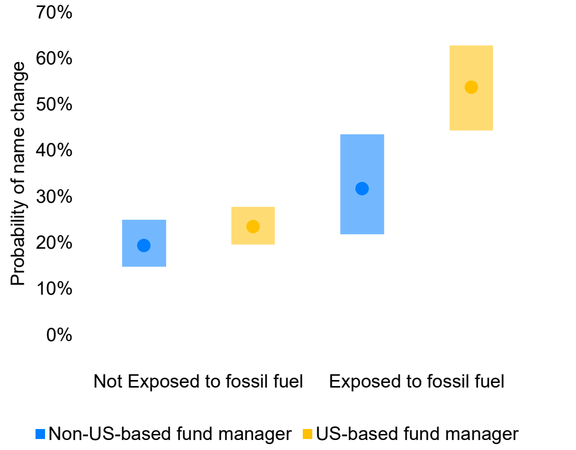
$$\Pr(\text{name\_change}_i = 1) = \frac{\exp(\beta_0 + \beta_1 \text{FossilFuelExposure}_i + \boldsymbol{X_i \gamma})}{1 + \exp(\beta_0 + \beta_1 \text{FossilFuelExposure}_i + \boldsymbol{X_i \gamma})}$$

where name_change_i is a binary variable equal to 1 if fund I changed its name, $\text{FossilFuelExposure}_i$ is either a binary indicator (1 if any holdings in Urgewald-listed fossil fuel companies with PAB assessment pointing to exclusion) or the continuous share of portfolio holdings in such companies, and $X_i\gamma\gamma$ is a vector of control variables. The models include controls for fund size (logarithm of assets), fund age, past returns (latest year-on-year return), and categorical dummies for index fund status, fund investment category, fund management company and country of domicile. See Annex for more details.

influence fund managers' reaction to the ESMA Guidelines. [16] Consistent with this, we find that a fund with non-zero fossil fuel exposure run by a US-headquartered manager is on average about 65% more likely to rebrand than a comparable fund managed by an EU-headquartered manager.

In contrast, when portfolios have zero fossil fuel exposure and are therefore already compliant with the PAB requirements, US and EU headquartered managers behave similarly.

Chart 4
Predicted probability of name change
US-HQed funds more likely to change name

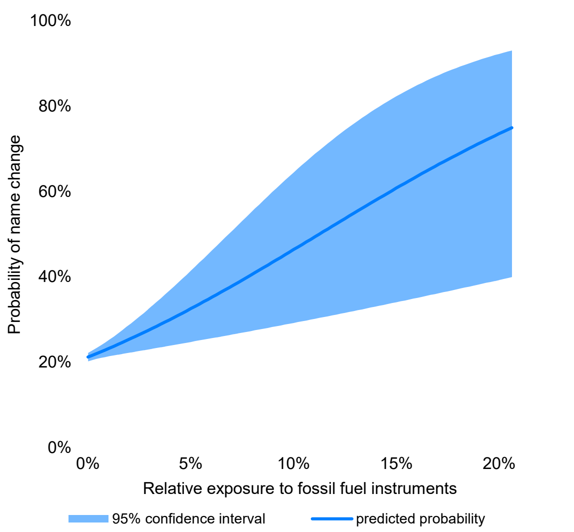


Notes: The figure illustrates the estimated relationship between fossil-fuel exposure and the probability that a fund changed its name ahead of the application deadline of the ESMA Guidelines, shown separately for US- and EU-headquartered managers. Predicted probabilities are derived from a logistic regression of name change on fossil-fuel exposure (binary indicator based on Urgewald lists), a US-manager indicator, their interaction, and fund-level controls (log fund size, index fund, fund age, flows, and year-over-year return), with fund category and country-of-domicile fixed effects. All other covariates are held at their sample means. Points show predicted probabilities and vertical bars show 95 % confidence intervals.
Sources: Morningstar, Urgewald, ESMA.

Chart 4 above illustrates these interaction effects by plotting the model-based predicted probabilities of a name change based on fossil fuel exposure (zero vs. non-zero) and manager headquarters (US vs. EU). The figure shows that regional differences are negligible when funds are already compliant but become clear when fossil fuel exposure exists. This confirms that US-headquartered managers appear more inclined to change their funds' name when their portfolio is not compliant, suggesting that US-specific factors may play a role in the decision to rebrand.

Finally, we move from the binary indicator to the continuous compliance-gap measure to capture the intensity of non-compliance. The results reveal a clear positive gradient: the larger the compliance gap, the higher the likelihood of a name change. Chart 5 illustrates this relationship: each additional percentage point of compliance gap raises the probability of a name change by around two percentage points. These results show that fund managers were more likely to rebrand their funds when faced with higher divestment needs to comply with the rules.

Chart 5
Predicted probability of name change
Exposure to fossil fuel drives name changes



Notes: The figure illustrates the estimated relationship between a fund's compliance gap (as measured by the portfolio share of financial instruments issued by companies involved in fossil fuel activities breaching PAB revenue thresholds) and the probability that the fund changed its name ahead of the ESMA Guidelines' application deadline. The predicted probabilities are derived from a logistic regression model. The x-axis represents the compliance gap of the fund. The y-axis shows the predicted probability that a fund changed its name, conditional on the other covariates held at their sample mean. The solid blue line depicts the predicted probability, while the shaded blue area indicates the 95 % confidence interval.
Sources: Morningstar, Urgewald, ESMA.

Portfolio divestments from fossil fuel exposures

We next investigate whether the decision to remove or retain ESG terms in a fund's name is followed by different portfolio adjustments in fossil-fuel holdings. Earlier research points to the

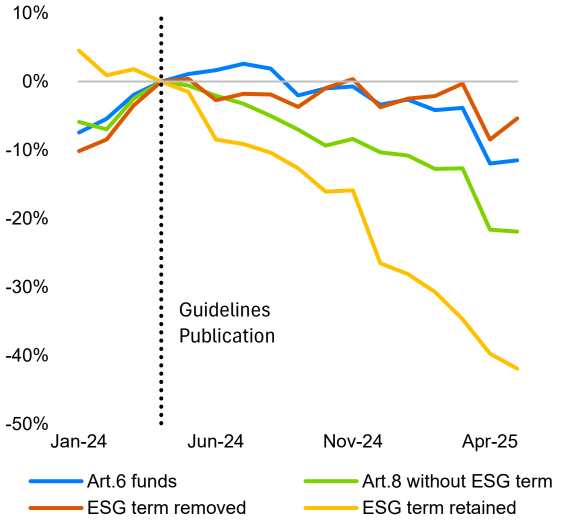
[16] Relative likelihoods are calculated as proportional changes in predicted probabilities derived from the fitted logistic regression model.

potential impact of the ESMA Guidelines on portfolio decarbonisation through a reduction in financed greenhouse gas emissions (Jacob et al., 2024). To assess the impact of the guidelines on portfolio decarbonisation, we broaden our sample beyond funds using ESG terms to include all Article 6 and Article 8 funds.[17] Specifically, we compare the cumulative change in fossil-fuel exposures since the publication of the ESMA Guidelines in May 2024 for funds that retained ESG terms and funds that removed ESG terms. We then benchmark these two groups against funds promoting environmental or social characteristics (Article 8 funds) not using ESG terms in their name, and funds without environmental or social characteristics or sustainability objectives (Article 6 funds).[18]

As shown in Chart 6, all funds have been gradually reducing their portfolio share of fossil-fuel holdings since the publication of the ESMA Guidelines. This divestment, however, varies markedly between funds changing or retaining ESG terms in their names. Funds that retained ESG terms divested the most, cutting their fossil fuel exposure by more than 40 % relative to their exposure before the publication of the guidelines in April 2024, corresponding to approximately EUR 5 bn (i.e. 1 % of their AuM). By contrast, funds that removed ESG terms only show a slight decline (around EUR 500 million, i.e. 0.2 % of their AuM), following a trajectory similar to Article 6 funds.

Overall, these results highlight that funds keeping ESG terms in their name have reduced their portfolio exposure to fossil fuel activities at a faster pace than other funds, including those that previously used ESG terms. However, the difference is driven to some extent by net investor outflows from funds retaining ESG words, while this decarbonisation trend appears to have started before the publication of the final Guidelines.[19]

Chart 6
Cumulative changes in fossil-fuel holdings
Funds retaining ESG terms divest faster



Notes: Cumulative monthly changes in fossil-fuel holdings breaching PAB revenue-thresholds for four groups of UCITS funds between January 2024 and May 2025. Changes are expressed as a percentage of each group's holdings the month prior to the ESMA Guidelines publication (April 2024). The sample includes: (i) Article 6 funds, (ii) Article 8 funds without ESG terms in their name, (iii) all funds that removed ESG terms from their names, and (iv) all funds that retained ESG terms in their names. The vertical line marks the publication month of the ESMA Guidelines (May 2024).
Sources: Morningstar, Urgewald, ESMA.

Conclusions

In recent years an increasing share of EU investment funds started using ESG- or sustainability-related terms in their names. Fund names play a crucial signalling role for investors but, in the absence of rules or criteria, possible misalignment between names and portfolios also raise greenwashing concerns. To address these risks, ESMA published in May 2024 a set of Guidelines introducing criteria for funds using ESG or sustainability-related terms in their name.

Based on nearly 1,000 shareholder notifications from the 25 largest EU managers with combined AuM of EUR 7.5 trillion, we observe that two thirds of the funds reacting to the guidelines changed their name and more than half updated their investment policy, mainly by introducing fossil-fuel related exclusions. The majority of

[17] Article 9 funds are not included separately in this comparison as they make extensive use of ESG terms in their names and are therefore already captured within the 'ESG term retained and 'ESG term removed' categories.

[18] For funds retaining ESG terms we only consider funds subject to PAB exclusions.

[19] A public consultation was launched in 2022 and followed by a public statement in December 2023. The timing and influence of valuation and investor flows will be the focus of future ESMA analysis on fund managers' investment allocations.

name changes involved removing all ESG terms, with half of these funds adopting alternative terminology in their name. Going forward, ESMA will continue to monitor trends with respect to the use of sustainability-related terminology in fund names.

Our portfolio analysis of 4,000 EU funds using ESG terms in their names with EUR 2 trillion in assets under management shows that funds with higher exposure to companies in breach of the PAB revenue thresholds were more likely to remove ESG terminology, highlighting the role of portfolio composition in compliance choices. The effects are particularly pronounced for fund managers headquartered in the US, suggesting that regional factors may also play a role in fund managers' decision to rename or not.

The analysis then shows that since the publication of the ESMA Guidelines, funds retaining ESG terms in their names have reduced their portfolio share of fossil fuel holdings more than other funds (in both relative and absolute terms). This suggests that the intended signal sent to the EU fund community was effective, with increased efforts among funds retaining ESG terms in their names to green their portfolios and improve alignment with the signal conveyed by their names. This particular point will be the focus of future ESMA research.

These findings highlight the positive policy outcomes of the ESMA Guidelines. The Guidelines have driven convergence in the use of ESG terminology, by prompting funds to better align their names with their respective investment strategy. At the same time, the Guidelines strengthen investor protection by pushing less ambitious funds to remove ESG terms from their names, while more committed funds have been greening their portfolio relatively faster than all other funds. In doing so, the ESMA Guidelines contribute to safeguarding investor trust and reinforcing the integrity of sustainable finance in the EU.

These results lastly highlight the importance of fund names and minimum exclusions in the design of future sustainability-related regulatory requirements for investment funds.

ESMA will continue to monitor the universe of funds using ESG terms and to track how the fund market evolves in response to the ESMA Guidelines and upcoming changes to sustainable finance legislation.

Related reading

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Busch, T., Scheitza, L. (2024), SFDR Article 9: Is it all about impact? Finance Research Letters, Volume 62, Part A, 2024.

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Morningstar (2025b), SFDR Article 8 and Article 9 Funds: Q3 2025 in Review, October 29, 2025.

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Urgewald (2025). *Global Coal Exit List (GCEL)*. Retrieved from https://www.coalexit.org/

Annex

Table A

Full regression results

	(1) Fund Name Change (Binary)	(2) Fund Name Change (Continuous)	(3) Fund Name Change (Binary)	(4) Fund Name Change (Binary)	(5) Fund Name Change (Continuous)
Fossil Fuel Exposure	0.8634*** (0.131)	0.235*** (0.033)	0.829*** (0.1328)	0.658*** (0.134)	0.2435*** (0.0445)
US-HQed manager			0.364*** (0.106)	0.242** (0.110)	0.379*** (0.102)
Fossil Fuel Exposure * US-HQed manager				0.6746*** (0.216)	
Control variables					
Fund Size (log)	0.086** (0.036)	0.109** (0.035)	0.121*** (0.034)	0.069*** (0.033)	0.136*** (0.033)
Index Fund	0.489** (0.269)	0.553** (0.273)	1.007*** (0.257)	0.8562*** (0.201)	1.16*** (0.218)
Fund Age	0.011 (0.008)	0.01 (0.008)	0.018* (0.010)	0.003 (0.01)	0.019* (0.011)
Return (YoY)	0.019** (0.007)	0.023*** (0.007)	0.016*** (0.002)	0.019*** (0.003)	0.025*** (0.003)
Fund type fixed effects	Y	Y	Y	Y	Y
Fund manager fixed effects	Y	Y	N	N	N
Fund domicile fixed effects	Y	Y	Y	Y	Y
N	3,448	3,448	3,448	3,448	3,448

Note: Estimated coefficients and standard errors from logistic regressions. The dependent variable in columns (1)-(5) is a binary indicator equal to 1 if a fund changed its name in response to the ESMA Guidelines. The key independent variable is a fund's exposure to fossil fuel assets, measured in two ways: (i) a binary indicator equal to 1 if the fund has any holdings in companies listed on Urgewald's Oil & Gas and Coal exit lists, and (ii) a continuous measure equal to the share of portfolio holdings invested in such companies. All models include controls for fund-level characteristics: log of fund size, annual return, fund age, and an indicator for index funds. In addition, models also include categorical dummies for fund type (e.g. equity fund, fixed income fund). Columns (1)-(2) additionally include fund manager fixed effects. Standard errors are clustered at the country and fund manager level in columns (1)-(2), and at the country level in columns (3)-(5). To avoid convergence issues, groups of terms with fewer than 10 observations in the no-change group or fewer than 5 in the change group were collapsed into a residual group of terms. Results are robust to (i) using alternative portfolio dates for fossil fuel exposure, (ii) excluding the largest fund manager from the sample, (iii) excluding funds in the "social" or "transition" groups of terms, (iv) excluding index funds, and (v) re-estimating the models using a linear probability model. Reported coefficients are log-odds; significance is denoted by *, **, and *** for the 10 %, 5 %, and 1 % levels, respectively.