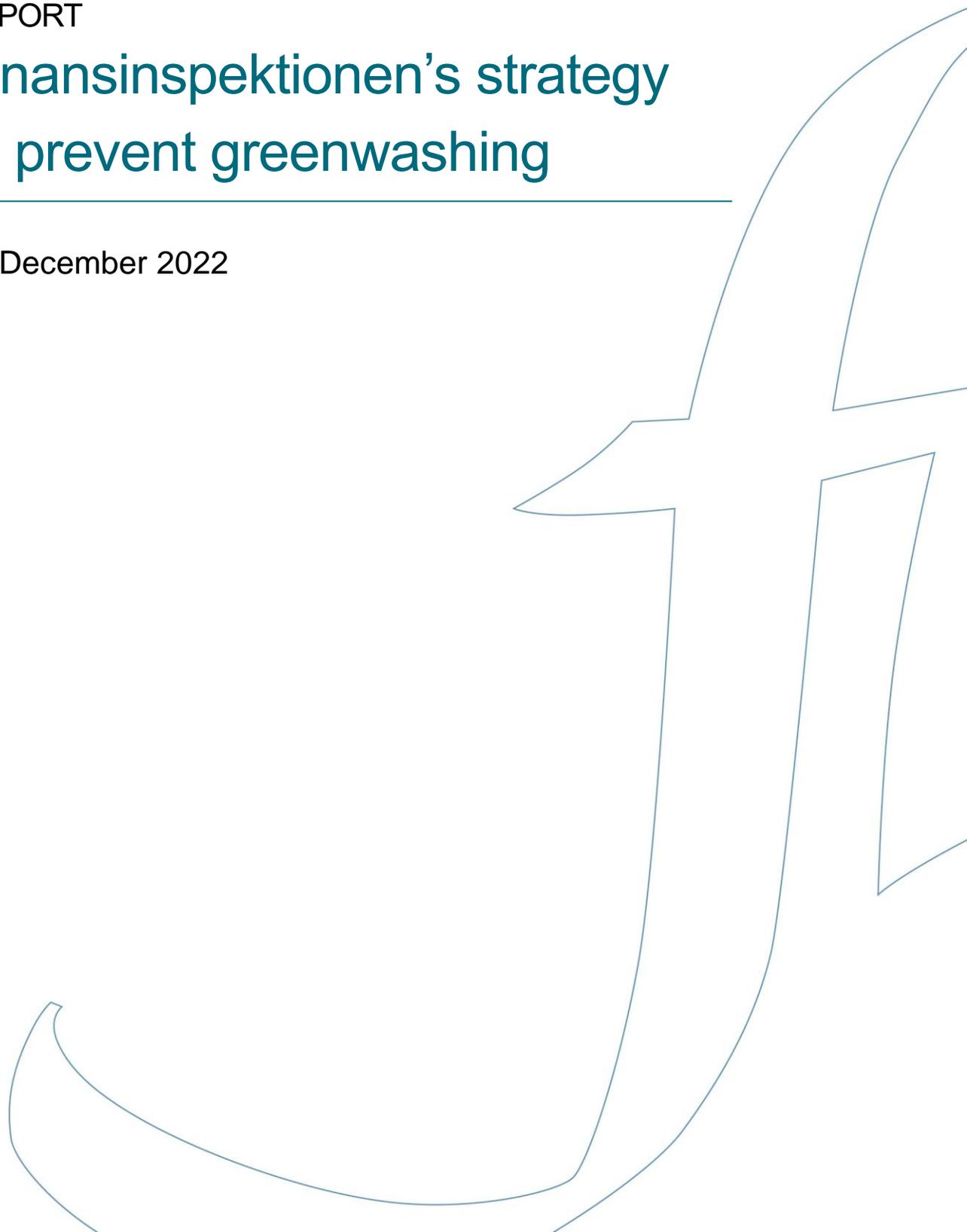




REPORT

Finansinspektionen's strategy to prevent greenwashing

13 December 2022



Content

Foreword.....	3
Summary	4
Introduction	5
Purpose of the strategy	5
Definition of greenwashing	5
FI's tools to prevent greenwashing	6
How does greenwashing occur?	6
Greenwashing undermines trust.....	7
Prioritised actions to prevent greenwashing	8

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Foreword

Finansinspektionen (FI), in its letter of appropriations for the financial year 2022, was tasked with preparing a strategy for how FI will use existing regulations to prevent greenwashing of financial products in its area of expertise. Our strategy for preventing greenwashing in the financial sector aims to safeguard the trust the public has in sustainable investments, and by extension, a sustainable finance market. Safeguarding a financial system that is characterised by a high level of confidence is part of our basic mandate, as is safeguarding a stable financial system that contributes to sustainable development and good consumer protection. We present our strategy for preventing greenwashing in this report.

Stockholm, 13 December 2022

Susanna Grufman

Acting Director General

Summary

The combination of rapidly increasing demand for sustainable financial products and the ongoing development of regulations for this market can lead to firms describing their operations and products as more sustainable than what they are in practice – so-called greenwashing.

Consumers and investors may be misled to invest in products that do not meet the investor's expectations and requirements from a sustainability perspective. In turn, this could undermine trust in sustainable financial products. In the long run, this could prevent capital from being channelled to investments that support the transition to a sustainable economy.

FI's strategy for preventing greenwashing in the financial sector aims to safeguard the trust in sustainable investments and sustainable finance. Safeguarding a financial system that is characterised by a high level of confidence is part of our fundamental mandate, as is safeguarding a stable financial system that contributes to sustainable development and good consumer protection.

In our work with a sustainable finance market, we have identified a number of prioritised areas. Preventing the risk of greenwashing in the financial sector is one of them. FI will prioritise the following areas in our work to prevent greenwashing:

- Implement new rules and maintain a dialogue and communication with the industry
- Improve access to sustainability-related information
- Improve transparency about ESG ratings and ESG data suppliers
- Improve disclosures regarding sustainable financial products
- Follow up on information provided in conjunction with financial advice
- Integrate sustainability factors into our authorisation process
- Build capacity in the area of sustainable finance
- Cooperate internationally in task groups on this topic.

FI will work to reduce the risk of greenwashing both through preventive measures and supervision activities. We will also prioritise the work on international collaborations on the prevention of greenwashing.

Finansinspektionen's strategy to prevent greenwashing

Introduction

The combination of rapidly increasing demand for sustainable financial products and the ongoing development of the regulations for this market can lead to both non-financial corporations and financial corporations describing their operations and products as more sustainable than what they are in practice – so-called greenwashing. This means, in turn, that consumers and investors may be misled and the trust they have in sustainable investments and sustainable finance may be harmed. Trust in sustainable investments is crucial for the financial sector to be able to contribute to a sustainable development.

Purpose of the strategy

FI's strategy for preventing greenwashing in the financial sector aims to safeguard trust in sustainable investments and, by extension, sustainable finance.

Safeguarding a financial system that is characterised by a high level of confidence is part of our fundamental mandate, as is safeguarding a stable financial system that contributes to sustainable development and good consumer protection.

FI has presented a roadmap for its work on sustainable finance¹, in which it has outlined a number of prioritised areas. Our work to prevent the risk of greenwashing in the financial sector is one of these areas. FI also received an assignment in its 2022 Letter of Appropriations to develop a strategy to prevent greenwashing; see below.

Government assignment on greenwashing

The authority must prepare a strategy for how it will use existing regulations to prevent greenwashing of financial products in its area of expertise. The aim of the strategy is to safeguard trust in sustainable investments. FI is to report the strategy to the Government Offices of Sweden (Ministry of Finance) no later than 15 December 2022.

Definition of greenwashing

In this strategy, FI uses the following definition of *greenwashing*.

¹ Roadmap for sustainable finance FI Ref. 22-32466

A practice whereby sustainability-related statements, declarations or communications regarding an entity or a financial product, instrument or service may be misleading to consumers, investors, or the public in that it does not reflect underlying sustainability characteristics.

This definition is relatively broad. The term does not only include an environmental aspect – as could be assumed from the term itself – but rather all sustainability factors, i.e., environmental, social and governance factors. This definition also includes greenwashing at both the product level (instruments and services) and the company level. Greenwashing at the company level, for example, could refer to misleading commitments made by the firm with regard to its products, operations or policies.

In summary, we are choosing to use a broad definition in this strategy since the term and its scope are still be defined, for example through the work within the European Commission's mandate to the European supervisory authorities², of which FI is an active participant.

FI's tools to prevent greenwashing

FI has a number of tools at its disposal as a supervisory authority: granting authorisations, conducting supervision, issuing rules and intervening. We can also use more informal or indirect tools, such as preparing guidelines for the industry, offering financial education, communicating about sustainability and cooperating internationally on sustainability.

Many of the new rules related to sustainable finance aim to prevent greenwashing. At this point, because the regulations are still new, dialogue and guidance are a priority, for example roundtable discussions with industry associations and groups of companies under FI's supervision. Another example is when FI asks questions to individual companies during its regular dialogue about, among other things, how the firm designs its pre-contractual information about sustainable financial products or how a bank's lending aligns with the commitments³ the bank has made. FI will also prioritise international cooperation with other supervisory authorities, in part to develop and specify the requirements in the new regulations.

How does greenwashing occur?

As we mentioned initially, there is a risk that greenwashing will increase due to the combination of a rapid increase in demand for sustainable financial products and

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https://www.eiopa.europa.eu/sites/default/files/publications/letters/european_commission_-_request_to_esas_on_greenwashing_monitoring_and_supervision.pdf

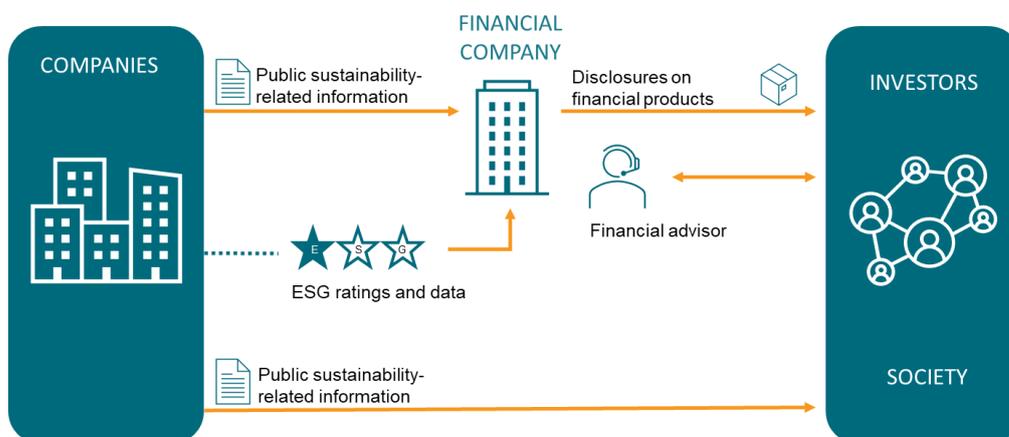
³ Examples of commitments are sponsored by initiatives such as the Net Zero Banking Alliance <https://www.unepfi.org/net-zero-banking/> and others.

the ongoing development of regulation on the market. Other factors that influence this risk include limited access to sustainability-related information, limited knowledge, and differing use and interpretation of key concepts.

Greenwashing in the financial sector can arise in places and contexts where sustainability-related statements, commitments and general communication are made. This behaviour can be both intentional and unintentional and arise either through deliberate actions or by the absence of action.

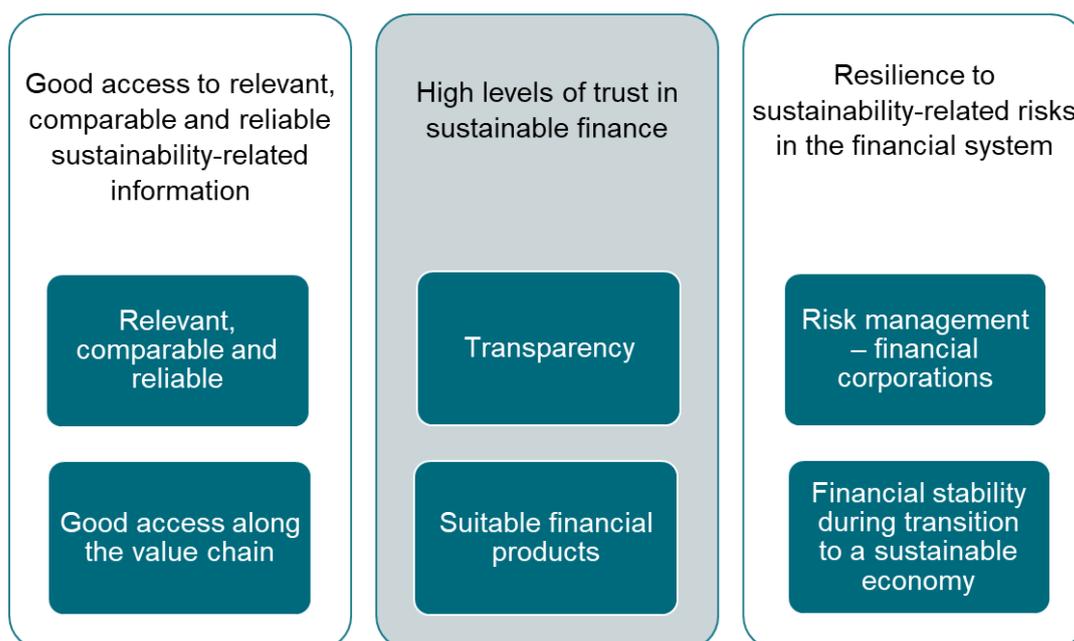
Greenwashing can also arise throughout the entire investment chain, for example

1. if public sustainability information and commitments from a company do not sufficiently reflect the company's actual impact or sustainability risks,
2. if information regarding the nature and objective of a financial product does not sufficiently match the product's actual sustainability risks and impact,
3. if insufficient transparency regarding ESG rating methods makes it difficult to compare how such assessments are made,
4. when financial market participants do not meet requirements when providing advice related to financial products, at which point the advisor must inform the customer about sustainable investments and provide advice based on the customer's sustainability preferences.



Greenwashing undermines trust

In FI's *Roadmap for sustainable finance*, we have set out three general goals for our work through 2025. A high level of trust in sustainable finance is one of these and is a prerequisite for the financial system to be able to contribute to sustainable development.



FI highlights a number of conditions required to achieve a high level of trust in sustainable finance, several of which are intertwined with FI's strategic prioritised actions for preventing greenwashing. See the next section.

Conditions required for achieving a high level of trust:

- Transparency on how companies are working with sustainability factors in their operations
- Transparency on financial products that are said to be sustainable
- Customers with sustainability-based preferences should be able to trust that products recommended by advisors are suitable based on the customer's preferences, after verifying financial suitability.
- The regulatory framework for sustainable financial is suitable and consistent between sectors and products, and sustainability-related supervision is effective and convergent within the EU.

Misleading investors and savers, for example by presenting products or investments as more sustainable than they actually are. This could undermine trust. By extension, a lack of trust in sustainable investments and products prevents capital from being channelled to support the transition to a sustainable economy.

Prioritised actions to prevent greenwashing

Below is a list of FI's prioritised actions for preventing greenwashing. FI will work to reduce the risk of greenwashing through both preventive measures and

supervision activities. We will also prioritise work on international collaborations on the prevention of greenwashing.

Implement new rules, maintain dialogue and communication

One of FI's main task as a supervisory authority is to review whether companies are following the rules that apply to their business. The entry into force of a large number of rules over a short period of time – as with sustainable finance-related regulation – is particularly challenging for concerned companies. Nevertheless, it is important for FI that greenwashing is prevented before it occurs. We will therefore prioritise a dialogue with the industry about the challenges posed by the regulations. When it is possible and suitable, Finansinspektionen will provide guidance, for example in reports and other external communication. We will also contribute with expertise when new regulations are developed and propose measures to prevent any gaps in the regulations that could increase the risk of greenwashing.

Improve access to sustainability-related information

A number of new regulations aim to ensure that financial and non-financial companies report relevant, comparable and reliable information about how they are impacted by sustainability factors and how companies in turn impact society and the environment. The recipient of the information, for example an investor, must be able to compare the sustainability information from different companies and trust that a company is not presenting its business as more sustainable than it actually is. Strengthening this information chain with clearer rules for what information that must be provided and how it should be provided reduces the risk of greenwashing. This is thus a prioritised area for FI.

The requirements on the companies' sustainability reporting will be significantly higher and more specific since companies will need to comply with a new reporting standard⁴. Reporting in accordance with the EU's taxonomy⁵ constitutes a key part of the new regulations as it uses detailed rules to assess whether a business can be defined as environmentally sustainable.

At an international level, FI will continue to work actively within the European supervisory authorities to develop the regulations. FI will also continue to contribute to the global arena, particularly within IOSCO (International Organization of Securities Supervisors), where Sweden up until recently led its efforts within sustainable finance.

⁴ CSRD <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>

⁵ EU taxonomy <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

At a European level, banks will also begin to report sustainability information as part of their Pillar 3 disclosures. This reporting will follow templates published by the EBA. FI will be able to use this sustainability-related information to further integrate sustainability factors into its supervision of banks.

Greater transparency for ESG ratings

The lack of sustainability-related information has resulted in a greater demand for services related to ESG ratings and access to data. Companies that offer these services produce their own ESG data and in part make their own estimates and assessments about companies' sustainability-related impact and risks. Insufficient transparency in terms of data, methods and tools for ESG ratings and ESG data suppliers makes it difficult to compare how such assessments are made, which in turn can lead to intentional, or unintentional, greenwashing. The need for increased transparency in the area has been identified, for example through the work in IOSCO, where FI has participated. Work is also ongoing within the EU to develop suitable regulations in the area. FI intends to work actively on this topic.

Improve disclosures regarding sustainable financial products

Both demand for and supply of sustainable financial products are increasing. A prioritised area for FI is that the information about the products should be designed in such a way as to be comprehensible and provide a base for making informed decisions, and possibilities for greenwashing should be as limited as possible.

Financial market participants are obligated to provide disclosures to investors about how sustainability risks are integrated and how adverse impacts on sustainable development are considered in investment decision processes, as well as how environmental or social characteristics and sustainable investments are promoted.⁶ In the short term, FI will continue to prioritise implementation, dialogue and guidance for related regulations. In parallel, we intend to continue to conduct specific supervisory activities. Work is ongoing within the EU to develop and specify requirements of the new regulations. Active participation in this work is a priority to Finansinspektionen.

Information provided in conjunction with financial advice

Customers should be able to trust that financial advisors always safeguard the customer's interests when providing financial advice. For example, the advisor is obligated to recommend financial products that are suitable based on the customer's knowledge and experience, financial situation and investment objective. In conjunction with this suitability assessment, the advisor must, among other things, inform the customer about the concept of sustainability preferences and the

⁶ See Recital 10 of SFDR and Bill 2020/21:66 page 28.

customer's various alternatives for investments in sustainable products and identify the product(s) that fulfil the sustainability preferences of the customer.⁷

Greenwashing in this context can arise if advisors provide misleading information in order to recommend products that benefit themselves or if the information is not relevant or is designed in such a way that the consumer cannot understand it. This could result in the customer investing in a financial product that does not correspond to his or her requirements or expectations.

FI will prioritise following up so that such information asymmetry will not harm customers, but rather that financial market participants consider the customer's interests when providing financial advice. At the same time, we will be proactive and continue to maintain a dialogue with the participants in the industry and through encouragement of cooperation within the industry. To facilitate guidance for the industry and to achieve a uniform supervision within the EU, we will participate in the work on this matter at the EU level.

Integration into authorisation processes

FI will also work to ensure that relevant sustainability factors are considered in its authorisation assessment based on existing regulations. For example, FI could check that the financial companies' internal governance and control in this matter in a relevant way captures sustainability-related risks that could impact the operations, including the risk of greenwashing. When it comes to our most common savings product – investment fund savings – FI will also work to prevent greenwashing already when we decide whether or not to approve fund rules. If the fund's name contains sustainability-related terms, this also needs to be accurately reflected in the fund's objective and investment policy in order not to mislead fund savers. FI is participating in the current work at the EU level on funds' names using ESG or sustainability related terms.

Capacity-building activities

The rapid development within sustainable finance brings with it a considerable need for capacity building activities. Selected initiatives should target groups in society where the needs and benefit are greatest. FI will implement through its financial education programme capacity-building initiatives that target consumers. Knowledgeable consumers who critically review information and offers contribute in the long run to safeguard the trust in sustainable investments and a sustainable financial market.

FI will also work to raise the capacity for sustainable finance at financial companies, including the risk for greenwashing, by continuing to maintain a

⁷ https://eur-lex.europa.eu/eli/reg_del/2021/1253/oj?locale

dialogue with the licensing companies⁸ that work to ensure that employees active in the industry are competent and suitable.

As part of our work to integrate sustainability in our tools and internal processes, FI has started a project to raise its own capacity in sustainable finance. This refers in part to raising the awareness among our employees about the risk of greenwashing.

International cooperation

There are several ongoing initiatives on greenwashing in financial markets at the international level. The European Commission has identified the risk of greenwashing in its strategy from 2021 (“Strategy for financing the transition to a sustainable economy”).⁹ The Commission has given the European supervisory authorities a mandate to implement the Commission’s greenwashing-related strategy.¹⁰

Under the mandate, the supervisory authorities will work with the following main areas:

- a) identification of behaviours that can constitute greenwashing on the market,
- b) definition of the role of the supervisory authorities, and
- c) effectiveness in the supervision of greenwashing.

FI will participate in the work through our working groups at the European supervisory authorities. IOSCO and its Task force on sustainable finance, for which FI has served as chair until 2022, also prioritised the work to prevent greenwashing.¹¹

⁸ For example, InsureSec and SwedSec.

⁹ https://eur-lex.europa.eu/resource.html?uri=cellar:9f5e7e95-df06-11eb-895a-01aa75ed71a1.0001.02/DOC_1&format=PDF

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https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20tasks/Call%20for%20Advice/2022/CfA%20on%20greenwashing/1036482/Report%20request%20to%20ESAs_greenwashing%20monitoring%20and%20supervision.pdf

¹¹ <https://www.iosco.org/news/pdf/IOSCONEWS635.pdf>