

# FINALLY FOSSIL-FREE?

What the *ESMA* Naming Guidelines and the Proposed *SFDR* Revision Can Do to Curb Greenwashing in ESG Funds



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# SUMMARY

## Key terms

- **ESG:** Abbreviation for “**E**nvironment, **S**ocial and (good) **G**overnance”. Many understand “ESG” as a general sustainability pledge.
- **ESMA naming guidelines:** These new rules were introduced by the *European Securities and Markets Authority*. They specify when funds may use sustainability-related terms in their names. For certain terms (e.g. "Climate", "Sustainable"...), exclusions apply to a fund's investments in fossil fuels.
- **SFDR (Sustainable Finance Disclosure Regulation):** The EU’s key regulatory framework governing retail funds in the sustainability sector. To date, the *SFDR* has primarily set out rules on transparency and disclosure standards for fund providers. The planned overhaul, often referred to as **SFDR 2.0**, is expected to change that. The European Commission's comprehensive reform proposal envisions the *SFDR*’s evolution from a purely transparency-focused regulation into a framework with minimum standards for investments. Going forward, binding exclusions for fossil fuel investments will apply, depending on the fund’s sustainability category.

## The problem

In the past, it was particularly difficult for retail investors to understand how climate-friendly the investments of a given ESG fund were. Many funds signaling sustainability were simultaneously investing heavily in fossil fuel companies. This can easily mislead retail investors who are seeking to make sustainable investment decisions. At the same time, it hinders the transition to a climate-friendly, future-proof EU financial system and undermines trust in policymakers’ and financial supervisors’ ability to deliver on this task.

**Our study has two overarching goals.** On the one hand, it examines whether the recently introduced *ESMA* naming guidelines have helped reduce greenwashing – at least with regard to climate – and improved transparency in the ESG fund market. On the other hand, it assesses the potential effects of the European Commission's proposed *SFDR* revision (*SFDR 2.0*).

## Main findings

**The ESMA naming guidelines have improved clarity for consumers.** Funds with terms such as "Sustainable", "Environment" or "Impact" in their name now have to comply with minimum standards for their fossil investments. **This has helped separate the wheat from the chaff when it comes to sustainable investments.** As the following data points demonstrate:

- At the end of 2024, we identified 4,037 funds on the European market using terms such as "Sustainable", "Environment" or "Impact". Before the publication of the naming guidelines (April 30, 2024), about half of these funds were already free from fossil investments, as defined in the *ESMA* rules, while the remaining half held €18.0 billion in fossil investments.
- Following the introduction of the guidelines, some funds with fossil holdings carried out divestments, **selling fossil securities worth €3.3 billion.**
- Many fund providers have removed or reduced sustainability-related terms from their fund names. Specifically, **604 funds** that originally included a sustainability claim in their name were simply renamed. This renaming allowed fund providers to avoid selling fossil securities worth **€11.4 billion.**
- Fossil assets worth **€1.9 billion** still remain in funds with sustainability-related terms in their names. **This calls for action by national supervisory authorities.**

The *ESMA* naming guidelines mark an initial step toward greater transparency for consumers. Nevertheless, **a substantial greenwashing problem remains.** Many funds were removed from the scope of the guidelines through renaming, adopting softer terms such as 'Screened' or 'Advanced' that can imply sustainability but fall outside the new *ESMA* rules. Additionally, funds that tout ESG criteria – but do not include ESG- or sustainability-related terms in their names – remain subject to no binding minimum standards on fossil investments.

### **The SFDR 2.0 as proposed by the European Commission would introduce key improvements:**

Funds with sustainable aspirations would need to classify themselves in one of three new fund categories, each with its respective requirements for investments in companies involved in fossil fuel-related activities. **Notably, for the first time, the rules would explicitly require the divestment of companies pursuing fossil fuel expansion projects.**

The Commission proposes the following three categories: "sustainable", "transition" and "ESG basics". For the first two, the Commission proposal sets out robust fossil exclusions. Our study shows: Funds that would likely belong to the "sustainability" category in the future would have to sell **€2.7 billion** worth of fossil investments. Funds that would fall into the "transition" category would have to sell **€2.3 billion** worth of fossil investments.

**However, the "ESG basics" category threatens to create a new greenwashing trap for investors.** While funds likely to fall into the "ESG basics" category would be required to exclude certain coal companies – potentially leading to the sale of assets worth €3.9 billion – our analysis also shows that the same funds currently hold **over €100 billion** of investments in companies that are pursuing fossil fuel expansion projects or have not communicated a Paris-aligned coal exit date. "ESG basics" funds could therefore continue to hold such environmentally harmful investments.

**Overall, our study shows that where loopholes exist, fund providers exploit them and keep up their greenwashing behavior.** The demand for sustainable investments is high, creating an incentive for fund managers to market such products. Since fund managers have little intrinsic motivation to change, **policymakers and regulators must provide clear and future-proof guidelines.** At the same time, **competent national authorities** must consistently enforce these rules.

## **Demands to policymakers and supervisory authorities**

- National supervisory authorities must effectively monitor compliance with the *ESMA* naming guidelines and ensure **consistent implementation** and harmonized supervision across Europe.
- The term "ESG" conveys a sustainability claim to consumers. To ensure credible ESG products and genuine transparency, the **mandatory exclusion of investments in companies pursuing fossil fuel expansion** should be extended to the "ESG basics" category under *SFDR 2.0*.

# 1. INTRODUCTION

Greenwashing undermines investors' environmental ambitions. So far, a lack of clear rules and effective supervision has left sustainable investment claims insufficiently verified, undermining the concept's credibility as a whole.

A look at the numbers reveals the severity of the problem: Since the *SFDR* (*Sustainable Finance Disclosure Regulation*, see info box) came into force in 2021, the proportion of funds classified under its Article 8 or 9, i.e., promoting environmental or social characteristics or pursuing a sustainable investment objective, has grown steadily.<sup>1</sup> In September 2025, the total volume amounted to €6.8 trillion. This means that more than half of the investment volume in the European market (59%) was held in funds that promote themselves as considering ESG criteria.<sup>2</sup> The use of ESG-related terms in fund names also rose significantly from 5% to 15% between 2019 and 2024.<sup>3</sup> This has proven a successful marketing tool: funds that adopted ESG terms in their names have recorded higher inflows in the quarter following the name change than comparable funds

The growth of supposedly green financial products in recent years has been accompanied by increasing criticism of the absence of binding standards. Independent research has repeatedly highlighted the extent to which purported ESG products invest in fossil companies.<sup>4</sup>

Against this backdrop, the *European Securities and Markets Authority* (ESMA) published new guidelines for the naming of ESG funds in May 2024, which sought to provide more clarity for consumers. The guidelines subject funds with certain ESG-related terms in their name to a set of

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<sup>1</sup> PwC (2025): EU ESG UCITS Moving forward. <https://www.pwc.lu/en/sustainable-finance/esg-ucits-poster.html>

<sup>2</sup> Morningstar Sustainalytics (2025): SFDR Article 8 and Article 9 Funds: Q3 2025 in Review. [https://www.morningstar.com/content/cs-assets/v3/assets/blt9415ea4cc4157833/blt5c7c84c44b0328f2/69021a4ca53b8cd1069298c4/SFDR\\_Article\\_8\\_and\\_Article\\_9\\_Funds\\_Q3\\_2025.pdf](https://www.morningstar.com/content/cs-assets/v3/assets/blt9415ea4cc4157833/blt5c7c84c44b0328f2/69021a4ca53b8cd1069298c4/SFDR_Article_8_and_Article_9_Funds_Q3_2025.pdf)

<sup>3</sup> *European Securities and Markets Authority* (2025): Fund names: ESG-related changes and their impact on investment flows. [https://www.esma.europa.eu/sites/default/files/2025-04/ESMA50-524821-3646\\_Fund\\_names\\_-\\_ESG\\_related\\_changes\\_and\\_their\\_impact\\_on\\_investment\\_flows.pdf](https://www.esma.europa.eu/sites/default/files/2025-04/ESMA50-524821-3646_Fund_names_-_ESG_related_changes_and_their_impact_on_investment_flows.pdf)

<sup>4</sup> e.g. *Finanzwende* (2021): Greenwashing im großen Stil. [https://www.finanzwende-recherche.de/wp-content/uploads/2021/12/Greenwashing\\_ESG\\_211129\\_mit-Cover\\_web.pdf](https://www.finanzwende-recherche.de/wp-content/uploads/2021/12/Greenwashing_ESG_211129_mit-Cover_web.pdf); *Finanzwende* (2023): Greenwashing in Zeiten von Ukrainekrieg und Energiekrise. <https://www.finanzwende-recherche.de/unsere-themen/nachhaltige-finanzmaerkte/greenwashing-in-zeiten-von-ukrainekrieg-und-energiekrise>; *Urgewald* and *Facing Finance* (2025): New NGO research uncovers massive greenwashing in European ESG funds. <https://www.urgewald.org/en/medien/esg-funds-greenwashing-eu>

minimum standards, notably the exclusion of certain coal, oil and gas companies.<sup>5</sup> However, an analysis by *Finanzwende*, *Urgewald* and *Facing Finance* showed that, instead of making their portfolios more sustainable by selling their investments in coal, oil and gas companies, many providers simply renamed their funds so the minimum standards for fossil exclusions no longer applied.<sup>6</sup>

At the same time, the European Commission was working on an overhaul of the *SFDR*, aimed in part at reducing greenwashing and making disclosures more useful for investors. At the end of November 2025, it presented its long-awaited proposal for a revised *SFDR 2.0*.<sup>7</sup>

But what impact have the *ESMA* guidelines had on European ESG funds' fossil fuel investments? And how effective would the Commission's new *SFDR* proposal be in preventing greenwashing among the many funds that fall outside the scope of the *ESMA* naming guidelines?

This analysis by *Finanzwende*, *Urgewald* and *Facing Finance* quantifies how much fossil investments were divested as a result of the *ESMA* naming guidelines and how much was retained by way of renaming. In a second step, we analyze the potential impact of the fossil exclusions the Commission proposes under *SFDR 2.0*.

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<sup>5</sup> *European Securities and Markets Authority* (2024): Guidelines on funds' names using ESG or sustainability-related terms. [https://www.esma.europa.eu/sites/default/files/2024-08/ESMA34-1592494965-657\\_Guidelines\\_on\\_funds\\_names\\_using\\_ESG\\_or\\_sustainability\\_related\\_terms.pdf](https://www.esma.europa.eu/sites/default/files/2024-08/ESMA34-1592494965-657_Guidelines_on_funds_names_using_ESG_or_sustainability_related_terms.pdf)

<sup>6</sup> *Facing Finance*, *Finanzwende* and *Urgewald* (2025): From "sustainable" to "screened": 674 funds bypass climate regulation through targeted renaming. <https://www.urgewald.org/en/medien/esma-renaming>

<sup>7</sup> *European Commission* (2025): Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025PC0841>

## Policy background

### ESMA naming guidelines

The Guidelines on Funds' Names Using ESG or Sustainability-related Terms (*ESMA guidelines*) apply to all funds marketed within the EU since May 2025. With only one exception, all EU national supervisory authorities have indicated that they will incorporate the guidelines into their review processes.<sup>8</sup> The guidelines require funds with certain ESG-related terms in their name to invest at least 80 percent of the fund assets in accordance with the strategy implied by the name and to adhere to predefined exclusion criteria. In particular, funds using environmental, sustainability-, or impact-related terms (hereafter: "ESI funds") must exclude fossil investments in accordance with the revenue thresholds defined by the *Paris-aligned Benchmarks (PAB, see below)*.<sup>9</sup>

### Benchmark Regulation - minimum standards for "Paris-aligned Benchmarks"

In its naming guidelines, *ESMA* refers to the European Benchmark Regulation (EU 2016/1011) and the associated Delegated Regulation (EU 2020/1818). The fundamental aim of these regulations is to maintain the integrity of benchmarks used to price other financial instruments.<sup>10</sup> Under Regulation (EU) 2020/1818, benchmarks that are "Paris-aligned", i.e., designed to be consistent with the 2015 Paris Climate Agreement, must comply with the following fossil fuel exclusions:<sup>11</sup>

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<sup>8</sup> *European Securities and Markets Authority* (2025): Guidelines compliance table. [https://www.esma.europa.eu/sites/default/files/2025-03/ESMA34-1592494965-690\\_Compliance\\_table\\_guidelines\\_on\\_funds\\_names.pdf](https://www.esma.europa.eu/sites/default/files/2025-03/ESMA34-1592494965-690_Compliance_table_guidelines_on_funds_names.pdf)

The Czech National Bank is the only national EU supervisory authority that has not adopted the directive.

<sup>9</sup> *European Securities and Markets Authority* (2024): Guidelines on funds' names using ESG or sustainability-related terms. [https://www.esma.europa.eu/sites/default/files/2024-08/ESMA34-1592494965-657\\_Guidelines\\_on\\_funds\\_names\\_using\\_ESG\\_or\\_sustainability\\_related\\_terms.pdf](https://www.esma.europa.eu/sites/default/files/2024-08/ESMA34-1592494965-657_Guidelines_on_funds_names_using_ESG_or_sustainability_related_terms.pdf)

<sup>10</sup> *Deutsche Börse Group*: Indices & ESG: Benchmark Regulation. <https://www.deutsche-boerse.com/dbg-de/ueber-uns/regulierung/regulation-indices-esg/benchmark-verordnung>

<sup>11</sup> Delegated Regulation 2020/1818 on minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks. [https://eur-lex.europa.eu/eli/reg\\_del/2020/1818/oj/eng](https://eur-lex.europa.eu/eli/reg_del/2020/1818/oj/eng)

- companies that derive 1% or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
- companies that derive 10% or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
- companies that derive 50% or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
- companies that derive 50% or more of their revenues from electricity generation with a greenhouse gas emissions intensity of more than 100 g CO<sub>2</sub> e/kWh.

ESMA referred to these requirements in its naming guidelines. When the terms "PAB criteria" or "PAB exclusions" are used in the following, they refer to these exclusions.

## Sustainable Finance Disclosure Regulation

The *Sustainable Finance Disclosure Regulation (SFDR)* was introduced in 2021.<sup>12</sup> It requires financial market participants to disclose their approach to sustainability risks and the environmental and social aspects of their financial products. The *SFDR* was introduced to prevent greenwashing, create transparency for investors and channel capital flows into sustainable economic activities. Although *SFDR 1.0* was not designed as a classification tool, market participants effectively treated it as one, promoting Article 9 funds as "dark green", i.e., particularly sustainable, and Article 8 funds as "light green" products.<sup>13</sup> From the outset, the *SFDR* contained a review clause that provided for a subsequent evaluation and adjustment of the regulation.

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<sup>12</sup> Adopted in 2019, the regulation entered into force in 2021. "Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector"; <https://eur-lex.europa.eu/eli/reg/2019/2088/oj/eng>

<sup>13</sup> For example, the European Commission justifies the revision of the existing *SFDR* with the "misuse of Articles 8 and 9 as quasi-labels", see European Commission (2025): Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (*SFDR*), p.7. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025PC0841>

At the end of November 2025, the European Commission presented its long-awaited proposal<sup>14</sup> for an *SFDR 2.0*. In addition to drastic restrictions on disclosure obligations<sup>15</sup>, the suggested overhaul would introduce three product categories with binding minimum standards for the exclusion of fossil investments:

- **Sustainable** (new Article 9): Funds that claim to invest in companies that are already sustainable or pursue a sustainability objective;
- **Transition** (new Article 7): Funds that claim to invest in companies that are on a credible path to sustainability or are pursuing particular environmental or social transition-related objectives;
- **ESG basics** (new Article 8): Funds that claim to integrate other sustainability considerations beyond sustainability risks in their investment strategy.

With its proposal, the European Commission has recognized that fossil fuel expansion can never be sustainable or support the energy transition. The proposed *SFDR* revision therefore requires that funds classified under the new "sustainable" or "transition" categories no longer invest in companies pursuing fossil expansion projects, and that coal companies without a coal phase-out plan must also be excluded. In addition, the *PAB* coal exclusions apply to all three fund categories, with the "sustainable" category subject to the full set of the *PAB* fossil exclusions.

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<sup>14</sup> European Commission (2025): Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (*SFDR*). <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025PC0841>

<sup>15</sup> This analysis focuses on the fossil fuel exclusions under an *SFDR 2.0*. For a critique of the changes to disclosure requirements, see Share Action (2025): Commission's *SFDR* review misses the mark, risks fueling more greenwashing and less transparency. <https://shareaction.org/news/commissions-sfdr-review-misses-the-mark>

Table 1: Fossil exclusions by product category according to the Commission's proposal

Product category	Fossil exclusions under SFDR 2.0
Sustainable	<ul style="list-style-type: none"> <li>• PAB exclusions (coal, oil, and gas companies, utilities)</li> <li>• Exclusion of companies developing new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels</li> <li>• Exclusion of companies that develop new projects for, or do not have a plan to phase-out from, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation<sup>16</sup></li> </ul>
Transition	<ul style="list-style-type: none"> <li>• PAB exclusion criterion for coal companies (1% revenue)</li> <li>• Exclusion of companies developing new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels</li> <li>• Exclusion of companies that develop new projects for, or do not have a plan to phase-out from, the exploration, mining, extraction, distribution, refining or exploitation of hard coal or lignite for power generation</li> </ul>
ESG basics	<ul style="list-style-type: none"> <li>• PAB exclusion criterion for coal companies (1% revenue)</li> </ul>

<sup>16</sup> The wording in the Commission's proposal regarding this exclusion is ambiguous. We follow *Freshfields* and interpret the criterion as follows: The exclusion applies to companies that plan to add new coal-fired power plant capacity or do not have a phase-out plan from coal mining and/or coal-fired power generation, see: *Freshfields* (2025): SFDR Simplified – European Commission proposes a revised Sustainable Finance Disclosure Regulation. <https://sustainability.freshfields.com/post/102lx5l/sfdr-simplified-european-commission-proposes-a-revised-sustainable-finance-disc>

## 2. DATA AND METHODOLOGY

We use data from *Lipper for Investment Management* and *Urgewald* to examine how asset managers responded to the *ESMA* naming guidelines and to assess the potential implications of the Commission's proposal for a revised *SFDR 2.0* for European ESG funds. In the following, we describe the data in more detail (section 2.1). For the analysis, we proceed in three steps. First, we examine fund names before and after the guidelines came into force, with a focus on *ESMA*-relevant terms (details in section 2.2). In a second step, we look at the relevant funds' fossil investments before and after the cutoff date (details in section 2.3). Finally, we examine what the new exclusion criteria under the proposed *SFDR 2.0* mean for the current fund landscape (details in sections 2.4 and 2.5).

### 2.1 Data sources

Our analysis is based on 14,114 Article 8 or 9 funds marketed within the EU in October 2025. All information on the funds and their portfolios comes from *Lipper for Investment Management*.<sup>17</sup> We supplement the fund names with information from *Morningstar* if the latter is more recent. The names of *ESI* funds that continued to invest in PAB-critical companies even after the *ESMA* guidelines came into force are checked separately on the providers' websites.

To identify investments in relevant fossil fuel companies, we use information from the *Global Coal Exit List (GCEL)* and the *Global Oil and Gas Exit List (GOGEL)*, published by *Urgewald*.<sup>18</sup> The *GCEL* lists coal companies according to defined absolute and relative thresholds as well as companies with coal expansion projects. *Urgewald* data also allows the identification of *GCEL* companies without a Paris-aligned coal phase-out plan. *GOGEL* covers companies responsible for over 90 percent of global oil and gas production and expansion and those developing new oil and gas infrastructure: Liquefied Natural Gas (LNG) terminals, pipelines or oil- and gas-fired power plants. Both datasets contain a *PAB* analysis.<sup>19</sup> *GCEL* and *GOGEL* provide the *ISIN (International Securities Identification Number)* of the shares or bonds issued by each company on the list. We

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<sup>17</sup> Portfolio information was retrieved in October 2025. Fund name information was retrieved in November 2024 (for the names before the compliance deadline) and November 2025 (for the names after the deadline). To assess the impact of the proposed *SFDR 2.0*, we consider all funds from this sample for which information on the portfolio is available for at least one of the months since May 2025.

<sup>18</sup> Both lists are researched by *Urgewald* and updated annually. The *Global Coal Exit List* can be accessed here: <http://www.coalexit.org>. The *Global Oil and Gas Exit List* can be accessed here: <https://gogel.org>.

<sup>19</sup> A detailed methodology for the *Urgewald PAB* analysis can be found here: *Urgewald (2025): GOGEL Methodology*. <https://gogel.org/gogel-methodology>

use these to check whether the portfolios of the assessed Article 8 and 9 funds contain relevant fossil fuel companies.

## **2.2 ESMA-relevant terms in fund names before and after the naming guidelines**

In order to determine which rules of the *ESMA* guidelines apply to a fund, we compiled a list of environmental, sustainability-, impact- and transition-related terms that funds include in their names. To each term (for example, "green") we assigned a category from the *ESMA* guidelines (for example, "environmental term"). On this basis, we determined whether or not a fund must apply the fossil exclusions. The list of terms and their associated categories was compiled based on the guidelines across the various EU languages. We expanded the list to include terms with the same or similar meanings, as well as abbreviations of the terms mentioned. We also included "watchlist" terms that cannot be clearly assigned to a category but nevertheless suggest a sustainability-related effort (e.g. "Advanced", "Select" or "Committed").<sup>20</sup> Fund names that contain a relevant term but mean something else in the given context (e.g., the asset manager "Green Ash", named after the ash tree) were ignored in the analysis. Table 2 provides examples of terms for the different categories and summarizes the rules set out in the guidelines.

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<sup>20</sup> *ESMA* refers to such terms as "alternative terminology", which could be problematic for supervisors if they are intended to indicate ESG-related aspects, see *European Securities and Markets Authority* (2025): Impact of *ESMA* Guidelines on the use of ESG or sustainability-related terms in fund names, P. 6. <https://www.esma.europa.eu/sites/default/files/2025-12/ESMA50-801628861-4423-TRV-Risk-Analysis-Impact-of-the-ESMA-Guidelines-on-the-use-of-ESG-or-sustainability-related-terms-in-fund-names.pdf>

Table 2: Categories of the ESMA guidelines and exemplary terms

Category	Examples	Rules for fossil fuel companies as per the guidelines <sup>21</sup>
Sustainability-related terms	"Sustainable", "Sustainability"	Exclusion of companies that violate the PAB criteria
Environmental-related terms	"Green", "Environment", "ESG"	Exclusion of companies that violate the PAB criteria
Impact-related terms	"Impact"	Exclusion of companies that violate the PAB criteria
Transition-related terms	"Transformation", "Net-Zero", "Transition"	No fossil exclusions
Governance-related terms	"Governance", "Controversies"	No fossil exclusions
Social terms	"Social", "Equality"	No fossil exclusions
Soft terms ("watchlist" terms, not assigned)	"Committed", "Screened", "Advanced"	No specifications

Note: The terms listed here are illustrative examples. A full list of all terms and their categories used in this analysis is available on request.

To examine name changes around the guidelines' cut-off date (May 2025), we compare fund names retrieved in November 2024 (old name) with fund names retrieved in October 2025 (new name). This allows us to capture both name changes undertaken after the rules were already known but before the deadline, as well as name changes that occurred around the deadline but were only reflected in the databases at a later date.

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<sup>21</sup> In addition to the requirements relating to fossil fuel companies, the guidelines stipulate that 80 percent of investments must be made in accordance with the strategy implied by the name. Funds with a sustainability-related term in their name must also invest "significantly" in sustainable investments within the meaning of the SFDR (Art. 2, para. 17). In this study, we focus on the fossil exclusions.

## 2.3 Fossil investments before and after the guidelines

To identify relevant fossil fuel companies in fund portfolios, we match funds' share and bond holdings to the ISINs listed in *Urgewald's GOGEL* and *GCEL* company databases. For each fund, we then calculate the number of fossil fuel company securities held before and after the guidelines came into force. We compute the euro value of each position by multiplying the position's share ("current weight") by the fund's total portfolio value (in euros). We consider the number and value of fossil investments both for the period before the publication of the guidelines (publication: May 2024, portfolio date: April 30, 2024) and for the most recent portfolio available, provided it is dated after May 21, 2025 and therefore reflects holdings after the deadline for renaming or divesting<sup>22</sup>.

To determine the extent to which a given investment was sold or purchased, it is not sufficient to compare position values before and after the guidelines; fluctuations in the value of the fossil stocks could otherwise be misinterpreted as sales or purchases. We therefore calculate purchases and sales based on changes in the number of securities held by a fund in a given company, rather than changes in position value. We compute the buy or sell value as follows: First, we derive an implied buy or sell price per security by dividing the euro value of the security in the portfolio by the number of securities held. For sales, we use the implied price from the period in which the security is still held (i.e., before it is sold). For purchases, we use the implied price from the period in which the security is already held (i.e., after it is bought). We then multiply the implied price by the number of securities sold or purchased. This yields a price-adjusted measure of the extent to which a fund financially supports fossil fuel companies, capturing whether, and by how much, it has increased or reduced its position in a company.

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<sup>22</sup> I.e. selling a company's shares or bonds.

## 2.4 Assumptions for SFDR 2.0 classification of existing funds

To estimate how the fossil exposure of the funds in our sample would change under the SFDR 2.0 reform, we identify the current fossil holdings that would need to be divested under the European Commission’s proposed exclusion criteria. As explained in the "Policy background" info box, the proposal envisages three product categories for funds that emphasize sustainable features: Funds in the "sustainable" category would report under the most stringent Article 9, funds in the "transition" category under Article 7 and "ESG basics" funds under the least ambitious Article 8.

Although SFDR 2.0 is far from final, we make assumptions about which product category each existing Article 8 or 9 fund is most likely to fall under in the future. As summarized in Table 3, we assume that funds with names that contain sustainability-, environmental-, or impact-related terms are most likely to be classified as "sustainable" and would therefore report under Article 9. For funds with a transition term in their name, we assume classification in the "transition" category (Article 7). For all other funds, i.e., current Article 8 or Article 9 funds without a relevant term in their name, or with a term that signals neither sustainability/environment/impact nor transition, we assume they would most likely fall under the "ESG basics" category (Article 8).

Table 3: Assumptions for SFDR 2.0 classification of existing funds

Current characteristics of the fund	Assumption on the future product category under SFDR 2.0
Sustainability, environmental, impact-related term in the name (ESI funds)	"Sustainable"
Transition term in the name	"Transition"
No relevant term in the name, but reported under Article 8 or 9 under SFDR 1.0	"ESG basics"

## 2.5 Fossil investments under a revised SFDR

We implement the fossil exclusions as proposed by the Commission under *SFDR 2.0* using data provided by *Urgewald* (see Table 4). As there is no delegated act yet that specifies the technical details of the regulation, we screen all companies that have expansion plans without controlling for the scale of those plans. This means our screening does not differentiate between a company with average annual capital expenditure of \$10 million for exploring new oil and gas reserves and a company that spends several billion dollars on such activities.

Table 4: Operationalization of fossil exclusions under SFDR 2.0

SFDR 2.0	Urgewald data point	SFDR category
≥ 1% coal share of revenue	PAB assessment	Article 7, 8, 9
≥ 10% oil share of revenue	PAB assessment	Article 9
≥ 50% gas share of revenue	PAB assessment	Article 9
Utility criterion	PAB assessment	Article 9
Companies developing new projects for the exploration, extraction, distribution or refining of hard coal and lignite, oil fuels or gaseous fuels	GOGEL: <sup>23</sup> Upstream: Exploration CapEx, short-term expansion Midstream: LNG expansion, pipeline expansion  GCEL: Expansion in coal mining and coal mining-related infrastructure (e.g. transport infrastructure)	Article 7 & 9
Companies that develop new coal-fired power plants or have not published a coal phase-out plan	GCEL: <sup>24</sup> Expansion of coal-fired power plant capacity  Coal Phase-out Analysis 2025: <sup>25</sup> Coal companies that have not communicated a Paris-aligned coal phase-out date (mining, infrastructure, power generation).  Phase-out plans are considered Paris-aligned if they contain a phase-out date that is no later than 2030 for assets in the EU and OECD countries and no later than 2040 for assets in the rest of the world.	Article 7 & 9

<sup>23</sup> Urgewald (2025): GOGEL Methodology. <https://gogel.org/gogel-methodology>

<sup>24</sup> Urgewald (2025): GCEL Methodology. <https://www.coalexit.org/methodology>

<sup>25</sup> Urgewald (2025): Coal Phase-out Analysis. <https://www.coalexit.org/coal-phase-out-plans>

## 3. RESULTS

### 3.1 Impact of the *ESMA* guidelines: Separating the wheat from the chaff

At the end of 2024, we identified 4,037 funds that were marketed in the EU under an ESI name. Even before the guidelines were first published in May 2024, these funds varied widely in how ambitious they were about keeping their sustainability promise. Just over half of the funds (2,058 funds, accounting for 54% of ESI fund assets) were already free of non-*PAB*-compliant investments at that time (Figure 1). Of these, 1,557 funds still have the same name as before the guidelines were introduced. The remaining 500 funds<sup>26</sup> changed their name after the guidelines came into force so that they no longer fall under the strictest rules for ESI funds. This likely reflects an attempt to avoid requirements beyond the *PAB* criteria, or the intention to invest in non-*PAB*-compliant companies in the future. We observe the latter phenomenon in the most recent portfolios of 36 of these funds.

A total of 1,258 ESI funds still held *PAB*-critical investments prior to the publication of the guidelines. Taken together, they had invested €18.0 billion in companies that, according to *Urgewald's* analysis, violate the *PAB* criteria.<sup>27</sup> With the *ESMA* guidelines, these funds' managers now faced a choice: Would they keep the sustainability pledge in the fund name and sell these companies, or change the fund name to retain the investments? As shown in Figure 1 and in a study published by *ESMA* at the end of 2025<sup>28</sup>, both strategies were pursued: 604 funds that held *PAB*-critical investments before the guidelines were published changed their name so that they could keep these holdings. 293 funds kept their name and divested from the remaining *PAB*-critical investments. Finally, 357 funds kept their name but, as of October 2025, still invest in non-*PAB*-compliant companies.<sup>29</sup>

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<sup>26</sup> One fund was dissolved.

<sup>27</sup> The gap between the total number of ESI funds (4,037) and the sum of funds with and without *PAB*-critical investments (2,058+1,258 = 3,316) results from the funds for which Lipper does not provide portfolio data.

<sup>28</sup> *European Securities and Markets Authority* (2025): Impact of *ESMA* Guidelines on the use of ESG or sustainability-related terms in fund names. [https://www.esma.europa.eu/sites/default/files/2025-12/ESMA50-801628861-4423\\_TRV\\_Risk\\_Analysis\\_Impact\\_of\\_the\\_ESMA\\_Guidelines\\_on\\_the\\_use\\_of\\_ESG\\_or\\_sustainability-related\\_terms\\_in\\_fund\\_names.pdf](https://www.esma.europa.eu/sites/default/files/2025-12/ESMA50-801628861-4423_TRV_Risk_Analysis_Impact_of_the_ESMA_Guidelines_on_the_use_of_ESG_or_sustainability-related_terms_in_fund_names.pdf)

<sup>29</sup> The difference to the total number of four funds (604+293+357=1,254 versus 1,258 former ESI funds with *PAB*-critical investments) are funds for which no current information is available – for example, because they have been dissolved or merged into another fund.

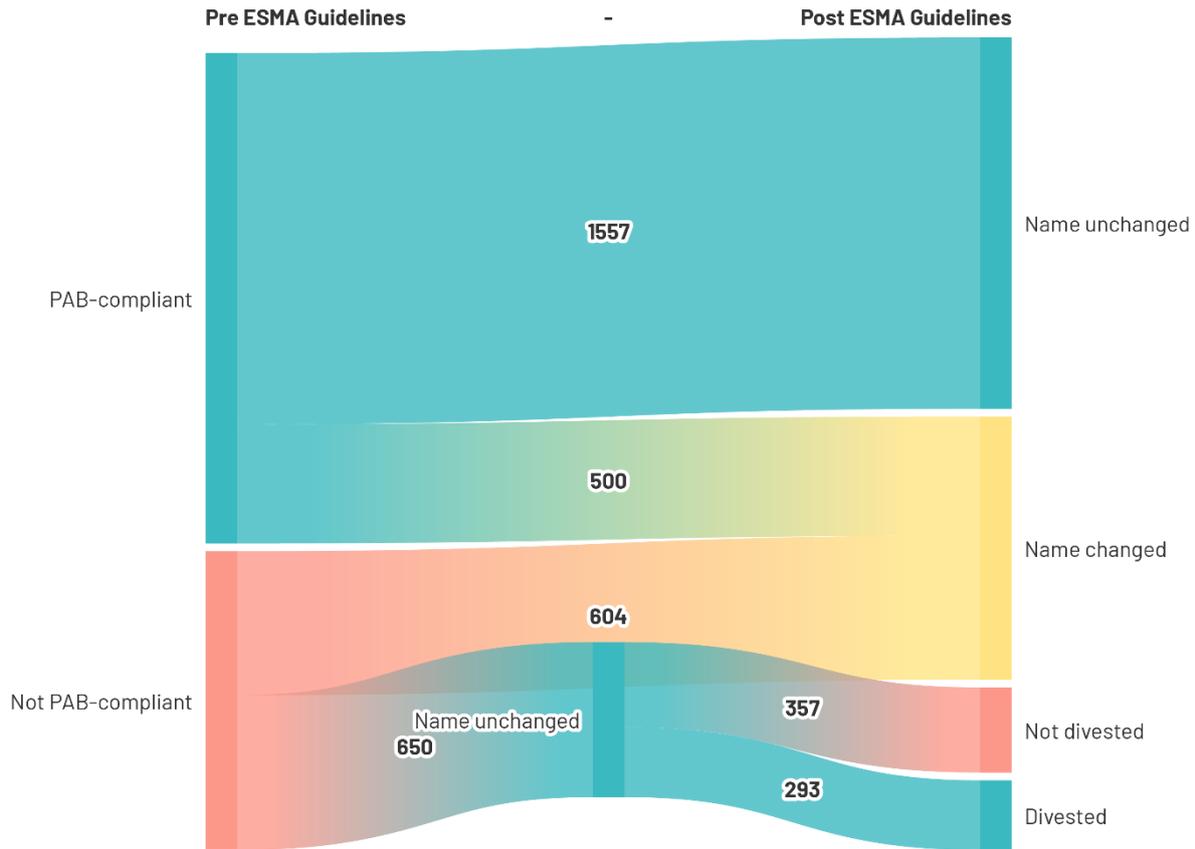


Figure 1: How ESI funds have reacted to the ESMA guidelines

Figure 2 illustrates what these changes imply for fossil fuel exposure among funds that carried an ESI term in their name before the *ESMA* guidelines took effect: Of the original €18.0 billion in *PAB*-critical investments, a total of €13.2 billion – almost three quarters – remains in these funds. Adjusting for market price fluctuations, the funds that retained their names divested € 3.3 billion in *PAB*-critical holdings.<sup>30</sup> Most of the remaining investments (just under €11.4 billion, representing 86% of the total remaining amount) is now in funds whose names no longer contain a sustainability-related term – at least not one regulated by *ESMA*. The remaining nearly €1.9 billion is held by funds that still carry an ESI term in their name but continue to invest in *PAB*-non-compliant investments. We examine each of these three groups in more detail below.

<sup>30</sup> This is the net value, i.e., all sales minus new acquisitions of ESI funds that have kept their name. The change between the market value of *PAB* investments before and after the deadline (€18.0 billion to €13.2 billion) is greater at €4.8 billion than the €3.3 billion sold by ESI funds. This is due to the fact that some funds that have changed their name have also disposed of *PAB*-critical investments and that the value of the investments concerned is affected by market fluctuations, which we deduct from the amount disposed of (see section 2.2 for details).

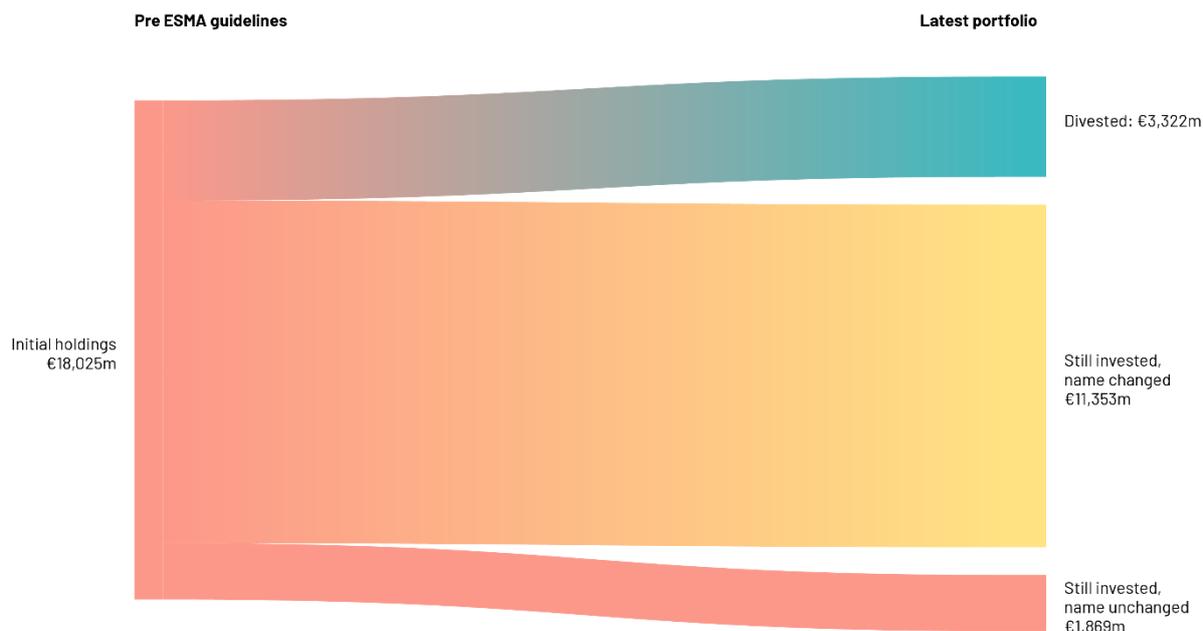


Figure 2: Impact of the ESMA guidelines on non-PAB-compliant investments

## Divested: €3.3 billion out of TotalEnergies and Co.

Which companies were divested in response to the ESMA guidelines? Table 5 shows the ten largest aggregated net sales<sup>31</sup> of funds that have retained their ESI status. With *TotalEnergies* and *RWE* as the largest divestment positions, the list demonstrates that numerous funds indeed dropped investments which no consumer would expect to find in a product with "environment" or "sustainability" in its name. On the one hand, this shows that the ESMA guidelines have effectively led some funds to adjust their generous interpretation of their sustainability commitments. At the same time, the net divestments remain low in relation to the size of the companies concerned: The largest divestment – *TotalEnergies* – corresponds to just under 0.8% of the group's market capitalization.<sup>32</sup> As intended by ESMA, the guidelines have thus provided more clarity for consumers. However, they have not led to a large-scale withdrawal of capital from the fossil fuel sector.

<sup>31</sup> By aggregated net sales, we mean the sum of all sales by ESI funds that have kept their name, minus the sum of all acquisitions by these funds.

<sup>32</sup> *TotalEnergies*' market capitalization at the end of September 2025 was around \$130 billion, i.e. around €110 billion at the exchange rate at that time. The €875 million sold represents just under 0.8% of this, see: *Yahoo Finance*: TotalEnergies SE (TTE). <https://finance.yahoo.com/quote/TTE/>

Table 5: Fossil fuel companies that were dropped from funds that retained their ESI status (10 largest positions)

Rank	Company	Amount sold from ESI funds in € million
1	<i>TotalEnergies SE</i>	875
2	<i>RWE AG</i>	256
3	<i>Eni SpA</i>	222
4	<i>Cheniere Energy Inc</i>	157
5	<i>Snam SpA</i>	157
6	<i>ONEOK Inc</i>	138
7	<i>CSX Corp</i>	123
8	<i>Shell plc</i>	119
9	<i>Repsol SA</i>	100
10	<i>The Williams Companies Inc</i>	99

### Renamed: Funds with fossil fuel investments are now called "Screened", "Advanced" or "Transition"

Among the funds that continue to invest in non-PAB-compliant companies, only just over a third have removed sustainability-related terms from their names without replacement. As shown in Figure 3, almost half of remaining fossil exposure is instead concentrated in funds that replaced the regulated ESI term with a "watchlist" term or have kept such a soft term in their name. Terms such as "Screened" or "Advanced" are still used in these funds' names, continuing to suggest a special commitment. A further 7 percent of fossil fuel investments are held by funds that exploit the fact that the term "transition" – even when combined with environmental or impact-related terms – **does not** trigger fossil exclusions under the PAB criteria.



Figure 3: Current names of funds that had an ESI term in their name prior to the guidelines and have retained their non-PAB-compliant investments

The extent to which ESI funds shifted into "watchlist" or "transition" categories is also reflected in these groups' fossil fuel exposure: As shown in Figure 4, non-PAB-compliant holdings in "watchlist" funds have more than doubled compared to April 2024; the relevant fossil investments in "transition" funds have increased by 75%.

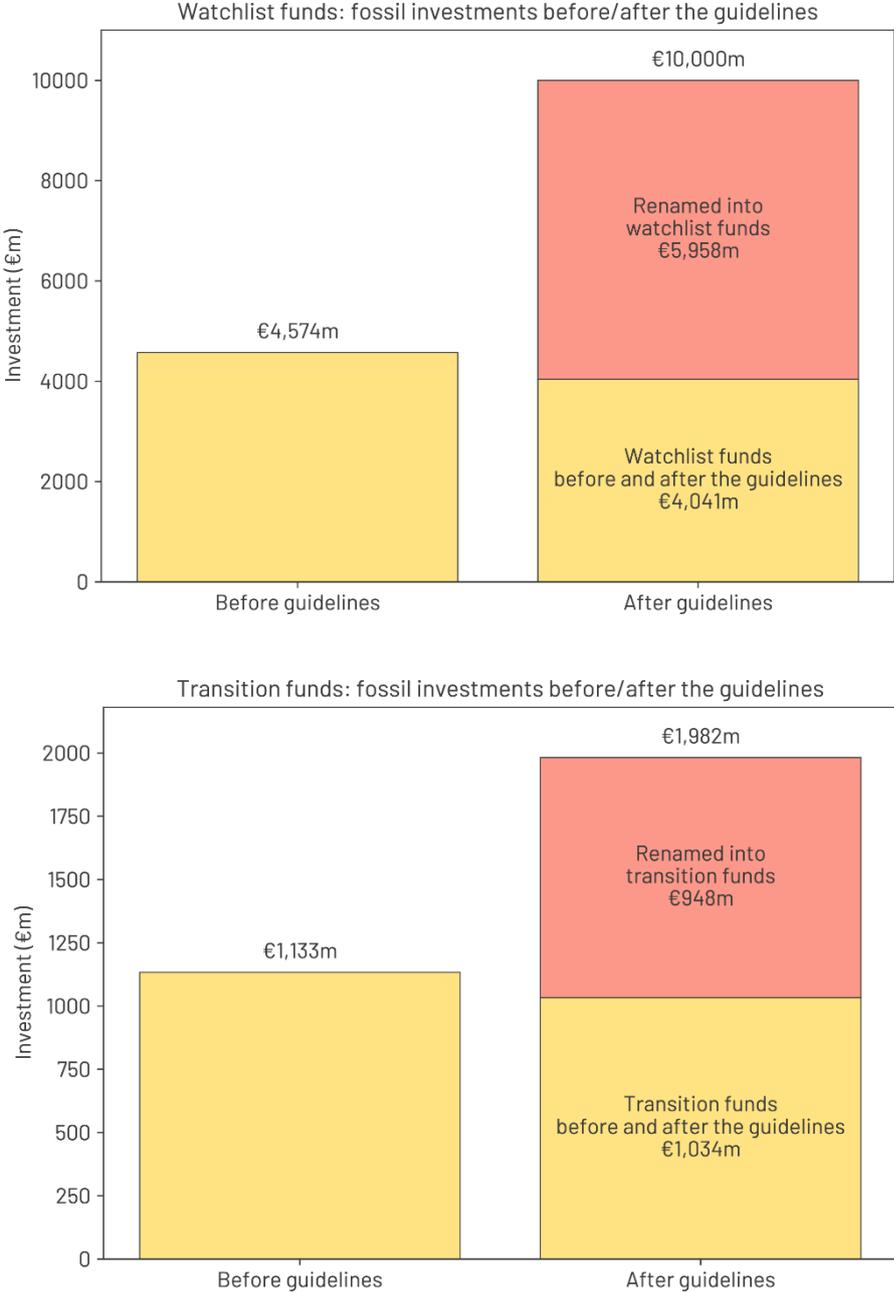


Figure 4: Fossil investments in funds with "transition" or "watchlist" terms in their name

Beyond these name changes, which formally comply with the ESMA guidelines but can still contribute to consumer confusion, €1.9 billion, or 14% of the remaining fossil exposure, is held by funds that still contain an ESI term in their name after the deadline. We take a closer look at this group below.

## €1.9 billion in fossil investments as a case for supervisory authorities

Funds that should have divested such holdings under the guidelines still contain €1.9 billion invested in companies that, according to *Urgewald's* analysis, breach the *PAB* thresholds. This does not necessarily imply willful non-compliance by asset managers; it may also reflect the use and quality of different databases and their methodology.<sup>33</sup> However, regardless of whether the *PAB* exclusions are being ignored with or without intent, the continued presence of *PAB*-critical holdings in ESI funds – which, according to our assessment, should have been divested in light of the clear guidelines – should prompt national supervisory authorities to take action.

As evident from Table 6, a large share of these holdings (nearly €1.4 billion) is invested in the Italian energy company *Enel SpA*. According to *Urgewald's PAB* methodology<sup>34</sup>, the company exceeds the threshold for utilities. The same is true for *RWE*. In the case of *RWE*, a weakness of the *PAB* exclusions becomes apparent that can lead to counterintuitive classifications. This concerns companies like *RWE* that mine coal and use it exclusively in their own power plants. Although *RWE* is one of the largest coal producers in the EU, it does not fall under the 1% coal criterion according to the *PAB*, which refers to coal mining revenues, because all the coal mined is converted into electricity rather than sold. Consequently, though the company is one of the largest CO<sub>2</sub> emitters in the EU, many commercial data providers do not consider *RWE* in breach of *PAB*, as they interpret the *PAB* criterion for electricity producers literally and evaluate it at asset level, for which data is often unavailable.

*Berkshire Hathaway Inc*, a company that many do not associate with fossil fuels, presents a different case. The company owns 100 percent of a major U.S. gas station chain, which means that the parent company's revenues exceed the *PAB's* 10% oil threshold.

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<sup>33</sup> *Morningstar Sustainalytics* (2025): SFDR Article 8 and Article 9 Funds: Q3 2025 in Review. [https://www.morningstar.com/content/cs-assets/v3/assets/blt9415ea4cc4157833/blt5c7c84c44b0328f2/69021a4ca53b8cd1069298c4/SFDR\\_Article\\_8\\_and\\_Article\\_9\\_Funds\\_Q3\\_2025.pdf](https://www.morningstar.com/content/cs-assets/v3/assets/blt9415ea4cc4157833/blt5c7c84c44b0328f2/69021a4ca53b8cd1069298c4/SFDR_Article_8_and_Article_9_Funds_Q3_2025.pdf); MSCI (2024): The Fund-Name Challenge: Matching Investor Needs and Supervisory Expectations. <https://www.msci.com/research-and-insights/blog-post/the-fund-name-challenge-matching-investor-needs-and-supervisory-expectations>

<sup>34</sup> *Urgewald* evaluates electricity suppliers based on the **average** emissions intensity of their electricity generation (>100 g CO<sub>2</sub>e/kWh with ≥50 % revenue from electricity). This enables global comparability and consistent *PAB* assessments. More on the *Urgewald PAB* methodology can be found here: *Urgewald* (2025): *GOGEL* Methodology. <https://gogel.org/gogel-methodology>

Table 6: The 10 PAB-critical companies with the highest investment amounts in ESI funds today

Rank	Company	PAB criterion according to Urgewald analysis	Investments by ESI funds in € million
1	<i>Enel SpA</i>	Utility criterion	1,388
2	<i>CSX Corp</i>	≥ 1% coal share of revenues	66
3	<i>RWE AG</i>	Utility criterion	65
4	<i>Reliance Industries Ltd</i>	≥ 10% oil share of revenues	55
5	<i>Berkshire Hathaway Inc</i>	≥ 10% oil share of revenues	51
6	<i>Aker BP ASA</i>	≥ 10% oil share of revenues	31
7	<i>The AES Corporation</i>	Utility criterion	29
8	<i>Xcel Energy Inc</i>	Utility criterion	19
9	<i>Orica Ltd</i>	≥ 1% coal share of revenues	13
10	<i>FirstEnergy Corp</i>	Utility criterion	12

## How do asset managers compare?

Asset managers have reacted differently to the *ESMA* guidelines. Table 7 summarizes, by asset manager, how both the number of ESI funds and the amount invested in non-*PAB*-compliant companies have evolved before and after the *ESMA* guidelines came into force.

Among German asset managers, *DWS* stands out: Its ESI funds, the names of which implied particularly sustainable claims at the end of 2024, actually increased their investments in companies that are not in line with the *PAB* criteria, from €556 million to €582 million. Of this total, €430 million is now held in the 54 funds that were renamed (out 171 ESI funds in total), while €151 million remains in funds that still have an ESI term in their name. The €132 million divested from ESI funds was more than offset by new purchases in the renamed funds. *Union Investment*, by contrast is in a much more credible position: Although five of the former 45 ESI funds were renamed, it fully divested €31 million previously invested in non-*PAB*-compliant companies.

Among international asset managers offering funds on the EU market, *BlackRock* held the largest positions in non-*PAB*-compliant companies within ESI funds before the deadline, with nearly €4.3 billion. The world's largest asset manager remains in first place after the deadline with a total of €2.5 billion of such holdings. Of this, €2.3 billion is now held in funds that carry a different name. Next is *Amundi*<sup>35</sup>: Its former ESI funds still invest €988 million in *PAB*-critical companies, including €212 million in funds that still have a relevant ESI term in their name.

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<sup>35</sup> We include *Amundi*'s wholly owned subsidiaries *CPR Asset Management*, *Sabadell Asset Management* and *Société Générale Gestion* under *Amundi*. We proceed similarly with other asset managers, see Table 7.

Table 7: Asset managers' reactions to the ESMA guidelines

	ESI funds (number) <sup>36</sup>			Investments by ESI funds in non-PAB-compliant companies (in € million)				
	End 2024	End 2025	Downgraded (renamed)	Before entry into force	Current: in total	Current: in downgraded funds	Current: in ESI funds	Divestment (price-adjusted) <sup>37</sup>
<b>German asset managers</b>								
<i>Allianz Asset Management (incl. AllianzGI, PIMCO, Allianz Invest, Allianz TFI Polska)</i>	50	36	12	308	131	15	116	191
<i>DWS</i>	171	118	54	556	582	430	152	132
<i>Deca</i>	58	32	26	29	22	22	0	5
<i>Union Investment</i>	45	40	5	31	0	0	0	31
<b>French asset managers</b>								
<i>Amundi (incl. CPR, Société Générale Gestion and Sabadell)</i>	279	238	74	1,587	988	776	212	723
<i>BNP Paribas Asset Management (incl. AXA IM and BNP Paribas REIM)</i>	214	160	57	784	589	531	58	321
<i>Natixis Investment Managers (incl. Ossiam, DNCA Investments, Mirova, Dorval and Vega)</i>	88	71	17	100	65	44	21	42
<b>Italian asset managers</b>								
<i>Generali Investments (incl. Generali AM and Generali CEE)</i>	21	13	8	73	41	41	0	19
<i>Intesa Sanpaolo (incl. Eurizon, Epsilon and Fideuram)</i>	105	81	23	222	78	6	72	147
<b>Largest asset managers worldwide ("Big Three")</b>								
<i>BlackRock</i>	151	74	78	4,254	2,464	2,282	182	777
<i>State Street Global Advisors</i>	35	10	25	671	719	716	3	8
<i>Vanguard</i>	16	12	4	268	246	245	1	48

<sup>36</sup> The number of ESI funds at the end of 2025 is not necessarily the number at the end of 2024 minus the downgrades, as some new ESI funds were added and some funds were dissolved or merged with other funds during the period under scrutiny.

<sup>37</sup> The divestment does not necessarily correspond to the difference between the investment amount before it came into effect and the current amount, as this also includes market fluctuations. The divestment is price-adjusted and only reflects purchase and sale decisions in funds that are classified as ESI funds both before and after entry into force.

## Interim conclusion

By referencing the *PAB*, the *ESMA* guidelines have, for the first time, established binding minimum standards for fossil fuel exclusions in retail funds marketed as sustainable. The *ESMA* guidelines have helped reduce greenwashing risks for consumers, particularly in the "dark green" segment. Funds that continue to use *ESI* terms in their names now largely comply with the fossil exclusions set out in the *ESMA* guidelines. Our analysis underscores that clear, enforceable rules are essential to minimizing greenwashing risk. The next step is an ambitious supervisory approach that ensures full compliance and a consistent implementation of these rules across jurisdictions.

However, our analysis also shows that divestment of *PAB*-critical assets was the least common route to compliance with the guidelines. Most affected funds have renamed themselves instead of adapting their investment strategy. As a result, the number of products that do not fall under the *ESMA* guidelines has increased and the actual problem of climate-damaging investments in funds persists. Many fund providers and their products are therefore still part of the problem, not of the solution. And this is exactly how policymakers and the public should treat them. Only clear rules and effective supervision can put an end to greenwashing in the fund market.

The ongoing revision of the *SFDR* offers a major opportunity to establish such clear rules. One stated objective of the *SFDR* overhaul is to curb greenwashing<sup>38</sup>, after Articles 8 and 9 of *SFDR 1.0* were widely misused as quasi-labels. The Commission's proposal for *SFDR 2.0*, currently under negotiation in the EU Parliament and Council, points in the right direction by introducing additional qualitative criteria. Part 2 of this study examines the potential implications of the proposed fossil exclusion criteria under *SFDR 2.0* and assesses how far the proposal can contribute to reducing greenwashing.

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<sup>38</sup> "The second [objective] is to improve end-investors' ability to understand and compare sustainability-linked financial products, and to protect them against potential misleading ESG claims.", see: European Commission (2025): Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). [eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025PC0841](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52025PC0841)

## 3.2 Potential impact of SFDR 2.0 on fossil investments

### Current holdings of funds likely to fall under the "sustainable" category

We have shown that current ESI funds largely implement the ESMA guidelines' fossil exclusion criteria and exclude fossil fuel companies in line with the PAB thresholds. The Commission's current SFDR 2.0 proposal would tighten these standards for "sustainable" products by (i) adding fossil fuel expansion activities as an exclusion criterion, and (ii) requiring the exclusion of companies that lack a Paris-aligned coal phase-out plan.

Assuming that all current ESI funds are classified as "sustainable" funds (Article 9) under SFDR 2.0, they would need to divest an additional €2.7 billion in fossil holdings. For example, €46 million would need to be divested from the Indian company *Hindalco Industries Ltd*, which operates 3.4 Gigawatts of installed coal-fired power capacity<sup>39</sup> for its own industrial production and extracts the coal required for this purpose itself. To this end, the company is developing new coal deposits.<sup>40</sup> A further €43 million is attributable to the Australian company *Mineral Resources Ltd*, which invested an average of \$62 million per year<sup>41</sup> in exploring new oil and gas reserves between 2023-2025.<sup>42</sup>

By introducing fossil expansion as an exclusion criterion, the Commission proposal would ensure such companies' exclusion. This would provide consumers with a genuinely high-standard "dark green" fund category that, subject to effective supervision, would no longer pose a greenwashing risk, at least with respect to fossil fuels.<sup>43</sup>

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<sup>39</sup> Urgewald (2025): *Global Coal Exit List 2025*. <https://www.coalexit.org/>

<sup>40</sup> E.g. *Hindalco*: Meenakshi coal mines. <https://www.hindalco.com/about-us/operations/meenakshi-coal-mines>

<sup>41</sup> Urgewald (2025): *Global Oil & Gas Exit List 2025*. <https://gogel.org/>

<sup>42</sup> E.g. *Mineral Resources* (2024): MinRes announces maiden oil and gas resources. <https://www.mineralresources.com.au/news/minres-announces-maiden-oil-and-gas-resources/>

<sup>43</sup> Sustainability has many facets – our study focuses on fossil fuel companies. Greenwashing can also occur through investments in companies from other sectors, e.g. biodiversity loss, environmental destruction, human rights violations, controversial weapons, etc.

## Current holdings of funds that are likely to fall under the "transition" category

### Fossil fuel expansion vs. 1.5 °C

International analyses clearly show that governments and companies are still planning far more coal, oil and gas projects than would be compatible with the Paris Agreement.<sup>44</sup> In fact, the fossil reserves already in production and under development would exceed the carbon budget consistent with limiting warming to either 1.5 °C or 2 °C.<sup>45</sup> As a result, meeting net zero by 2050 requires a managed decline in existing coal, oil, and gas production rather than further expansion.

Funds whose names include "transition" terms currently do not have to apply the PAB-based fossil exclusions under the ESMA guidelines. The Commission's proposal would close this gap: funds in the "transition" category would no longer be permitted to invest in companies with fossil fuel expansion plans or without a coal phase-out plan. The €2.3 billion that "transition" funds currently invest in such companies underscores the need for these exclusions.<sup>46</sup>

Of the €2.3 billion in identified holdings, €255 million is attributable to the six oil and gas majors *TotalEnergies*, *Shell*, *Eni*, *BP*, *ExxonMobil* and *Chevron*. These six companies are responsible for 14% of global short-term expansion plans, i.e., the development of new oil and gas fields. They also invested an average of \$8.5 billion per year between 2023 and 2025 in the search for new oil and gas reserves.<sup>47</sup>

Expanding coal companies also appear in transition funds. For example, five transition funds currently hold investments in *Glencore*, totaling €20.8 million. The Swiss company is not only among the world's largest coal producers; it is also planning to expand coal mining in Australia and South Africa.<sup>48</sup>

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<sup>44</sup> Stockholm Environment Institute, *International Institute for Sustainable Development and Climate Analytics* (2025): The Production Gap 2025. [https://productiongap.org/wp-content/uploads/2025/09/PGR2025\\_full\\_web.pdf](https://productiongap.org/wp-content/uploads/2025/09/PGR2025_full_web.pdf)

<sup>45</sup> Trout, K., Muttitt, G., Lafleur, D., Van de Graaf, T., Mendelevitch, R., Mei, L., & Meinshausen, M. (2022). Existing fossil fuel extraction would warm the world beyond 1.5 C. *Environmental Research Letters*, 17(6). <https://iopscience.iop.org/article/10.1088/1748-9326/ac6228>

<sup>46</sup> Assuming that they would be consistently classified as Article 7 funds according to their current name.

<sup>47</sup> *Urgewald* (2025): *Global Oil & Gas Exit List 2025*. <https://qogel.org/>

<sup>48</sup> *Urgewald* (2025): *Global Coal Exit List 2025*. <https://www.coalexit.org/>

Table 8 lists the ten companies with the largest exposures in transition-fund portfolios. Together, these ten companies account for €1.1 billion of the €2.3 billion that would need to be divested under SFDR 2.0.

Table 8: Critical fossil investments in transition funds under SFDR 2.0

Company	Exclusion criterion	Investments in € million
Enel SpA	Midstream Expansion	175
TotalEnergies SE	Upstream Expansion	144
Reliance Industries Ltd	Upstream Expansion	134
CSX Corp	≥1% coal share of revenue	131
RWE AG	Upstream Expansion	114
OMV AG	Upstream Expansion	100
Berkshire Hathaway Inc	No Paris-aligned coal exit date	98
The Williams Companies Inc	Upstream Expansion	81
Chubu Electric Power Company Inc	No Paris-aligned coal exit date	70
Cheniere Energy Inc	Midstream Expansion	60

The Commission's proposal would lead to the exclusion of these companies from the "transition" category, thereby significantly reducing the risk of greenwashing or transition-washing. At the same time, the €2.3 billion in critical holdings represents only 1.7% of the total volume of transition funds under consideration.<sup>49</sup> As shown in Figure 5, 241 of the 392 transition funds examined currently hold no critical investments.

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<sup>49</sup> It should be noted once again that no funds classified under Article 6 of the current SFDR were taken into account in this study.

Meeting the proposed requirement would therefore not pose a major hurdle for most funds, but it would strengthen the integrity of *SFDR 2.0* significantly. With its introduction, consumers seeking to invest specifically in the transformation of energy systems would gain access to a product category that consistently excludes companies whose fossil fuel expansion plans or ongoing coal activities actively undermine this transition.

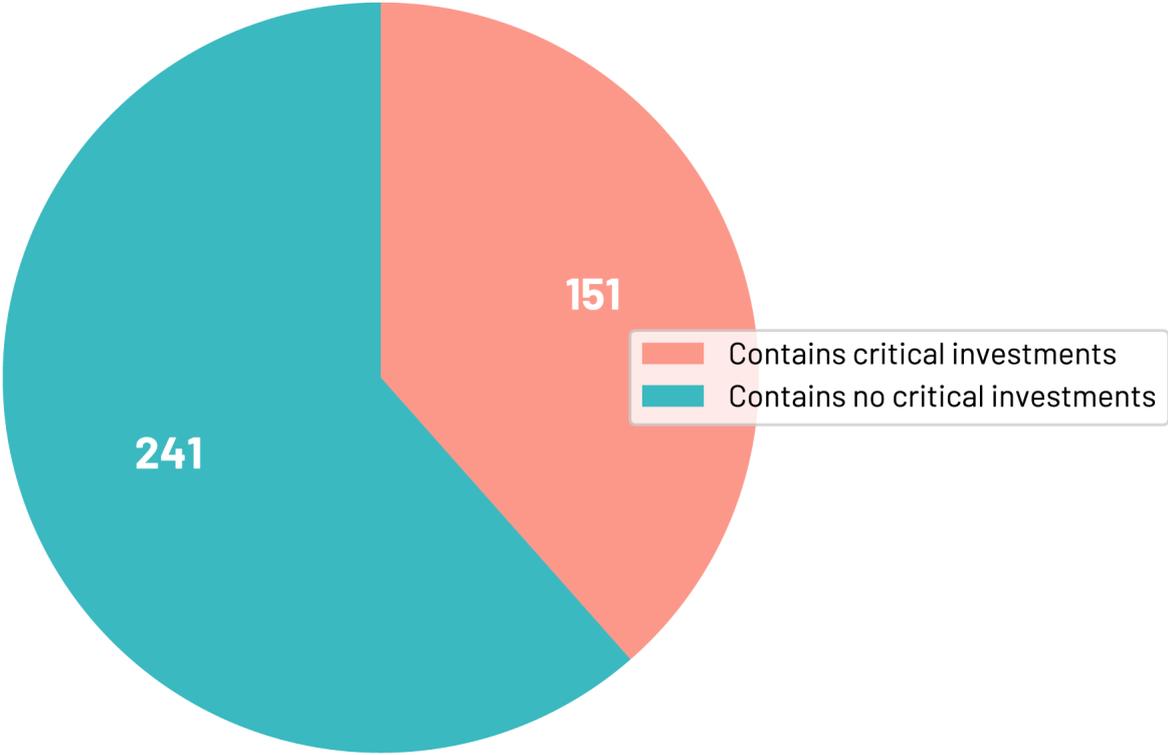


Figure 5: Number of transition funds with and without critical investments

### Current holdings of funds that are likely to fall under the "ESG basics" category

According to the Commission's proposal, funds that classify themselves in the least ambitious "ESG basics" category under *SFDR 2.0* would be required to exclude coal companies in line with the *PAB* criteria (1% revenue threshold). To estimate which fossil holdings could be affected by this rule, we assume that current Article 8/9 funds without a sustainability- or transition-related term in their name are likely to be classified as "ESG basics" funds going forward. Under this assumption, the holdings that would be subject to exclusion amount to €3.9 billion.

Beyond the coal criterion, **however, no further fossil fuel exclusions would be binding** for future Article 8 funds. This means that the "ESG basics" category poses a substantial greenwashing risk, as the label "ESG" clearly conveys a sustainability claim to consumers. By contrast, the *ESMA*

guidelines explicitly classify "ESG" as an environmental term to which the PAB-based exclusions apply when used in a fund name.

Current portfolios of funds likely to be classified in this category illustrate what these weak exclusions could mean for fossil investments in the "ESG basics" category. Today, more than 3,800 Article 8/9 funds without a sustainability or transition-related term in their names collectively hold more than €100 billion in companies that are actively pursuing fossil fuel expansion projects or lack a Paris-aligned coal phase-out date.

The ten fossil companies with the largest exposures in these potential "ESG basics" funds read like a who's who of the oil industry (see Table 9). Five of the six oil majors are part of this inglorious ranking. The investments in these five companies alone amount to €22.5 billion (out of a total of €40.8 billion in all ten companies). From a climate and environmental responsibility perspective, this is staggering – and difficult to explain to consumers who choose an "ESG basics" fund because of their sustainability aspirations. A survey conducted by the European consumer organization *BEUC* in October 2025, for example, finds that a clear majority (62%) support the exclusion of companies with fossil fuel expansion plans.<sup>50</sup>

With the weak fossil fuel exclusions in the "ESG basics" category, **the Commission's proposal risks the continuation of large-scale greenwashing.**

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<sup>50</sup> *BEUC - The European Consumer Organization* (2025): Sustainable Finance: Too Green to Be True? [https://www.beuc.eu/sites/default/files/publications/BEUC-X-2025-099\\_Sustainable\\_finance\\_too\\_green\\_to\\_be\\_true.pdf](https://www.beuc.eu/sites/default/files/publications/BEUC-X-2025-099_Sustainable_finance_too_green_to_be_true.pdf)

Table 9: Critical fossil investments in "ESG basics" funds

Company	Activity	Investments in € million
TotalEnergies SE	Upstream Expansion	8,327
Berkshire Hathaway Inc	No Paris-aligned coal exit date	6,640
Enel SpA	Midstream Expansion	5,734
Shell plc	Upstream Expansion	4,509
Eni SpA	Upstream Expansion	3,849
Exxon Mobil Corporation	Upstream Expansion	3,234
BP plc	Upstream Expansion	2,607
Engie SA	Midstream Expansion	2,120
Reliance Industries Ltd	Upstream Expansion	1,944
Equinor ASA	Upstream Expansion	1,867

Figure 6 highlights how consequential it is that SFDR 2.0 provides for no additional binding fossil exclusions beyond coal for the "ESG basics" category. Of the total of 14,114 Article 8 or 9 funds analyzed in this study, only around 3,300 funds are subject to the robust fossil exclusions under the ESMA guidelines and/or potentially the SFDR 2.0. For more than 10,000 other funds, no comparable exclusions would apply beyond the coal criterion.

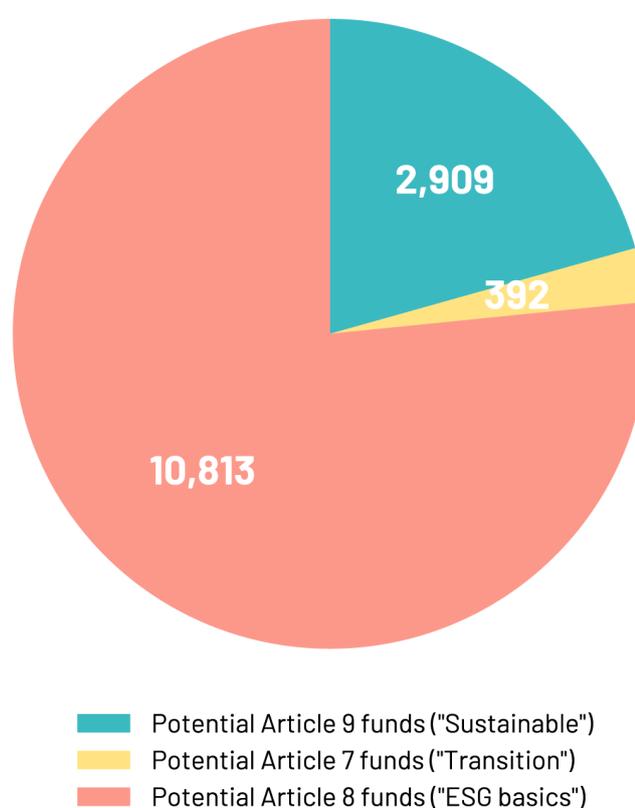


Figure 6: Potential distribution of funds under Articles 7, 8 and 9 under SFDR 2.0 according to the number of funds examined here

The unambitious "ESG basics" category therefore risks undermining the overall impact of the Commission's *SFDR 2.0* proposal. The robust exclusion criteria envisaged for the "sustainable" and "transition" categories represent an important milestone for credible sustainable financial products and send a strong signal to the fossil fuel industry: Companies that expand their fossil fuel activities are incompatible with either sustainability or transition. At the same time, too many funds would remain exempt from these necessary, clear rules.

## 4. CONCLUSION

Our analysis shows: **If clear, binding rules apply, regulation works. If the rules are less clear or can be circumvented altogether, greenwashing remains widespread.** The *ESMA* naming guidelines have for the first time set binding minimum standards for funds with environmental, sustainability-, or impact-related terms in their name. Where the guidelines apply, they have increased transparency and led to the divestment of fossil fuel companies from sustainable fund products. **As a result, consumers are better protected against the most misleading claims about sustainable investment.**

At the same time, the study reveals this approach's limits. **The majority of fossil investments were not reduced through divestment but rather shifted out of the scope of the guidelines through renaming.** Terms such as "screened", "advanced" or "transition" continue to allow fund providers to signal a certain level of sustainability without having to comply with binding fossil fuel exclusions. In addition, there are cases in which funds continue to have *PAB*-critical investments despite *ESMA*-relevant terms in their names – a clear case for national supervisory authorities to intervene and ensure a consistent and convergent implementation of the rules.

Against this background, the revision of the *SFDR* has a central role to play. The Commission's proposal for an *SFDR 2.0* is a step in the right direction on key aspects of fossil exclusions. **In particular, the introduction of robust minimum standards for the "sustainable" and "transition" categories and the explicit recognition that fossil fuel expansion can neither be sustainable nor contribute to transition represent important progress.** If the Commission's proposal were implemented in this way – and assuming consistent supervision – two credible product categories would be created that would effectively limit greenwashing in sustainable and transition-focused fund products.

**However, the fact that fossil fuel expansion is not excluded from all product categories remains a glaring problem.** As long as funds in the "ESG basics" category are allowed to continue investing in companies that develop new oil, gas or coal projects, old mistakes will be

perpetuated and a key loophole for greenwashing will remain. The term "ESG" conveys a clear sustainability claim to consumers, which is incompatible with the financing of fossil fuel expansion. **A credible framework for sustainable financial products therefore requires the mandatory exclusion of fossil fuel expansion from all product categories of the SFDR 2.0 - regardless of the ambition level of the respective product.**

The key finding of this study is therefore clear: **Effective greenwashing prevention requires that no fund marketed with sustainable, transition or ESG characteristics is allowed to contribute to fossil fuel expansion. Clear, uniform rules to exclude fossil fuel expansion from all product categories, combined with effective supervision, are crucial to ensure that sustainable investing lives up to its promises.**