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The evidence is accumulating and it is all pointing to the same conclusion: so-called sustainable funds are sustainable in name only.

After the SRI (Socially Responsible Investment) scam where 94% of funds marketed in France in 2020 were found to be exposed to fossil fuel companies, arms manufacturers, or to have very little connection with social or human rights, new research from Reclaim Finance exposes the greenwashing behind passive funds. 70% of the 430 passive funds with sustainability claims analyzed invest in companies developing new coal, oil, or gas projects, such as Glencore, TotalEnergies and Shell.

Once again, this demonstrates the urgent need for regulators to check the practices of investors and financial actors who market these funds. The objective is simple: to stop misleading savers and investors so that those who wish to put their money towards sustainable companies can truly do so.

To achieve this, regulators will need to establish minimum criteria to be respected by all funds that make extra-financial claims, with even tighter criteria for sustainable or transition-related funds. However, they will also need to ensure a posteriori control to track down and penalize those who engage in misleading environmental claims.

This regulation is all the more urgent as passive finance is on the rise, both in Europe and worldwide, and generally escapes the climate policies adopted by major asset management companies.

Investing passively means choosing to rely on indexes and prioritizing cost reduction over controlling asset allocation. This choice is as anachronistic as it is intolerable. Respecting climate objectives requires subjecting investment decisions to the red lines drawn by science and the environmental performance of companies.

The battle to get the French government to exclude fossil fuel developers such as TotalEnergies and ExxonMobil from SRI-labeled funds was long. The one looming over passive finance is likely to be even longer, given the significant financial stakes. There were some US\$ 13.3 trillion passively-managed assets as of the end of December 2023. In the absence of policies, it will be up to the regulators to intervene quickly. Complacency with greenwashing is a failure in their mandate as the watchdog for the financial market.

Lucie Pinson,
Director of Reclaim Finance

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CSDDD: European states must not u-turn!

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