



How to introduce best practices to prevent greenwashing

Practices and challenges for the Luxembourg banking industry

March 2026



Contents

| | |
|--|----|
| Introduction | 04 |
| Chapter 1: How to clarify the concept of greenwashing, practices and its consequences | 06 |
| Chapter 2: How to support banks and bankers to meet sustainability objectives | 21 |
| Conclusion | 30 |

How to introduce best practices to prevent greenwashing

The concept of greenwashing has gained considerable prominence within the financial sector. Despite its frequent use, its meaning remains unsettled and regulation in this area continues to evolve.

For banking institutions and market participants, the challenge lies not only in the lack of a harmonized European standard, but also in navigating diverging rules and expectations of numerous supervisory authorities. These complexities make it increasingly difficult to maintain consistency, transparency and reliability in sustainability disclosures. This discussion paper aims to clarify the complex issue of greenwashing risk within the banking and wider financial industries. It delivers a practical assessment of recent regulatory developments, directly addressing the uncertainties and compliance risks that banking professionals face when managing sustainability reporting.

Successfully addressing greenwashing is a critical priority for banks, as it affects confidence in ESG practices and the credibility of their sustainability commitments. This discussion paper explores emerging approaches to managing these claims in a rapidly evolving landscape.

By offering actionable insights into legal, operational and reputational risks, market participants are empowered to reinforce governance, foster trust, and meet evolving obligations under demanding market conditions.

This discussion paper is provided for informational and discussion purposes only. It does not constitute legal, regulatory, or supervisory advice, guidance, or interpretation, nor does it create any rights or obligations for any party.

Key challenges:

- The absence of a universally agreed-upon definition of greenwashing at the European Union (EU) level creates uncertainty and inconsistent supervision.
- Implementation is further complicated by overlapping EU legislation, including the Sustainable Finance Disclosure Regulation (SFDR), the European Union Taxonomy Regulation, and the Corporate Sustainability Reporting Directive (CSRD), coupled with varying national interpretations.
- Simultaneously, intensifying regulatory scrutiny requires financial institutions to meet stricter standards for sustainability disclosures and accountability.

Our aim in this discussion paper is to showcase best practices by:

Our aim in this discussion paper is to showcase best practices by developing precise internal definitions aligned with evolving guidance from European and national authorities; strengthening accountability by integrating ESG assertions into existing compliance and risk management procedures and implementing effective controls to substantiate all sustainability claims; promoting transparency through disclosures supported by clear methodologies and verifiable data; and encouraging continuous training and constructive dialogue with regulators and industry stakeholders to achieve consistent interpretation and ongoing improvement.



Chapter 1

How to clarify the concept of greenwashing practices and its consequences

I. Greenwashing myth and reality

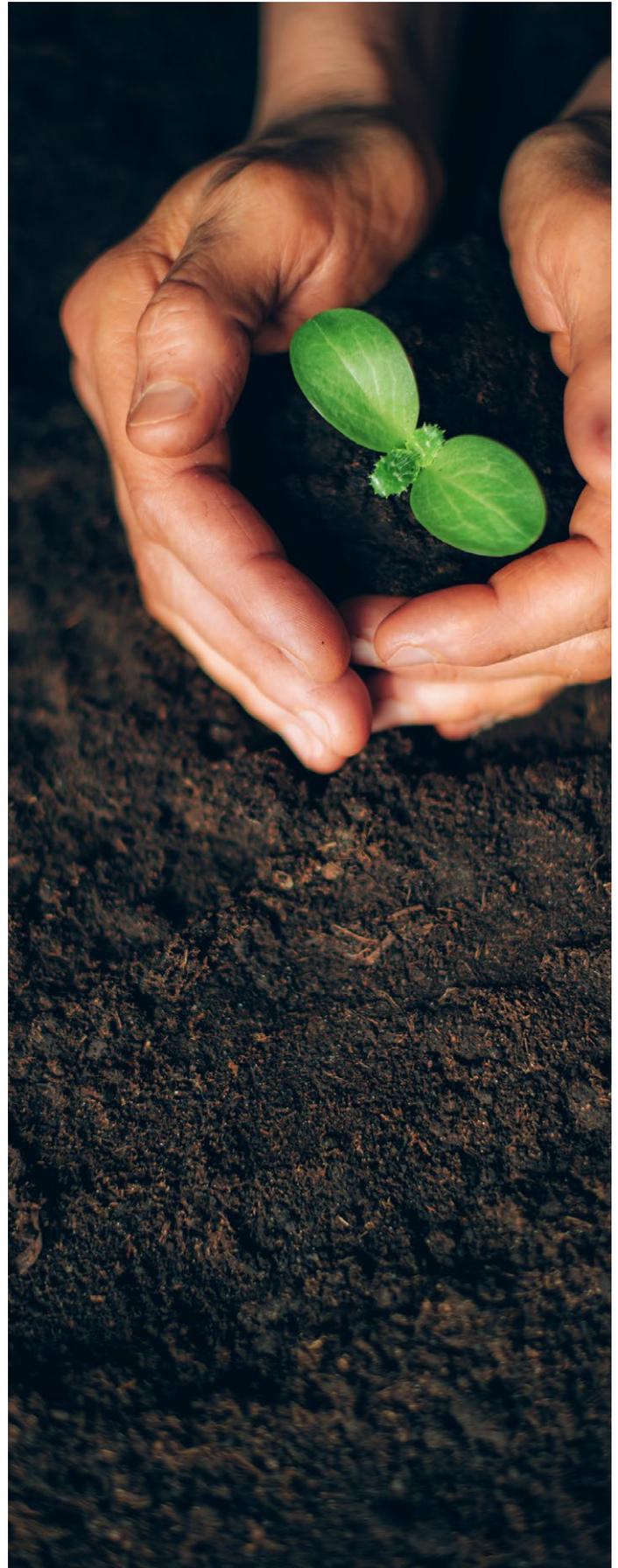
a. What does “greenwashing” mean?

Despite the widespread use of the term greenwashing, its definition and practical application remains unclear, and there is no commonly accepted understanding among financial market participants.

At the EU level, no consensus has been reached on a clear definition, partly due to the involvement of multiple national competent authorities (NCAs). The concept of greenwashing risk is addressed across various directives and regulations, whose national implementations may differ from one county to another. Given the absence of a harmonized definition among the NCAs, this paper will adopt the definition provided by the European Supervisory Authorities (ESAs).

The ESAs comprise the European Insurance and Occupational Pensions Authority (EIOPA), the European Banking Authority (EBA), and the European Securities and Markets Authority (ESMA). According to the ESAs¹, greenwashing is defined as *“a practice whereby sustainability-related statements, declarations, actions or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.”*

1. [EBA/REP/2024/09 – Greenwashing Monitoring and Supervision](#)



In line with the ESAs definition, the Commission de Surveillance du Secteur Financier (CSSF)² defines greenwashing as *“a deceptive practice whereby certain companies present themselves as more sustainable than they actually are, misleading investors into believing their money is being used for environmental benefit when this is not always the case.”*

The multiplication of definition within the EU highlights the challenges faced by bankers to properly identifying and mitigating greenwashing risks.

More generally, this term greenwashing is used to describe unfair, unclear, or misleading disclosures related to green, sustainable, ESG, impact, or sustainable investment.

Accurate and transparent sustainability information is essential for maintaining public trust and supporting informed decision-making. However, the lack of legal certainty creates unnecessary complexity for banks, making it challenging to efficiently manage and mitigate this risk. Moreover, the term greenwashing is increasingly used in a broad and sometimes indiscriminate manner to criticize banking activities. This trend risks undermining meaningful regulatory efforts and may obscure genuine progress in sustainable finance.

What are the different forms of greenwashing?

Banks have a responsibility to communicate sustainability information in a transparent manner and to maintain the trust of their clients. They also bear a legal and regulatory responsibility to identify and describe all forms of greenwashing, which represents the first step toward ensuring disclosures that are fair, clear, and not misleading.

It is also important to distinguish between voluntary and involuntary greenwashing.

- **Voluntary greenwashing:**

It can be described as the deliberate misrepresentation or provision of false information. This may occur through the omission of relevant details or the intentional dissemination of misleading statements to customers. For example, a bank may design a financial product in which the environmental or sustainability characteristics are exaggerated or inaccurately presented. Such product may fail to comply with existing sustainability-related regulations, potentially include activities or sectors incompatible with sustainability objectives, and lack a transparent methodology or supporting evidence. In this case, the bank engages in greenwashing practices.

The presence of intent or gross negligence in the use of incorrect information, or the omission of relevant facts, are important factors in determining whether an action or omission constitutes greenwashing.

In addition to voluntary greenwashing, other related terms have emerged that further illustrate the complexity of understanding sustainability practices for bankers and investors, such as greenwishing, greenhushing, and greenbleaching.

Among these, only “greenwishing” can be considered a form of voluntary greenwashing. It refers to the practice by banks of presenting ESG factors as fully integrated into the portfolio investment process. For example, banks’ websites and brochures may include statements claiming that ESG factors are “fully integrated” into

portfolio investment processes, without providing any details on methodologies, controls, or processes used to embed these factors into decision-making.

By contrast, greenhushing and greenbleaching are generally consequences of the complex and unstable sustainability framework, rather than deliberate misrepresentation.

These two terms describe opposite communication practices related to corporate environmental commitments. Greenhushing involves deliberately keeping sustainability efforts quiet or downplaying them, often out of fear of being accused of greenwashing. Greenbleaching as defined by ESMA³, occurs when a provider of investment services or products that is, in practice, “green” chooses not to claim this status to avoid additional regulatory requirements and potential legal or regulatory risks.

Voluntary greenwashing as a practice is very limited. The main source of greenwashing is involuntary, arising from a variety of causes and appearing in multiple forms.

2. [Greenwashing and green finance: the CSSF calls for vigilance and informs on www.letzf.in.lu – CSSF](https://www.letzf.in.lu/en/press-releases/2022/06/22/greenwashing-and-green-finance-the-cssf-calls-for-vigilance-and-informs-on-www.letzf.in.lu)

3. ESMA 22-106-4384 – Advice to ESMA – SMSG advice to ESMA on the ESAs’ Call for Evidence on Greenwashing

In December 2024, the UK Advertising Standards Authority (ASA) rules against a bank for engaging in greenwashing in a paid LinkedIn advertisement that promoted the bank's financing of renewable energy and its support for the low-carbon transition.

The ASA concluded that the advertisement created the misleading impression that a significant share of bank' investments were directed towards renewables energy projects, while in reality, the bank's portfolio still included substantial investments in fossil fuels and other carbon-intensive industries.

• **Involuntary greenwashing:**

A clear distinction must be drawn between two forms of greenwashing. On the one hand are cases involving intentional misrepresentation or gross negligence; on the other are occurrences that are not characterized by intent or gross negligence. The presence of intent or gross negligence in the use of incorrect information or the omission of relevant facts is a key factor in determining whether an action or omission constitutes greenwashing.

The main sources of involuntary greenwashing can be categorized as follows:

• **Definition-based explanation:**

Rules and terminology evolve frequently, which may result in the use of inaccurate or outdated terms over time.

• **Compliance gap explanation:**

Overstatements may occur due to a lack of awareness among employees, weak or outdated controls, or insufficient review by the third line of defense.

• **Communication misalignment:**

Inconsistencies can arise between different documents or communications provided to clients.

• **Over-reliance on third-party labels:**

Financial market participants may rely excessively on ESG ratings or external certifications without proper due diligence or ongoing monitoring, which may be flawed or misaligned with regulatory expectations.

Involuntary greenwashing is the most common form of greenwashing, as it can affect all banking activities and spread throughout the banking system.

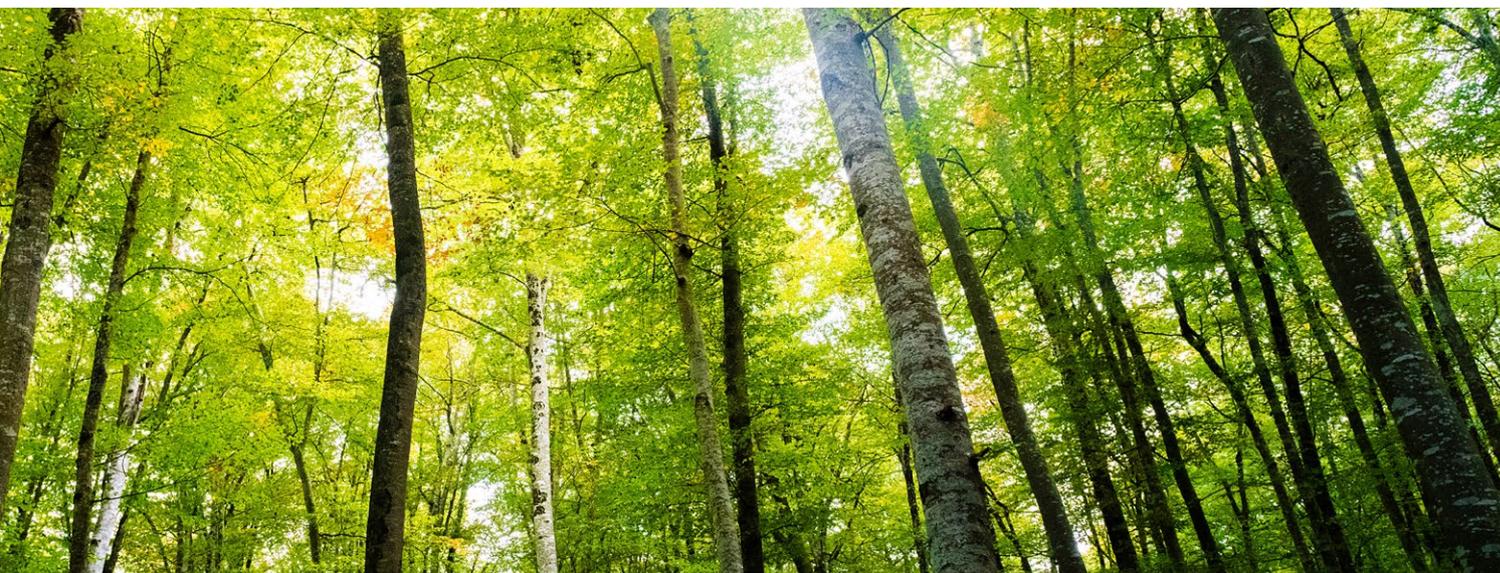
A constructive starting point has been set by the French supervisor AMF⁴, which emphasizes that "what you say should be what you do" and "what you do should be reflected in the documents."



Key takeaway

The terminology related to greenwashing is far from being commonly accepted among financial market participants, and the regulatory framework is broad and complex. While the regulatory landscape is complex and constantly evolving, this lack of clarity does not prevent banks from adopting best practices.

4. [ESMA 22-106-4384 - Advice to ESMA - SMSG advice to ESMA on the ESAs' Call for Evidence on Greenwashing](#)



b. Regulatory context

Europe's leading role in regulating greenwashing

The EU plays a leading role in developing a regulatory framework for sustainable finance. Since 2019, sustainable finance has assumed an increasingly prominent position in the European banking sector, becoming a fully integrated part of banking regulation. This shift has been accompanied by the gradual standardization of the applicable regulatory framework, aimed at clarifying standards and establishing harmonized requirements for all market participants.

Banks are required to comply with a broad set of regulations, particularly in the areas of transparency, financial product classification, and ESG risk management, to meet supervisory expectations. However, the rapid and continuous evolution of these regulations presents significant challenges for financial institutions in terms of regulatory interpretation, effective implementation, and maintaining operational consistency across business lines.

In light of the growing importance of sustainable finance, both European and National supervisory authorities have increasingly embedded sustainability considerations into their regulatory and supervisory frameworks. This enhanced supervisory focus aims to ensure the accuracy, reliability, and consistency of ESG disclosures provided by financial institutions, while also mitigating the risk of greenwashing, particularly in cases where regulatory standards are misunderstood, inconsistently applied, or only partially implemented.

The EU is currently the most advanced region in the world in sustainable finance, developing new regulations while adapting existing ones. These measures intended to increase transparency and comparability for investors, partners, and counterparties and, over time, to strengthen the credibility of sustainable finance as a tool for supporting the transition to a low-carbon economy. However, the rapid implementation of the sustainable finance regulatory framework has revealed certain inconsistencies, both in the coordination of the regulations and in their alignment with existing requirements, raising legitimate concerns among financial market participants.

The broader EU Framework: MiFID II, SFDR, EU Taxonomy, and CSRD

The EU has established a regulatory framework for banks that design, market, and manage financial products linked to sustainability. Key components of this framework include the Markets in Financial Instruments Directive (MiFID II), the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy, and the Corporate Sustainability Reporting Directive (CSRD). These regulations form an integrated system aimed at enhancing the transparency, consistency, and reliability of sustainability-related information.

However, the accelerated implementation of this framework has revealed certain inconsistencies, particularly regarding definitions across the various regulations. As mentioned in the previous section, the term greenwashing is defined differently under MiFID II, CSRD, and the EU Taxonomy, generating confusion for financial institutions and complicating implementation efforts.

MiFID II, particularly through the amended Delegated Regulation (EU) 2021/1253, has integrated sustainability as a core component of suitability assessments. Its recital defines greenwashing as *“the practice of gaining an unfair competitive advantage by recommending a financial instrument as environmentally friendly or sustainable, when in fact that financial instrument does not meet basic environmental or other sustainability-related standards.”*

The EU Taxonomy (Regulation (EU) 2020/852 – Recital 11) defines greenwashing as *“the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact basic environmental standards have not been met.”* In comparison, Recital 2 of Directive (EU) 2022/2464 (CSRD) refers to greenwashing as *“financial products that unduly claim to be sustainable by recommending a financial instrument as environmentally friendly or sustainable, when in fact that financial instrument does not meet basic environmental or other sustainability-related standards.”* As a result, the banking sector must navigate three different definitions of the same concept, creating ambiguity and complexity in regulatory interpretation and compliance efforts.

This lack of consistency across applicable regulations is further reinforced by the fact that some EU Member States impose additional national requirements on sustainability disclosures, which may reduce their attractiveness as financial centers. Financial institutions are calling for greater regulatory stability and transparency, as well as a more proportionate approach to supervisory expectations. In response, the European Commission (EC) initiated the Omnibus package in November 2024 covering CSRD, CSDDD and EU taxonomy aimed at simplifying and clarifying regulatory requirements.

In parallel with this simplification process, the Sustainable Finance Disclosure Regulation (SFDR) is set to undergo a revision aimed at making it more practical and understandable for market participants. Initial consultations indicate that the revised framework could adopt a classification system similar to the UK’s Sustainability Disclosure Requirements (SDR), introduced by the Financial Conduct Authority (FCA).

A brief look beyond Europe

The SDR and the EU SFDR are both sustainability disclosure regimes applicable to financial market participants.

The UK SDR, led by the FCA, aims to provide investors with more comprehensive, consistent, and comparable sustainability information from issuers and investment managers. It applies to issuers of bonds and shares listed on a UK regulated market, as well as to UK-based investment managers.

By contrast, the SFDR applies to entities established in the EU and also extends to financial products marketed in the EU, regardless of the location of the entity offering them.

A key distinction lies in the classification frameworks. The UK SDR proposes three labels (Focus, Impact, and Improve), which do not correspond directly to the SFDR product categories under Articles 6, 8, and 9. The FCA’s labels reflect different investment objectives, whereas the SFDR categories imply a hierarchy of sustainability ambition.

In terms of regulatory approach, the UK SDR applies only to UK-based companies, while the SFDR covers EU-based entities as well as non-EU entities marketing products in the EU. Moreover, while the SFDR primarily emphasizes institutional transparency, the UK SDR is more consumer-oriented, placing greater emphasis on clear, accessible information for retail investors through the use of labels and simplified disclosures.

Table 1: Main differences between EU and UK

| Aspect | SFDR (EU) | SDR (UK-FCA) |
|---|--|--|
| Objective | Improve transparency on sustainability-related disclosures | Prevent greenwashing and enhance clarity and comparability for investors |
| Disclosure requirements/Product classification | Article 6 (no specific ESG objective), Article 8 (ESG promoting) & Article 9 (sustainable objective) | Three-label system: Sustainable focus, improvers, and sustainable impact” |
| Regulatory authority | European Commission/ESAs | Financial Conduct Authority (FCA) |
| Scope | Applies to financial market participants (FMPs) and advisors in the EU | Applies to UK-based asset managers and product providers |
| Disclosure approach | Entity-level and product-level disclosures | Emphasis on clear, consumer-facing disclosure with anti-greenwashing rules |

In 2024, the FCA also introduced an anti-greenwashing rule requiring that all sustainability-related claims be fair, clear and capable of being substantiated. The rule and its finalized guidance (FG24/3) came into force on 31 May 2024, providing firms with practical direction on how to meet these expectations⁵.

The FCA's approach is broadly consistent with the EU's sustainability disclosure framework—particularly the ESMA⁶ supervisory briefing—across three key areas:

- 1. Ensuring that sustainability claims are support by evidence.**
- 2. Requiring that all communications be clear, accurate and not misleading.**
- 3. Promoting independent verification through well-documented internal processes.**



In the United States (US), the Securities and Exchange Commission (SEC) has proposed and implemented new rules on ESG disclosures and fund naming to strengthen standards around how financial products represent their environmental or social attributes. On 6 March 2024, the SEC adopted final climate-related disclosure rules for registrants and advanced amendments to the fund “Names Rule,” with phased compliance dates beginning in 2025⁷. At the same time, several ESG-related proposals have been paused or withdrawn, underscoring the dynamic nature of the regulatory landscape.



The SEC's approach mirrors the “truth-in-labelling” focus seen in both the EU and UK frameworks, emphasizing that ESG claims must be clear, substantiated, and verifiable. While the EU and UK rules are generally more prescriptive in the structure and content of disclosures, the SEC's rules pursue the same core objectives enhancing transparency, preventing misleading sustainability claims, and strengthening investor protection and accountability.



Across Asia-Pacific and Australia, regulators are likewise tightening their expectations. Singapore and Hong Kong have introduced climate-related disclosure requirements for financial institutions, Japan has expanded its sustainability reporting standards, and Australia is preparing to implement mandatory climate disclosures. Together, these developments illustrate that the global shift toward clearer, evidence-based sustainability claims extends well beyond Europe and North America.



Although terminology and enforcement mechanisms differ across jurisdictions, these regimes share a common foundation of transparency, evidence, and comparability. This growing alignment suggests that anti-greenwashing standards are evolving from regional initiatives into an emerging cross-jurisdictional norm, a trend of particular importance for banks and financial institutions operating across multiple markets.

5. [FG24/3: Finalized non-handbook guidance on the anti-greenwashing rule](#)

6. ESMA 36-429234738-154 - Thematic notes on clear, fair & not misleading sustainability-related claims

7. [SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#)

II. Greenwashing risks spread through all bank's activities

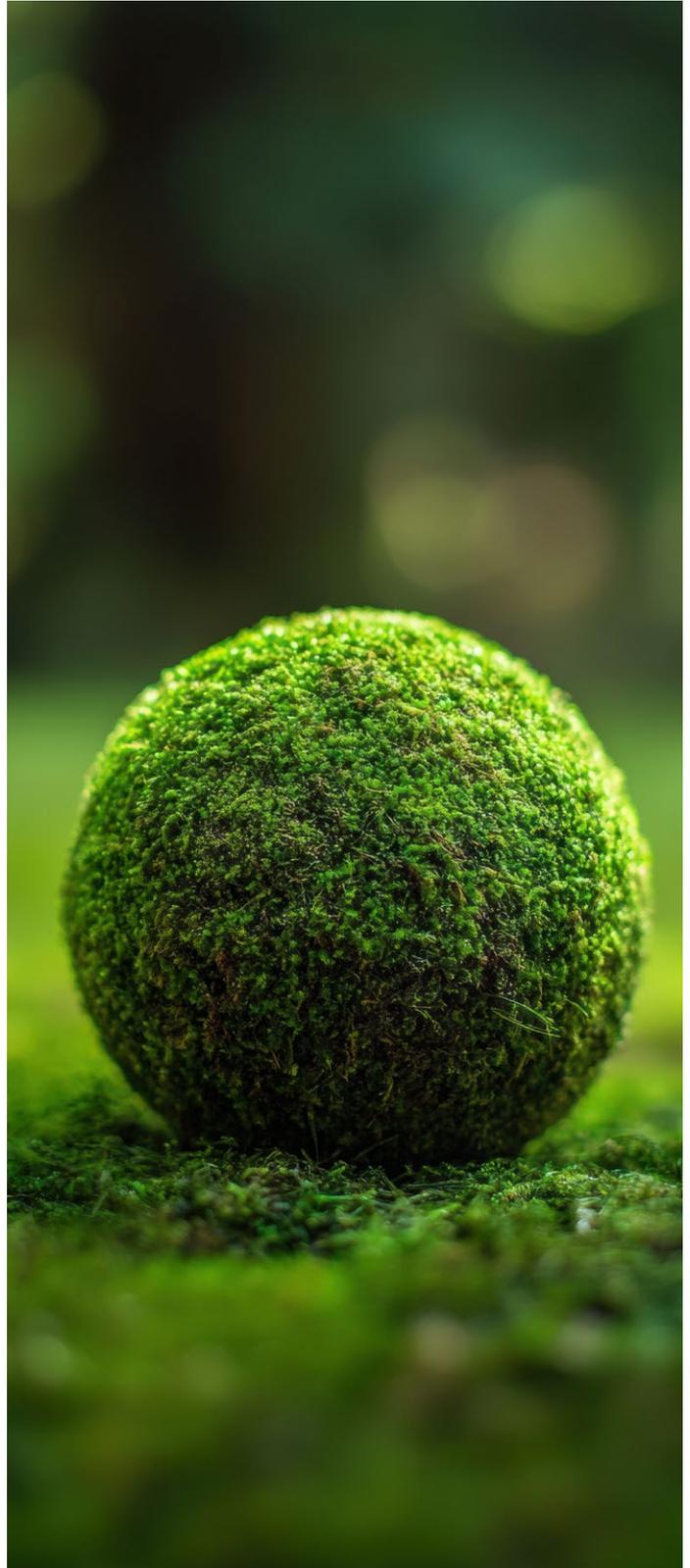
a. Greenwashing can occur at different levels

The banking sector plays a pivotal role in curbing greenwashing and ensuring that sustainability-related disclosures are fair, clear, and not misleading. To address this challenge effectively, banks must identify how greenwashing risks could arise and propagate across all areas of their operations.

Greenwashing itself does not constitute a standalone risk but rather acts as a risk factor that can affect all the bank's activities. The EBA defines roles of trigger, spreader and receiver as risks of spreading unfair, unclear and misleading information.

- **Trigger:** Refers to the initiation of greenwashing through the offering of products marketed as green or sustainable that are, in fact, not genuinely green or sustainable.
- **Spreader:** Refers to market participants who use communications to enhance or exaggerate the perceived green characteristics or features of a financial service, ESG rating provider, investment adviser, or financial product.
- **Receiver:** Refers to the buyer to whom such a product is sold, where the product is either not sustainable or not aligned with applicable regulations or the terms as communicated.

Beyond these three roles, the greenwashing risk factor can affect banks at multiple levels from corporate governance and strategy to product design and advisory services. The risks of unintentional greenwashing can manifest in various ways within banking activities, particularly as the integration of sustainability has been accelerated by regulation.



Greenwashing at entity level

The evolving regulatory landscape has compelled banks to adopt new practices to meet growing compliance obligations while simultaneously responding to rising client expectations around sustainability. This dual pressure has made it essential for banks to re-examine and clearly define their governance structures with respect to their commitments to sustainable finance. As a result, bank governance has been required to take a decisive stance on strategic choices related to sustainable finance.

The adoption of standards such as the UN Principles for Responsible Banking (UN PRB), the Global Reporting Initiative (GRI), the UN Standard Development standards (UN SDG), the International Sustainability Standards Board (ISSB), or the Task Force on Climate-related Financial Disclosures (TCFD) exemplifies a bank's commitment to change. These steps are often accompanied by a broader cultural transformation that reinforces sustainability within the institution's values and day-to-day operations.

Such governance initiatives demonstrate a bank's dedication to integrating sustainability at the core of its business model and to positioning itself as a responsible participant in the transition to a greener economy. This strategic alignment typically forms part of a broader green strategy guiding portfolio alignment, investment policies, risk frameworks, and client engagement.

However, banks must remain vigilant to ensure that their sustainability communications are precise, clear, credible, and regularly updated, to avoid accusations of unfair commercial practices or greenwashing. Effective governance and transparent disclosures practices are therefore critical to mitigating these risks, maintaining stakeholder trust, and

ensuring that sustainability commitments translate into tangible and measurable outcomes. A bank's governance framework should reflect both its ambition and its operational capacity to implement an effective and credible green strategy.

Once the desired level of commitment is defined, governance mechanisms must ensure that strategic direction, resource allocation, and internal capabilities are fully aligned to support the bank's sustainability ambitions. The institution must clearly define its objectives and ESG commitments within a broader strategic plan, prompting a reassessment of its internal organization and external communications.

Ultimately, the management body holds primary responsibility for overseeing and approving this strategy. Its members must remain fully aware of sustainability framework and ensure that all public claims are substantiated, thereby reducing the risk of greenwashing.

Greenwashing at product and services level

Banks have had to adapt both their entity-level governance and their product and service offerings to integrate evolving regulatory developments and respond to the changing client expectations. This has required a reassessment of how products and services are classified and communicated, creating numerous challenges particularly around distinguishing between assets covered by the SFDR and those outside its scope.

In Luxembourg, the financial center faces additional complexity due to the geographical regulatory requirements of its international client base, further intensifying the challenges for banks operating in this environment.

• Classification of SFDR products

The first major sustainability regulation applicable to financial products in the EU was the SFDR (EU 2019/2088), followed by its related delegated regulation, which clarified application and reporting requirements.

The SFDR improve transparency on sustainability-related disclosures, but its current product classification framework has proven complex, particularly for retail investors. Banks are required to explain the link between the MiFID sustainability questionnaire and the SFDR framework, yet the two regimes were not originally designed to work seamlessly together. The SFDR was not created with retail investors in mind, and its limited interoperability with MiFID II makes it less suitable for this segment.

Under the SFDR, banks must assess clients' sustainability preferences across three criteria:

Principal Adverse Impacts (PAIs)

- EU Taxonomy alignment; and
- Sustainable investment (as defined in SFDR Article 2§17).

The limited adoption of MiFID sustainability preferences is driven by the lack of interoperability between the SFDR and MiFID criteria, as well as the inherent complexity of the framework.

The SFDR classifies financial products within three categories:

- Article 6: Products with no sustainability features;

- Article 8: Products promoting environmental or social characteristics; and
- Article 9: Products with sustainable investment as an objective.

Articles 8 and 9 are monitored based on the degree of alignment with sustainable finance objectives and the consideration of Principal Adverse Impacts (PAIs), and they introduce three reporting requirements: pre-contractual documentation, annual reporting, and website disclosures. In addition, to produce these disclosures, banks must collect relevant data and verify its accuracy.

In practice, some banks have chosen to classify products as Article 8, even when the investment strategy could arguably qualify under Article 9, in order to limit exposure to greenwashing risks when data accuracy or availability cannot be fully guaranteed. The distinction between Articles 8 and 9 therefore remains a central concern for financial market participants and continues to be the subject of ongoing regulatory clarification through Q&As and supervisory guidance.

In response to market feedback and practical implementation challenges, the European Commission's forthcoming review of the SFDR proposes transforming the current Article-based classification system into a product labelling regime, potentially aligning more closely with the UK's SDR approach.

• Non-SFDR products

The SFDR is based on a classification system that does not encompass all financial assets. Its scope remains limited, focusing primarily on UCITS funds, alternative investment funds (AIFs), insurance-based investment products, pension products, and portfolio

management services. Consequently, many other types of financial instruments and asset classes fall outside their coverage, leading to regulatory grey areas and inconsistencies in how ESG characteristics are disclosure and assessment across the market.

Among these non-covered assets are listed equities, private equity, real estate, and private debt, whether held directly or through discretionary mandates. Furthermore, certain financial products are marketed outside the EU regulatory framework, adding an additional layer of complexity. This issue is particularly significant for the private banking sector, where portfolios often include a large proportion of assets that are not SFDR-eligible. As a result, financial institutions must develop internal methodologies to assess the sustainability profile of these products. But the absence of standardized ESG classifications makes it challenging to evaluate such assets accurately and transparently in terms of their alignment with sustainability objectives.

Private banks face several major challenges in this context, including:

- Building robust internal ESG classification models for non-SFDR products;
- Ensuring consistency between internally assessed assets and those officially classified under SFDR; and
- Thoroughly documenting their methodology to meet the transparency and suitability requirements under MiFID II.

This lack of standardization increases the risk of inconsistencies, and potentially of practices that regulators may consider unsatisfactory or misleading, which could ultimately be perceived as greenwashing.



b. Greenwashing can happen at different stages of the lifecycle

Sustainable finance is now fully integrated into banking activities and embedded at every stage of a product's lifecycle. This lifecycle is transversal, encompassing strategic planning, product development, manufacturing, and distribution.

The integration of sustainability criteria into risk management and control systems is continually evolving, driven by both regulatory developments and the need to address previously identified gaps. The main challenges in implementing stem from interpretation issues and the level of granularity required for disclosed information. Understanding how greenwashing risks can emerge at different stages of the product and service lifecycle is crucial to preventing them.

Adapting product manufacturing in an evolving ESG and regulatory environment

In this evolving context, product manufacturers must reassess and adapt their product development processes to ensure alignment with increasing regulatory expectations. This includes clearly defining the target market, integrating client sustainability preferences, conducting comprehensive product testing, and ensuring adherence to all applicable Product Oversight and Governance (POG) requirements.

Manufacturers must also ensure that distributors receive clear, accurate, and up-to-date information regarding each product's key characteristics, risks, limitations, and total cost to consumers. When selecting distributors, it is essential to verify that they possess the knowledge, capability, and operational capacity to position products correctly in the market. Distributors must also be capable of communicating product features and

ESG-related risks clearly, accurately, and appropriately for the target market, a particularly critical consideration in Luxembourg given the nature of its banking landscape.

In addition to product design and distributor selection, manufacturers bear responsibility for the ongoing supervision of distributor activities to ensure compliance with POG requirements. This includes regular reviews of marketing materials and client communications; and taking corrective action where misalignment with the product's intended purpose is identified.

The increasing complexity and rapidly evolving nature of ESG standards heighten the risk of misrepresentation of sustainability features by distributors. To mitigate this risk, manufacturers must implement robust oversight processes, including adequate training, clear documentation, and continuous monitoring.

The EBA consultation paper on the POG guidelines proposes revisions to clarify and strengthen requirements related to ESG features. The integration of sustainability regulations introduces new obligations for manufacturers, requiring updates to the product manufacturing process in line with the latest amendments.

Key considerations for preventing greenwashing in product design - Stage 1:

To effectively address greenwashing risks, the product manufacturing process should incorporate the following considerations during the design phase:

- **Define the product's objective:** Does it incorporate sustainability characteristics? If yes, what is the objective, and is the product aligned with an existing framework?

- **Identify the applicable regulatory framework:** Ensure compliance with regulations based on the geographic area of distribution.
- **Define eligible assets or underlying instruments:** Respect the bank's exclusion rules and establish a clear ESG selection methodology.
- **Establish measurable and verifiable analysis criteria:** For sustainability and other relevant factors.
- **Verify disclosure materials:** Ensure all documents and marketing materials meet regulatory requirements for reporting and distribution.
- **Integrate sustainability into product governance:** Involve the new product committee and consult control and compliance functions.
- **Ensure proper product distribution:** Conform that distributors market the product in accordance with its objectives.

By embedding these steps into product development, banks can strengthen governance, improve transparency, and mitigate greenwashing risks across the product lifecycle.

The key principles of product governance for manufacturers can be summarized as follows - Stage 2:

Product design and pricing

Product design, including product charges, should meet the needs of the target market and the firm should identify groups for whom the product is unlikely to be suitable.

- Firms need to consider the **impact of new products** on the orderly functioning of the market. This includes the obligation for firms to ensure that the proposed products do not adversely affect clients or market integrity.
- **The nature of the product, cost and charges, risk-reward profile or liquidity**, or its innovative character should be assessed to ensure it is appropriate; if, and when, a significant event occurs, the firm should be ready to take appropriate action. The frequency of the reviews of the product must be determined by considering, among others, its characteristics and complexity.
- Firms should perform a **scenario analysis** of the product, in order to assess risks.
- Firms should use a sufficient level of granularity to ensure that only products with sufficiently comparable characteristics and risk features are grouped together ("**clustering approach**").
- Firms should perform regular reviews of the product in order to make sure it remains consistent with the needs characteristics and objectives, including **any sustainability** related objectives, for its intended target market and further identify crucial events that would affect the potential risk or return.

Product review and monitoring

- The **charging structure** should be assessed to ensure it is appropriate.
- Firms need to ensure that **staff receives appropriate training** on the products and has the necessary expertise.
- The management body should have effective **control and oversight** over the product governance.
- The compliance function at the firm should **monitor the product governance**, the development and periodic review of product governance arrangements.

Collaboration and distribution

- Firms working together to develop a single product should have a written agreement setting out their share of responsibilities.
- Manufacturers should provide relevant information to **distributors**.
- The **distribution strategy** of a product should also meet the needs of the target market. Accordingly, firms should identify:
 - groups of clients for whom a specific product is **suitable**, by analysing the characteristics and objectives of the product (active target market), and
 - groups of clients for whom the product is **unsuitable** (negative target market). For products which consider sustainability factor firms are not expected to identify a negative target market with respect to their sustainability related objectives.

Note: this section is extracted from the ABL Industry Guidelines on MiFID II - Investor Protection.

Article 9 of the MiFID II Delegated Directive further specifies the above product governance obligations for manufacturers. The ESG features and regulations belong to the process for manufacturers.



Integrating ESG into distribution: A growing responsibility for distributors

By definition, the distributor is responsible for establishing and maintaining a clear understanding of the client's profile, and for ensuring over time that the products held continue to align with the client's expectations and preferences.

While product oversight and governance is not a new responsibility for bankers, it has taken on new dimensions with the introduction of MiFID II sustainability preferences⁸. The responsibilities of manufacturers and distributors are increasingly converging, requiring distributors to continually reassess and adapt their sales processes, including marketing practices, which may ultimately affect client returns.

Sustainability preferences are not always aligned with the characteristics of products currently available on the market, creating additional challenges for bankers. Moreover, access to reliable ESG data remains a persistent barrier to the development and transparent distribution of sustainable financial products. The banking sector therefore hopes that the upcoming revision of the SFDR will simplify product categorization and enhance investor understanding and trust, thereby facilitating both product development and client adoption.

In this context, distributors must adapt their end-to-end distribution processes from product onboarding to client communication and post-sale monitoring to effectively integrate sustainability considerations and manage regulatory risks.

Key questions for distributors integrating ESG considerations

To structure this transformation, distributors should consider the following guiding questions:

- What internal mechanisms are in place to identify and manage potential greenwashing risks associated with distributed products?
- Is there a clear and verifiable methodology for defining the target market, particularly regarding clients' ESG preferences?
- How is consistency tested between a product's ESG claims and its actual features or underlying assets?
- What training programs are provided to sales and advisory teams to ensure they understand ESG topics and can integrate them effectively into client discussions and product promotion?
- How is it ensured that all marketing materials, branding, and commercial communications are fair, clear, and not misleading regarding ESG characteristics?

- What controls and monitoring processes are in place to prevent the overstatement of a product's sustainability impact in promotional activities?
- How is client feedback collected, analyzed, and used to refine ESG products and services over time?

Failures in both product distribution and manufacturing can result in significant client detriment, lead to regulatory sanctions, and undermine trust in the market. Sustainability-related complaints and claims are becoming increasingly frequent, as noted in the latest reports from EBA. In this evolving landscape, the ability of manufacturers and distributors to credibly and consistently integrate ESG considerations into their distribution models will be essential, not only to ensure regulatory compliance, but also to preserve client confidence and uphold market integrity.

8. Delegated Regulation 2021/1253 - Sustainability preferences

Product governance⁹ rules for distributors can be summarised as follows:

- Before distributing a product, the management body of the distributor should implement adequate product governance arrangements in order to ensure that the products are compatible with the needs, characteristics, and objectives, including sustainability related objectives, of an identified target market and are consistent with the distribution strategy.
- Before distributing a product, firms should consider for which target market the product is likely to be compatible. Distributors should refine the manufacturers target market and align with the concepts used in the context of the suitability and appropriateness arrangements. Once the target market identified, firms will need to identify any groups of investors for whom the product is unlikely to be compatible.

The arrangements should be subject to a periodic review, considering any significant events that could materially affect the potential risk. Similarly, products should be reviewed regularly to ensure they continue to meet the needs, characteristics, and objectives of the target market, including any sustainability-related aspects. Where issues are identified, firms should adjust their distribution strategy or other relevant processes accordingly.

- Firms should proactively provide manufacturers with information on sales and, where appropriate, the results of their periodic reviews.
- Firms should collect or request all the relevant information required for the distribution process from manufacturers, rather than relying solely on the manufacturer's defined target market. They should assess how the defined target market aligns with their own client base and determine whether access to underlying assessments such as aggregate analyses is necessary, particularly when distributing complex products.
- The distribution strategy should align with the needs of the target market and take into consideration how products will be marketed.
- The firms' compliance function should monitor both the development and periodic review of product governance arrangements.
- Firms must ensure that staff receives appropriate training and possess the necessary knowhow.
- The firms' management body should exercise effective control and oversight over the entire process.
- If the manufacturer is not subject to MiFID, the distributor must take all reasonable steps to obtain reliable and adequate product information and ensure that the product is distributed in accordance with the target market's objectives, characteristics, and needs.
- In case of a distribution chain (e.g., where multiple firms collaborate to distribute a sole product), responsibility ultimately lies with the final distributor. However, firms should share relevant information within the chain to ensure that product governance obligations are properly applied throughout the distribution process.

Note: this section is extracted from the *ABBL Industry Guidelines on MiFID II - Investor Protection*.

9. Delegated Regulation 2021/1269 - Integration of sustainability factors into the product governance obligations

c. Impact in case of failure at one of those stages

The previous sections have highlighted that greenwashing risks can arise at various levels within a bank's operation, from entity-wide commitments to product design and client-facing services. These risks span the entire operational lifecycle, including strategy formulation, product development, marketing, distribution, and ongoing monitoring. Among these, the most prominent and interrelated risks are reputational, legal, and financial.

• Reputational risk

Of all the potential impacts of greenwashing, reputational risk remains the most immediate and far-reaching. As stakeholder expectations regarding sustainability transparency continue to grow, unsubstantiated claims can quickly erode confidence. The resulting loss of trust can trigger a chain reaction, including client attrition, negative media coverage, and intensified regulatory or supervisory scrutiny. Reputational damage can also impair the bank's ability to attract and retain talent, particularly those who value alignment between corporate values and business practices. Over time, diminished credibility can weaken employee engagement, institutional culture, and long-term competitiveness.

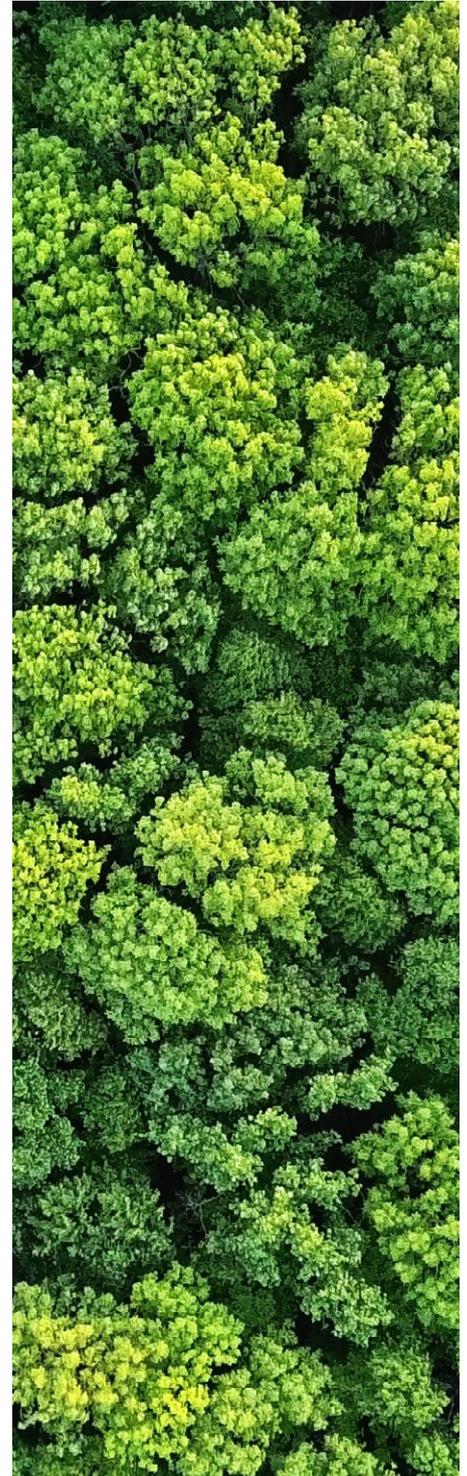
• Legal risk

The regulatory landscape governing sustainability-related disclosures and product classification is evolving rapidly. As noted, the EU frameworks such as the EU Taxonomy, MiFID II, the SFDR, and CSRD establish clear expectations for the accurate and substantiation of ESG

claims. Banks must therefore ensure that all sustainability statements are backed by verifiable data and supported by robust data governance processes. Supervisory authorities are increasingly vigilant regarding potential greenwashing practices and have demonstrated their willingness to investigate and impose sanctions when appropriate. Consequently, legal risk has become an increasingly material concern for institutions operating in this space.

• Financial risk

Greenwashing allegations can also have direct financial repercussions. Loss of investor confidence in sustainability-linked products may lead to reduced asset inflows, higher redemption rates, and an increased cost of capital. In some cases, institutions may lose access to specific financing channels or ESG-labelled funding instruments. Furthermore, perceived deficiencies in ESG governance or data integrity can negatively impact credit ratings, by extension influencing the bank's overall funding costs, and valuation¹⁰.



10. [Greenwashing, bank financial performance and the moderating role of gender diversity - ScienceDirect](#)

Chapter 2

How to support banks and bankers to meet sustainability objectives

I. How to integrate sustainability features into corporate governance

The second part of this discussion paper highlights initiatives undertaken by banks to address the challenges outlined in the first section. It draws on a combination of surveys and discussions with ABBL member banks, examples of best practices, and broader market observations within Luxembourg's banking sector. ABBL members shared valuable insights that illustrate how banks are embedding sustainability into their corporate governance and product development.

Participating member banks represent diverse banking activities, sizes and geographical footprints. This diversity offers meaningful perspectives on how sustainability considerations can be integrated into governance frameworks, as well as into the design, development and distribution of products and services.

Integrating sustainability principles remains an ongoing, cross-cutting effort that extends to areas such as corporate communication, internal control frameworks and data management. Each institution's governance framework shapes how sustainability is embedded in strategic and operational decisions. While all banks comply with regulatory requirements, those with a strong sustainability ambition, or "green appetite," go further. A high green appetite drives the development of a green strategy, influencing internal processes, external practices, and product design.

It is important to distinguish between financial institutions' ambitions and their regulatory compliance obligations; voluntary commitments guide actions and signal green ambitions to the market,

clients and counterparties. These include the UN Principles for Responsible Banking (UN PRB) and the Net-Zero Banking Alliance (NZBA).

Senior management oversight

To translate these ambitions into action, governance frameworks are typically structured to ensure:

- **Overall** responsibility for sustainability is formally anchored at the senior level;
- **Boards, executive committees, or dedicated sustainability committees** define the strategic direction and oversee its execution; and
- **Operational implementation** is coordinated through sustainability departments or equivalent functions across business units, although the organizational structure varies by bank size.

Operational implementation and organizational models

The ABBL's working group discussions revealed that the priority level, ambitions and resources (such as personnel, budget and tools) allocated to sustainability vary across institutions.

We can distinguish several organizational models among banks:

- **Large** institutions (often headquartered outside Luxembourg) typically define a top-down strategy through their executive committee or board of directors. This strategy is implemented

across all business lines and subsidiaries, with managers reporting to a Group Sustainability Officer. Large banks often appoint dedicated sustainability officers within each subsidiary or business area.

- **Smaller** institutions generally adopt a more centralized approach, often with one or two staff members responsible for sustainability. They support the integration of ESG considerations into daily operations, develop initiatives, and report progress to senior management.

For example, one bank has adopted an independent and centralized approach, with a Group Sustainability Officer supported by more than 150 “sustainability champions” across functions and business lines.

Maturity and implementation

The overall level of maturity has increased; an ABBL survey conducted in December 2024 found that all board members had received sustainability training. Senior management has also played a key role in promoting sustainability across the wider banking industry.

Sustainability officers in smaller banks generally interact with all business areas, whereas larger banks follow a business-unit-based approach. In all organizations, banks strive to standardize and streamline the implementation of sustainability-related regulatory criteria.

Reporting tools and key performance indicators (KPIs) are increasingly centralized, often through shared IT systems provided by parent companies to ensure consistent application across the group.

Successful Integration of sustainability into corporate governance relies on:

- Senior-level accountability and oversight;
- Clear strategic direction from boards and executive bodies;
- A governance structure proportionate to institutional size and complexity; and
- Consistent communication, training and shared tools to ensure group-wide alignment.

We observe that implementation primarily follows a top-down approach to ensure consistency between headquarters and subsidiaries. In particular, this approach is aimed at streamlining and optimizing internal processes as well as resource allocation.

We also note synergies between subsidiaries established in Luxembourg—known as Less Significant Institutions (LSI)—and their parent companies. For example, automated tools are being shared with subsidiaries to ensure compliance with sustainability obligations under MIFID II.

In practice, private banks and “universal” banks appear to be the most advanced, adopting more ambitious green strategies. Smaller retail banks, conversely, may report directly to their CEO without an intermediate sustainability officer.

II. How sustainability criteria must be integrated into products and services for manufacturing and distributing

To help financial institutions avoid the trap of unintentional greenwashing, the EBA has outlined key principles that must be embedded within the POG framework in banking practices. These principles include:

- **Clarity and understandability:** sustainability-related claims must be communicated in plain language appropriate to the target audience’s level of expertise.
- **Evidence-backed claims:** all statements must be supported by verifiable data, robust methodologies, and consistent documentation.
- **Balanced communication:** institutions must provide fair and accurate information to avoid selective or overly positive portrayals of sustainable features.
- **Regular updates:** information must be regularly reviewed to ensure alignment with the latest data, performance metrics, and regulatory developments.

Following the latest MiFID II update in August 2022, the banking approach has been revised to integrate sustainability characteristics and preferences, forcing banks to rethink their product and service offerings.

POG and sustainability features

To align with the main objectives of the POG framework, banks must review and adapt their processes as follows:

- **Target market identification:** the target market must be clearly defined by incorporating sustainability preferences as required by the latest MiFID II update. This market must also be continuously monitored and thoroughly documented, considering the regulatory context and market characteristics of the country in which the product is offered.
- **Product testing:** sustainability criteria must be integrated into product testing. The product's sustainability classification must be clearly identified, with ESG factors embedded. Banks must define a specific methodology and approach to conduct these tests.
- **Internal validation and approval:** a robust internal validation process should involve compliance, risk management, and senior management. This process must ensure alignment with the company's sustainability strategy and applicable regulatory requirements. It must also assess product design, ESG claims, target market alignment, and distribution strategy.
- **Responsible distribution strategy:** manufacturers must also ensure that all documentation provided to distributors is accurate, up to date, and consistent with regulatory standards. Reporting obligations must be clearly defined to enable proper monitoring and accountability throughout the distribution chain.
- **ESG regulation and monitoring:** the ESG performance of a product must be continuously monitored and integrated into the institution's risk management and compliance frameworks.

a. Integrating sustainability criteria into banking services and products

Regardless of the bank's role—whether a distributor, manufacturer, or both—sustainability criteria must be integrated into the process.

Banks are increasingly offering green products and services, such as sustainability-oriented investment solutions and discretionary portfolio management (DPM) mandates. They must address growing client demand while ensuring compliance with evolving regulatory expectations, which are primarily structured around the SFDR, MiFID II, and the EU Taxonomy Regulation.

Before analyzing the specific challenges faced by distributors and manufacturers, it is worth noting the growing effort to enhance staff training and awareness. An ABL survey conducted at the end of 2024 highlights this progress, though the level of cultural adoption remains uneven across banks.

Three areas remain critical challenges that banks continue to refine: the product approval framework, the monitoring of client sustainability preferences, and the classification and management of sustainable products.

• Integrating ESG risks into product approval frameworks

The maturity of ESG risk integration varies across the sector. We have observed that all banks have updated their internal processes including new product approval workflows to meet obligations and ensure ESG risks and opportunities are properly assessed.

Private and universal banks tend to have the most advanced frameworks and stronger ESG integration cultures, often exceeding minimum regulatory requirements. Notably, some banks stand out by systematically reviewing ESG risks through a dedicated in-house sustainability function.

• **Testing and validating preferences during development**

While we observe broad compliance with the requirements for testing and validating client sustainability preferences, the approach varies. Methods differ depending on whether the institution acts as a manufacturer or a distributor, with the level of complexity often mirroring the institution's specific green appetite.

The Luxembourgish market presents a unique challenge, particularly for private banks with a cross-border client base. For institutions operating across multiple jurisdictions, national specificities must be carefully considered when testing and monitoring product suitability to ensure alignment with clients' MiFID profiles.

b. Challenges for manufacturers and distributors

Integrating sustainability criteria into financial products has introduced new layers of complexity. For starters, although the SFDR provides a framework for categorizing sustainable financial products, it does not fully cover all asset classes.

From an operational standpoint, a primary challenge is ensuring that client recommendations and sustainability preferences accurately align with the product's characteristics throughout its entire lifecycle.

We identified the following best practices among ABL members:

- **Testing during investment services:** ESG preferences are tested during the provision of investment services (advisory, DPM, or execution-only). For premium mandates, a daily monitoring process is implemented.
- **Delegated activities:** ESG factors are integrated into the due diligence process when activities are delegated. The bank ensures that its partners comply with regulatory requirements as well as their own ESG, CSR, and Social Responsible and Investment (SRI) policies.

Distributors must align their suitability and preference-testing processes with the sustainability information disclosed by manufacturers. Meanwhile, manufacturers must ensure distributors perform and document all necessary due diligence. Therefore, continuous communication between both parties is essential.

To maintain consistency, many institutions have strengthened governance by establishing internal ESG approval committees and cross-functional working groups (including marketing, legal, business lines, risk and compliance). These bodies ensure alignment between investment advice, product sustainability profiles, and client preferences, in accordance with MiFID II requirements and other sustainable finance regulations.

Manufacturers and distributors must continue to reinforce their sustainable finance competencies to preserve investor trust, transparency, reliability, and consistency.

• **Classifying assets not covered by SFDR**

As mentioned in the first chapter, the SFDR classification system does not encompass all types of financial assets; its scope is primarily limited to UCITS funds, AIFs, insurance-based investment products, pension products, and portfolio management services.

Assets such as listed equities, private equity, real estate and private debt, whether held directly or through DPM, often fall outside this scope.



Best practices for non-SFDR assets

Banks demonstrate diverse approaches when addressing non-SFDR assets:

- **Full integration:** one bank integrates all products into its internal tools to assess the overall sustainability of each asset.
- **Consistent methodology:** another applies a consistent approach across all assets to align with the SFDR framework and ensure greater comparability.
- **Internal methodology:** a third bank has developed an in-house model covering equities, bonds, funds, structured products, non-securitized derivatives, and sovereign instruments.
- **Limited assessments:** some institutions restrict their assessments to assets covered by the SFDR only.

Overall, private banks tend to possess more advanced internal methodologies for non-SFDR assets. This is driven by the diversified demands of their clients, including investments in private equity and illiquid assets.

c. Ensuring and reassessing alignment

In the context of investor protection, banks are responsible for ensuring that products whether subscribed to directly or through DPM remain aligned with the client's stated sustainability preferences.

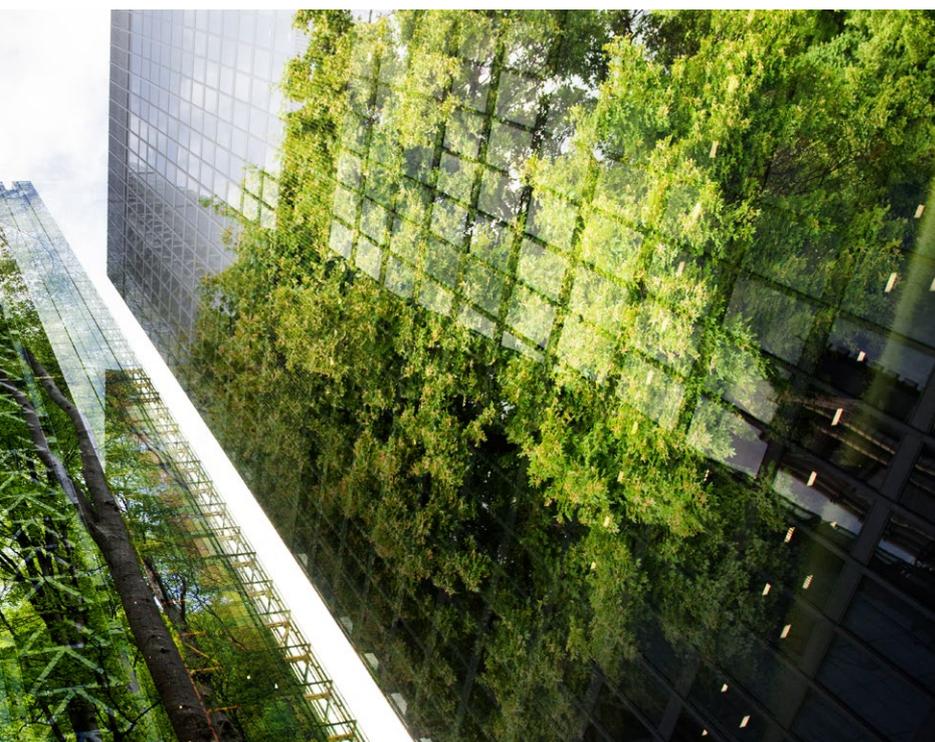
This alignment has become a core element of suitability and product governance. To reinforce this, ESMA published its *Guidelines on funds' names using ESG or sustainability-related terms* in 2024¹¹.

While the alignment process begins at subscription, we observe different levels of maturity in later stages. Banks that provide advisory and DPM services often have shorter review frequencies (monthly or continuous), whereas most banks review client preferences and alignment at least annually.

Despite the regulatory push, the shift toward sustainable finance and transition financing remains relatively modest. One bank, for instance, reported in its annual report that only 4.9% of invested assets were classified as sustainable as of the end of 2024.

Coordinating with manufacturers

Banks have implemented formal, structured processes to ensure the accuracy and compliance of client and product documentation, including marketing disclosures, PRIIPs KIDs, and product factsheets.



11. [ESMA 34-472440 - Guidelines on funds' names using ESG or sustainability-related terms](#)

Best practices for manufacturer coordination

Among the best practices reported, we identified:

- **Regular coordination and updates** through routine meetings and calls with manufacturers. All product documentation is updated annually or upon a material change and is governed by written procedures for version control.
- **Formal, automated processes:** some banks use automated data integration, in which external ESG and financial data providers feed directly into the portfolio management system.
- **Documented procedures:** update schedules are clearly defined and governed, often supported by automated controls for auditability.
- **Compliance with ESMA Guidelines:** dedicated oversight mechanisms ensure that marketing and PRIIPs documentation align with ESMA's Guidelines on funds' names using ESG or sustainability-related terms. These include embedded validation steps for sustainability claims.
- **Integration into daily operations:** ESG and compliance checks are embedded in day-to-day business operations rather than conducted as ad hoc reviews.
- **Control at document creation:** specific controls verify correctness and consistency with the fund prospectus at the moment documents are produced.

Across institutions, coordination with manufacturers follows a multi-layered model combining procedural governance, automation, and compliance oversight. This integrated approach promotes data accuracy, regulatory adherence and alignment between product information, client documentation, and sustainability disclosures.

III. How the internal control framework can mitigate the risk of greenwashing

Across institutions, formal governance frameworks and multi-layered control mechanisms have been integrated into the product distribution lifecycle to reduce the risk of greenwashing.

- **Legal and compliance oversight:** several banks have dedicated sustainable finance legal teams to oversee regulatory interpretation and monitor sustainability-related disputes across multiple jurisdictions. These controls are integrated into due diligence and new product approval processes.
- **Procedural and operational checks:** other banks apply dedicated checklists and structured procedures to verify the accuracy of ESG-related content prior to market launch.
- **Three-lines-of-defense approach:** marketing teams (first line) and compliance functions (second line) collaborate on pre-distribution reviews. Front-office staff also receive training on greenwashing prevention.

This reflects a sector-wide shift toward preventive governance and continuous supervision, aimed at strengthening the integrity of sustainable product distribution in line with SFDR and ESMA guidelines.

Note: "SFDR is currently under revision by the European Commission. Discussions have just started at the European level, and we estimate that no concrete changes will occur for at least two to three years".

Sustainability is an ongoing and transversal process

The integration of sustainable finance into internal control frameworks, communication, and data management requires mobilizing all departments. It also entails a gradual cultural shift among teams to strengthen their understanding of ESG issues and ensure effective adoption in daily operations. A consistent approach can only be driven by this cultural transformation, guaranteeing the effective implementation of sustainability principles across all departments¹².

a. Internal control framework

Integrating ESG data and indicators across all lines of control is essential to building a trustworthy ESG governance framework.

While banks and financial institutions meet their sustainability requirements, the challenge of change management remains uneven. Each institution fulfils its regulatory obligations according to its size whether an LSI or a Significant Institution (SI) within the three lines of defense model. Consequently, institutions integrate sustainability obligations differently within their internal control frameworks.

In line with EBA Final Guidelines (2025),¹³ all banks must conduct regular, documented materiality assessments of ESG risks and perform forward-looking scenario analyses. Banks are required to demonstrate both short- and long-term resilience to ESG risks and, where applicable, establish transition plans with quantifiable interim targets toward climate neutrality and other EU ESG objectives.

• The first line

The first line of defense encompasses the bank's operational functions, including business units such as credit, investment and financial markets. These functions are responsible for integrating ESG criteria into daily operations, collecting relevant ESG data, and ensuring that products and services align with the bank's ESG objectives.

This first line directly faces clients and communicates on ESG and sustainable finance topics. It plays a central role in driving the bank's transition and achieving its strategic ESG goals.

Adopting this setting requires a profound cultural shift, including training staff to understand ESG requirements. This is essential to prevent miscommunication, thereby reducing the risk of greenwashing.

• The second line

The second line of defense comprises risk management, compliance and, in some institutions, dedicated sustainability functions. These functions act as subject matter experts, ensuring the regulatory framework is fully embedded and anticipating emerging requirements to maintain proactive governance.

Compliance functions focus on regulatory adherence and non-financial ESG risks, while risk management functions address financial and operational ESG risks, integrating them into the bank's overall risk appetite framework and internal capital adequacy assessment processes.

• The third line

The internal audit function plays a key role in evaluating the effectiveness of controls and regulatory compliance. It independently assesses whether the bank's environmental and social commitments are supported by concrete, measurable, and verifiable actions. Internal audit safeguards banks from reputational and regulatory risks, strengthening the credibility of the sustainability strategy. ESG considerations are integrated into the audit plan to cover all banking activities, from product governance to credit allocation & risk management.

Sustainability & risk management criteria can be incorporated in different ways:

- Integrated into the annual audit plan;
- Through a hybrid approach, where sustainability considerations are embedded within existing audit units;
- Fully embedded as a core component of the bank's overall audit plan; or
- Defined at the group level and applied across subsidiaries, including those in Luxembourg.

12. EIOPA - BoS -24-159 - Advice to the European Commission on greenwashing risks and the supervision of sustainable finance policies

13. EBA/GL2025/01 - Final Report Guidelines on the management of environmental, social and governance (ESG) risks

The overall trend shows a clear shift toward the professionalization of ESG monitoring, with these functions increasingly embedded within compliance and risk management structures.

Internal auditors sometimes rely on external auditors to obtain limited or reasonable assurance on specific criteria, such as certain ESG KPIs. For example, one bank refers to ISO 14001 environmental standards to review its internal control framework.

Global challenges and maturity levels

The global challenge lies in formalizing controls, harmonizing risk assessment methodologies, integrating nature-related risks, and strengthening anti-greenwashing measures.

We note that all financial institutions have implemented regulatory monitoring and internal coordination mechanisms.

Depending on size, three levels of maturity can be observed among banks:

- **Integrated:** dedicated teams, internal coordination mechanisms, and strong integration between compliance, risk management, and reporting functions.
- **In transition:** partially shared regulatory monitoring with the parent group, which is a coordinated approach that remains in progress.

- **In adaptation:** ESG monitoring integrated into the general regulatory watch framework without a dedicated ESG unit.

Communication strategy

The importance of sustainable finance within a bank is also reflected in its communication strategy.

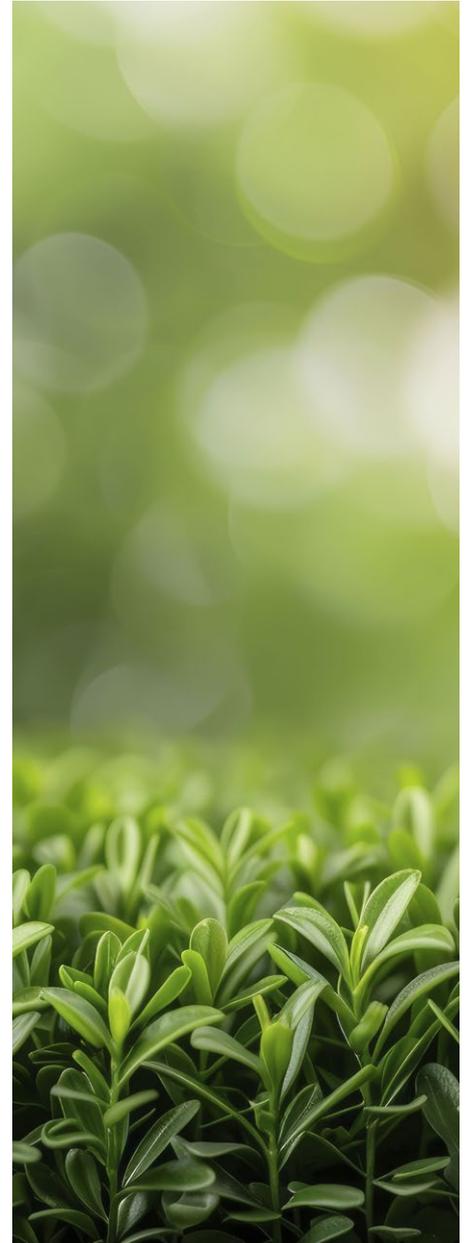
Most institutions have developed dedicated sustainability communication frameworks to ensure consistent and transparent messaging. While some banks have established a specific sustainability communication department, others have chosen to integrate this function directly within their broader corporate communications structure.

b. Data management at the heart of sustainable transformation

One of the main challenges banks face in driving change is managing ESG data. Data processing poses a major hurdle due to difficulties in collection, processing, and verification.

The main challenges identified are:

- **Fragmented systems:** ESG data is frequently spread across multiple internal platforms and business units, often with inconsistent labelling, categorization and formats. This makes consolidation and comparable reporting difficult.



- **Third-party dependencies:** external data providers require rigorous oversight. Using multiple providers can increase inconsistencies, introduce the risk of “data shopping,” and complicate validation.
- **Data validity and volatility:** unlike standardized financial data, ESG data encompasses both qualitative and quantitative dimensions.

Integrating ESG indicators requires overcoming persistent challenges related to comparability, auditability and standardization. Furthermore, carbon dioxide equivalents (CO2e) must be clearly understood and regularly updated¹⁴. For example, in 2025, the CO2e for electricity in France differed from the Luxembourg CO2e, illustrating the need for contextualized data.

Maturity and operational trends

To address this, banks have strengthened their ESG data review and control frameworks. The internally developed methodologies aim to improve both the quality and traceability of ESG data across departments and entities.

Analysis indicates varying levels of maturity depending on the size and complexity of the institution. Significant Institutions (SIs) generally demonstrate more advanced practices, having implemented structured processes to ensure the consolidation, centralization, and consistency of ESG information.

Large banks tend to have dedicated ESG data teams to manage and oversee ESG data. In contrast, smaller banks or those less impacted by sustainability requirements—tend to rely on external expertise to process and manage their data.

Despite these advancements, most institutions acknowledge the persistent challenge of comparing ESG data across departments and reporting periods. This disparity highlights an industry-wide gap in ESG data harmonization, where comparability and standardization remain key areas for improvement.

Best practices for data quality

Beyond these trends related to bank size, common best practices to ensure data quality include:

- **Conducting sample testing** on selected datasets to ensure data quality, applying the four-eyes principle for validation and control.
- **Comparing two or more data providers** to identify potential discrepancies and, where applicable, using an average value.
- **Reviewing estimated or proxy data** with a cautious and skeptical approach when primary ESG information is unavailable.

For example, one major bank has implemented a cloud-based toolset to pool resources for ESG data processing across the group, demonstrating that ESG data quality is central to its strategy.

14. [Carbon dioxide equivalent is a standard metric that converts the warming impact of various greenhouse gases into an equivalent amount of CO2, allowing different gases to be aggregated into a single comparable figure for reporting.](#)

Conclusion

The insights featured in this discussion paper suggest that greenwashing in the banking sector is rarely intentional. It more often arises from the complexities of the current sustainable finance framework and the evolving regulatory landscape.

While the term has gained prominence, instances of greenwashing are most likely linked to inconsistent definitions across EU frameworks and challenges in integrating ESG considerations across governance, internal processes, and product development. Nevertheless, even when unintentional, such occurrences carry significant risks for banks; misaligned disclosures or unclear ESG data can erode stakeholder trust and attract regulatory scrutiny.

We noted that the level of ESG integration and maturity varies across the banking sector. Some banks, particularly large universal and private institutions, have advanced frameworks with dedicated ESG teams, robust governance mechanisms, and well-established coordination between compliance, risk management, and reporting functions.

Across all institutions, establishing clear responsibilities, strong governance and transparent ESG objectives remains central to mitigating unintentional greenwashing risk.

The ABBL highlights that data management is a critical enabler of this transformation. Banks face ongoing challenges in consolidating fragmented ESG data, validating information across multiple sources, and reconciling differences in national standards. Robust internal methodologies, structured

review processes and, where feasible, centralized ESG data management are essential to ensure accuracy, comparability and traceability.

Ultimately, mitigating greenwashing risk requires embedding ESG considerations across the full lifecycle of banking activities, from strategic planning and product design to marketing, distribution, and ongoing monitoring.

Effective integration of ESG objectives into product governance, coupled with proactive oversight and continuous employee training, allows banks to align their communications with actual sustainability performance. This, in turn, supports stakeholder confidence, reinforces reputational strength, and helps translate sustainability commitments into genuine, measurable impact.



References

1. [EBA/REP/2024/09 – Greenwashing Monitoring and Supervision](#)
2. [Greenwashing and green finance: the CSSF calls for vigilance and informs on www.letzfin.lu – CSSF](#)
3. ESMA 22-106-4384 – Advice to ESMA – SMSG advice to ESMA on the ESAs’ Call for Evidence on Greenwashing
4. [ESMA 22-106-4384 - Advice to ESMA - SMSG advice to ESMA on the ESAs’ Call for Evidence on Greenwashing](#)
5. [FG24/3: Finalized non-handbook guidance on the anti-greenwashing rule](#)
6. ESMA 36-429234738-154 - Thematic notes on clear, fair & not misleading sustainability-related claims
7. [SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors](#)
8. Delegated Regulation 2021/1253 - Sustainability preferences
9. Delegated Regulation 2021/1269 - Integration of sustainability factors into the product governance obligations
10. [Greenwashing, bank financial performance and the moderating role of gender diversity - ScienceDirect](#)
11. [ESMA 34-472440 - Guidelines on funds’ names using ESG or sustainability-related terms](#)
12. EIOPA - BoS -24-159 - Advice to the European Commission on greenwashing risks and the supervision of sustainable finance policies
13. EBA/GL2025/01 - Final Report Guidelines on the management of environmental, social and governance (ESG) risks
14. [Carbon dioxide equivalent is a standard metric that converts the warming impact of various greenhouse gases into an equivalent amount of CO2, allowing different gases to be aggregated into a single comparable figure for reporting.](#)

Contacts

Deloitte Luxembourg



Bettina WERNER

Partner
Finance and Sustainability Transformation
bewerner@deloitte.lu
+352 451 453 516



Nicolas MARINIER

Partner
Forensic & Financial Crime
nmarinier@deloitte.lu
+352 451 453 042



Giorgio CONSOLI

Consultant
Finance and Sustainability Transformation
giconsoli@deloitte.lu
+352 451 453 835

ABBL



Marilyn RINCK

Head of Banking Regulation,
Financial Markets & ESG
marilyn.rinck@abbl.lu
+352 46 36 60 304



Alexandre DIAS

Financial markets and ESG adviser
alexandre.dias@abbl.lu
+352 46 36 60 414

Deloitte.



Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides leading professional services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our people deliver measurable and lasting results that help reinforce public trust in capital markets and enable clients to transform and thrive. Building on its 180+-year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte's approximately 470,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.