Combatting Investment Greenwashing

A Double Materiality Approach

The Problem: Greenwashing in Financial Markets

Greenwashing — making false or misleading statements about the sustainability profile of financial products or services — erodes investor trust and can expose fund managers and other market participants to reputational and financial risks. Inflated claims about the environmental or social benefit of investments – whether intentional or unintentional – can also undermine the credibility of sustainable investment products, which are an important part of the transition to a more sustainable future.[1] To help avoid greenwashing accusations and mitigate associated risks, consider the double materiality of your investments, using both impact and ESG insights in the decision-making process.

Greenwashing Examples

3 in 5

Almost **three in five** CEOs have admitted to making false claims about their company's environmental, social and governance performance.[2]

$19M

DWS Investment Management Americas Inc. paid a **US$19 million** fine after being charged with making materially misleading statements about how it incorporated ESG factors into research and investment recommendations for its ESG integrated products.[3]

A Solution: Double Materiality as a Holistic Investment

Double materiality is an investment approach that considers both the risks that external societal factors pose to investments (ESG risks), and the impact that investee companies have on the environment, people, and society (impact).

ESG Risk Data

How are companies managing material environmental, social, and corporate governance risks?

Impact Data

What impact does the company have on the environment and society?

Using the Data

ESG Data

- Examine your portfolio companies' exposure to material ESG issues based on their industry and business model.
- Determine whether they have the management systems, policies, and programs in place to address the material ESG issues they are exposed to.
- Understand how the relevant management policies and programs are being implemented and whether they are effective at mitigating material ESG risks.
- Investors can conduct their own research, examine company reports and turn to external research providers like Morningstar Sustainalytics.

Impact Data

- Examine the impact of companies' business activities and whether they are helping or harming society and the environment.
- Use data and metrics around companies' business operations and impacts to help direct investments toward companies benefiting the environment and communities.
- The United Nations Sustainable Development Goals are an excellent reference for impact areas for investors.

To learn more about how you can avoid accusations of greenwashing, download our ebook:
Seeing Through the Green: A Guide to Greenwashing Risks for Asset Managers

[1] Financial Conduct Authority, 2022. Sustainability Disclosure Requirements (SDR) and Investment Labels: Consultation Paper. https://www.fca.org.uk/publication/consultation/cp22-20.pdf.

[2] Google. 2022. Report: What it will take for CEOs to fund a sustainable transformation. https://cloud.google.com/blog/topics/sustainability/new-survey-reveals-executives-views-about-sustainability.

[3] U.S. Securities and Exchange Commission. 2023. "Deutsche Bank Subsidiary DWS to Pay $25 Million for Anti-Money Laundering Violations and Misstatements Regarding ESG Investments." September 25, 2023. https://www.sec.gov/news/press-release/2023-194.

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