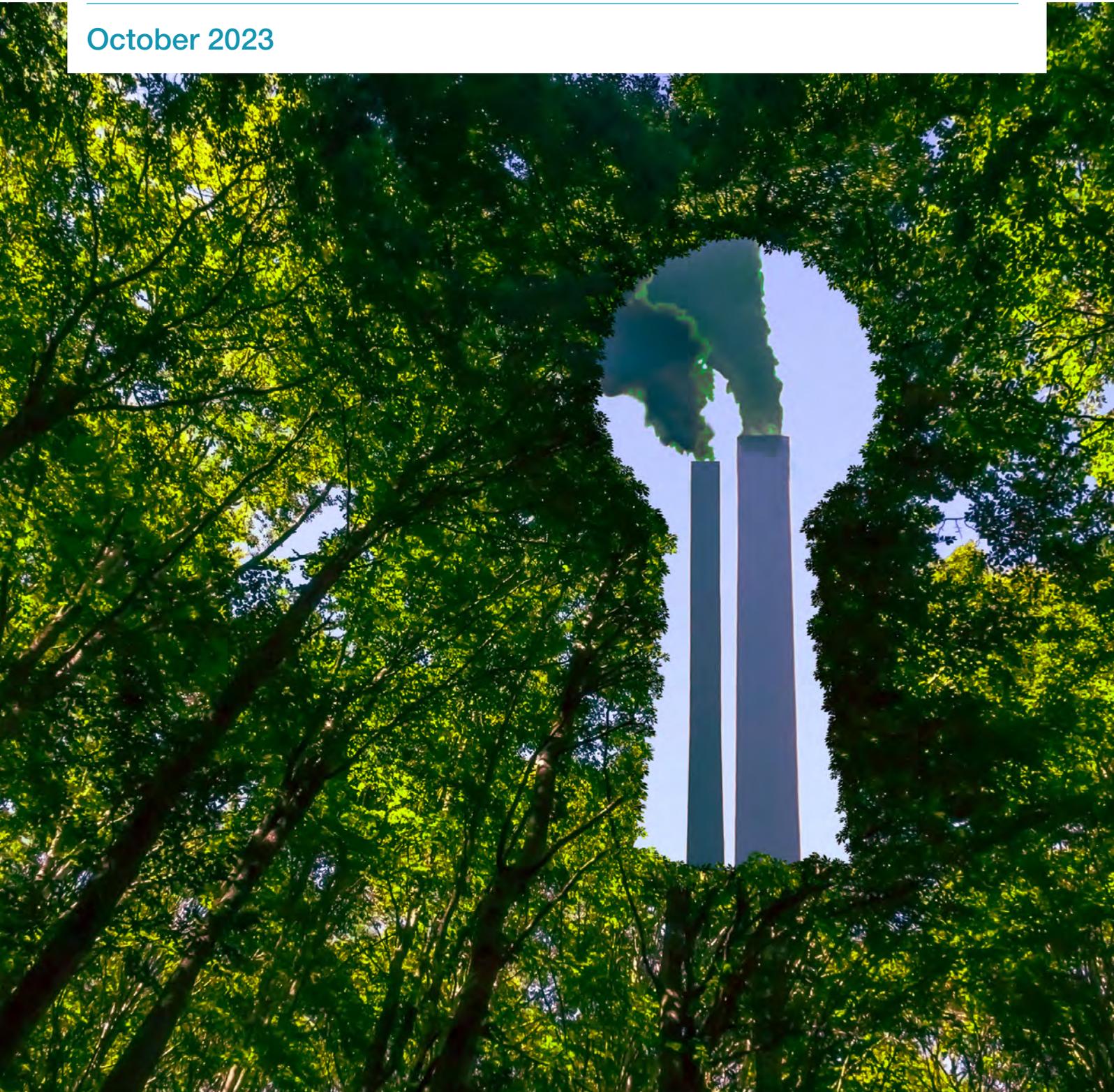


Market integrity and greenwashing risks in sustainable finance

October 2023



Foreword

Since the release of the Green Bond Principles in 2014, ICMA and its members have played a central role in nurturing and promoting best practice in sustainable finance. As such, we have felt a particular responsibility to engage with the debate on greenwashing and market integrity in addition to our contribution to the development of global product standards for sustainable bonds, and debt capital market products more broadly, while collaborating actively with the regulatory community.

In 2022, we launched a podcast series on market integrity in sustainable finance inviting leading market practitioners and stakeholders to discuss greenwashing openly. There are 4 episodes (i) greenwashing risks and remedies in the sustainable bond market, (ii) materiality and ambition of sustainability-linked bonds, (iii) sustainable bonds and their real world impact, and (iv) greenwashing risks and sustainable funds. We have summarised at a high level these podcasts in Annex I of this publication and they are otherwise available online in their entirety.

Following ICMA's response to the [Call for Evidence](#) on greenwashing from the European Supervisory Authorities (ESAs) earlier this year, we develop further in this publication our analysis of greenwashing concerns in the sustainable finance market from a global perspective, while adding references to external and inhouse research, as well as providing five high level recommendations to policy makers and regulators.

The ambition of this paper is to promote a constructive dialogue between the market, civil society and regulators on addressing greenwashing risks while avoiding the twin risks of market complacency and regulatory overshoot. As part of this we have sought to unpack greenwashing to identify the fundamental areas of concern and to describe the issues they raise. We have also paired these areas as much as possible with actionable regulatory or market solutions which in most cases are already under way.

We hope in this manner to move the conversation towards a constructive debate that focuses on the specific shortcomings of sustainable finance when they exist while recognising its considerable achievements in making sustainability investible at scale with transparency and accountability.

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Executive summary

Exhaustive definitions of greenwashing can create more issues than they solve as they risk market paralysis or regression because of excessive reputational or litigation fears. We propose a focused definition of greenwashing for financial regulatory purposes while also noting that regulators are demonstrating that existing laws and regulations can address any serious misrepresentation in sustainable finance.

Reviewing existing data and studies on potential greenwashing, we find that greenwashing is not prevalent in the green bond market, but that ambition and materiality in the early development of the new sustainability-linked bond market may have been insufficient. Market feedback and our research based on reported controversies and Science-Based Targets initiative (SBTi) alignment points, however, to a positive trend in the sustainability-linked bond market in the last 12 months. We concur that wider concerns in the sustainable fund industry exist, for example, regarding investment methodologies and fund naming.

Looking to solutions, we propose that unpacking greenwashing into areas of actual concern is more actionable than further expanding current definitions. For sustainable bonds, these areas of concern are (i) lack of ambition, (ii) strategic inconsistency, (iii) mismanagement of wider sustainability risks and (iv) actual deception. For sustainable funds, they are (i) vague or ambiguous responsible investment methodologies, (ii) unclear or misleading fund labelling and naming and (iii) actual deception.

For the sustainable bond market, we argue that the de facto global standard, represented by the Principles, is actively mitigating the areas of concern. Similarly existing or pending sustainable finance regulations in many jurisdictions are highly relevant with, among other things, taxonomies available for setting and benchmarking ambition, new corporate sustainable reporting soon providing transparency on strategic consistency and Do No Significant Harm (DNSH) methodologies potentially addressing wider sustainability risks. We underline, however, the importance of ensuring the usability and the international operability of these regulations.

For the sustainable fund market, market best practice has not led to international agreement on industry standards. There are, however, several regulatory initiatives under way, such as on disclosures for investment methodologies and proposals for fund naming to support market integrity.

In both cases, there are implementation and usability challenges that regulators will need to address with the benefit of market input. In the appendices, we summarise the areas of concern with selected examples and official and market-based mitigants, as well as provide an international overview of official definitions & references to greenwashing. We conclude by making the following recommendations to policy makers and regulators:

1. Concentrate on actionable areas of concern in sustainable finance
2. Help improve the availability of data on market integrity in relation to these areas
3. Reference existing legislation where enforcement may be needed
4. Implement current regulatory initiatives with a focus on international interoperability and usability
5. Continue to leverage the positive contribution of market best practice

Introduction

Greenwashing has become an umbrella term that covers an increasing number of alleged misrepresentations and problematic behaviours in relation to sustainability. Concerns have been raised by market participants and stakeholders about greenwashing in the sustainable finance market, while policymakers and regulators have launched numerous initiatives aiming to fight it.

ICMA [responded](#) in January 2023 with significant industry input to the comprehensive [Call for Evidence](#) on greenwashing from European Supervisory Authorities (ESAs) launched in November 2022 following a mandate by the European Commission. This paper further expands on the arguments developed in our response.

We explore further the need (or not) for a comprehensive greenwashing definition and the capacity of existing legislation to address misrepresentation in sustainable finance. We also look at the information available to date on greenwashing occurrences and explore how both existing regulatory initiatives and market best practice are mitigating them. We conclude with five recommendations for policy makers and regulators. In the appendices, we summarise the areas of concern with selected examples and official and market based mitigants, as well as provide an international overview of official definitions and references to greenwashing.

Regulators may not need to further define greenwashing in order to fight it

Exhaustive definitions of greenwashing may create more issues than they solve

We argued in [our response](#) to the ESAs Call for Evidence that a very broad definition of greenwashing would prove unhelpful in addressing greenwashing risks. We are indeed concerned that a catch-all approach that doesn't distinguish between intentional or unintentional behaviour is neither practical nor actionable if the objective is potential enforcement. More widely, it could have the unintended consequence of undermining both the further development of sustainable finance and voluntary sustainability disclosures from corporations exacerbating a phenomenon already known as “greenblushing” or “greenhushing”.

We recommended in our response that if regulators required a greenwashing definition, they should aim for one that was clear, fair, calibrated, and actionable in the financial sector. We proposed the following definition for consideration:

“For financial regulatory purposes, greenwashing is a misrepresentation of the sustainability characteristics of a financial product and/or of the sustainable commitments and/or achievements of an issuer that is either intentional or due to gross negligence.”

A focused definition such as the one above could serve the purpose of identifying, quantifying, and regulating greenwashing. However, it is important to underline that existing financial regulation already provides preventive and redressive mechanisms against misleading behaviours including those arising from greenwashing. In this respect, ESMA's consultative Securities and Markets Stakeholder Group (SMSG) [stated](#) that certain standards already exist that deal with the problem of misleading information and/or gaining an unfair competitive advantage. According to the SMSG, a holistic greenwashing definition should therefore not be used to create a new sanctioning regime in a way that layers existing norms. Responding specifically to the European Securities and Markets Authority (ESMA), the SMSG otherwise said that the definition of greenwashing should be linked as much as possible to existing requirements on non-misleading information.

In their [Progress Report](#) end May 2023, the ESAs confirmed their focus on a broader approach and stated that they had developed “the common high level understanding that greenwashing is a practice where 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 service. This practice may be misleading to consumers, investors, or other market participants.”

The ESAs otherwise agreed that “...sustainability-related misleading claims can occur and spread either intentionally or unintentionally and that greenwashing does not require investors being actually harmed.” They also said that “... greenwashing can occur in relation to entities and products that are either under or outside the remit of the European Union (EU) regulatory framework.”

EU legislation has, however, provided historically narrower definitions such as in the [Taxonomy Regulation](#) which states that “greenwashing refers to 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”. Other major jurisdictions have shared their own understanding of the term with high level definitions or references.

The UK's Financial Conduct Authority described it in its consultation on [Sustainability Disclosure Requirements \(SDR\) and investment labels](#) as firms that “...may be making exaggerated, misleading or unsubstantiated sustainability-related claims about their products; claims that don't stand up to closer scrutiny (so-called 'greenwashing')”. India's Securities and Exchange Board (SEBI) saw it as “making false, misleading, unsubstantiated, or otherwise incomplete claims about

the sustainability of a product, service, or business operation” in [Dos and don'ts relating to green debt securities to avoid occurrences of greenwashing](#) (2023).

Similarly, Australia’s Australian Securities & Investments Commission (ASIC) ([How to avoid greenwashing when offering or promoting sustainability-related products](#)) and the UK FCA’s [Dear Chair Letter](#) (in 2021) have provided their greenwashing understandings and expected market practices while clearly placing such guidance in the context of existing laws. The Hong Kong Monetary Authority (HKMA) did not attempt to define greenwashing but presented a summary of observed good market practices as its recommendations to avoid greenwashing risks ([Due Diligence Processes for Green and Sustainable Products](#)).

Existing laws and regulations address misrepresentation in sustainable finance

Misrepresentation is at the core of concerns about greenwashing. Existing laws and financial regulation contain effective safeguards against misrepresentation which is of course neither a novel concern for investor protection nor one that is exclusive to sustainable finance. These safeguards are embedded in securities, civil, commercial, consumer protection, tort, and competition laws among other. They can lead to potential statutory, contractual, and possibly, even criminal liability.

In the financial sector, general sectoral requirements such as disclosure of a fund’s general investment objective or general naming requirements may already apply to sustainability related matters. Regulators can also use the pre-authorization regulatory review processes to prevent and caution against sustainability-related misconduct. In the UK, for example, concerns about the quality of applications for sustainability-focused funds led the FCA to issue a [Dear Chair Letter in 2021](#) where it also laid out its expectations in the form of “Guiding Principles” for the design, delivery, and disclosure of sustainability-focused funds. The Guiding Principles explain how existing statutory rules apply in the context of sustainable investment funds.

There are also more holistic rules for investor protection under securities laws and financial regulation. In the EU, for example, Markets in Financial Instruments Directive II (MiFID II) provides that all information, including marketing communications, addressed by investment firms to clients or potential clients shall be fair, clear, and not misleading. The EU Prospectus Regulation sets out minimum information to be included in a prospectus to provide investors with transparency and attaches liability to the information included therein. The UK FCA’s [proposed “anti-greenwashing rule”](#) reiterates existing requirements for all regulated firms that sustainability related claims must be clear, fair, and not misleading.

Existing laws also constitute the basis of regulatory enforcement as well as litigation before courts. [On the enforcement side](#), a survey result [highlighted](#) by International Organization of Securities Commissions (IOSCO) indicated that a majority of IOSCO members rely on existing supervisory and enforcement tools to address sustainability-related misconduct, even in jurisdictions with sustainability-specific requirements. In Australia, ASIC has issued several infringement notices and penalties since October 2022 based on existing laws, after it has also clarified its expectations from market participants in its [greenwashing guidance](#) of June 2022.

In the US, the Securities and Exchange Commission (SEC) established an enforcement Taskforce focused on Climate and Environmental, Social, and Governance (ESG) issues in March 2021. The Taskforce issued [several enforcement decisions](#) related to sustainability-related misconducts which relied on existing laws such as the Securities Act of 1933 (its anti-fraud provisions) and the Investment Advisors Act of 1940. In Germany, there is also an ongoing investigation that involves cross-border regulatory enforcement cooperation. The EU¹ and the UK² may also take similar steps going forward.

On the litigation side, a [CSSN Research Report \(January 2022\)](#) identified at least 20 judicial and 27 non-judicial cases (e.g., complaints filed before advertisement oversight bodies) related to “climate-washing” since 2008. Greenwashing-related legal actions currently seem to represent a rather small sub-set of wider climate-related litigation.

1 In the EU, ESMA and NCAs launched a [Common Supervisory Action](#) on sustainability-related disclosures and the integration of sustainability risks which includes as objective gathering information on greenwashing risks and identifying relevant supervisory and regulatory responses. Another was launched in January 2023 on the application of MiFID II disclosures with ESMA seeing it as an opportunity to detect greenwashing practices.

2 In its [ESG Strategy](#), the FCA emphasised that it will challenge firms where it sees potential greenwashing, clarify its expectations, and take appropriate action to prevent consumers being misled.

Data on potential greenwashing indicate a contrasted situation

Ongoing debates on the perimeters of greenwashing make its quantification challenging. In practice, in the sustainable bond market, estimates have relied to date on proxies such as reported controversies, press articles and anecdotal evidence, as well as academic studies extrapolating decarbonisation trajectories of sustainable issuers. For the sustainable fund market, the availability is however better thanks notably to the work of financial information providers based on regulatory disclosure requirements.

Greenwashing is not prevalent in the green and sustainability bond market

The feedback from leading market participants and major stakeholders in our *Podcast series on market integrity in sustainable finance* (see Annex 1) is that greenwashing is not a significant concern for use-of-proceeds instruments such as green and sustainability bonds.

There are also no studies that we are aware of that evidence widespread greenwashing for green and sustainability bonds defined as misrepresentation about the underlying projects being financed. It should be noted here that green and sustainability bond issuers primarily make representations about the projects financed by these use-of-proceeds instruments rather than on their organisation level sustainability strategies (even if they are recommended to disclose these). In addition, while GreenHouse Gas (GHG) emissions reductions – primarily through renewable energy and energy efficiency projects – are a substantial focus of green projects, there are 10 project categories in the Green Bond Principles including those focused on pollution prevention and control, resource efficiency and other environmental considerations.

Nonetheless, several studies have focused on whether green and sustainability bonds signal a GHG emissions reductions trajectory at the organisation level. These studies have either proven inconclusive or have more recently pointed to a significant correlation between green bond issuance and a wider commitment to GHG emissions reduction at the issuer level.

- A [BIS Study](#) in 2020 stated that “green bonds do not necessarily signal that issuers have a lower or decreasing carbon intensity, measured as emissions relative to revenue” while also underlining data constraints and concluding “as these results are not statistically significant, there is no clear pattern as to whether green bond issuance led to increases or decreases in the carbon intensities of their issuers.”
- In 2021, ESMA’s study on the [Environmental impact and liquidity of green bonds](#) showed that “between 2009 and 2019, energy firms, utilities and banks that issued a green bond were much more likely to disclose emissions data, and they have on average reduced their carbon intensity to a larger extent than other firms – confirming the view that green bonds act as a signal of firms’ climate-related commitments.”
- In 2022, a [study](#) from the HKMA expressed concern that “one-third of corporate green bond issuers are found to have a poorer environmental performance after their initial green bond issuance”, but it also concluded that corporate green bonds indeed help tackle climate change as evidenced “by the lower average aggregate GHG emission intensity since the corporates started issuing green bonds.”

Ambition and materiality in the new Sustainability-Linked Bond Market may have been insufficient

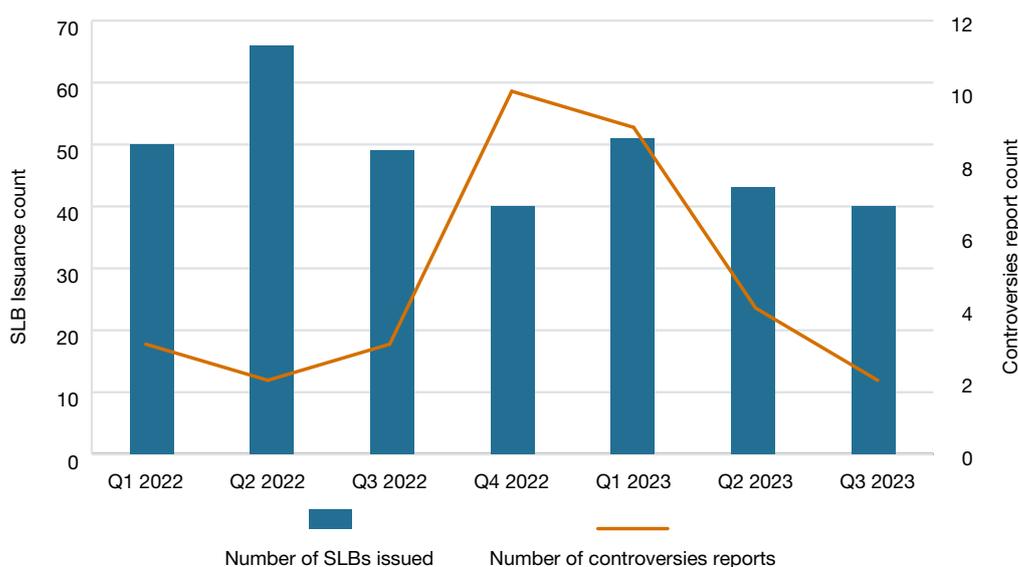
Sustainability-Linked Bonds (SLBs) are a recent addition to the sustainable bond universe with dedicated [Principles](#) first published in June 2020 and updated in June 2023. Contrary to existing use-of-proceeds bonds, SLBs are focused on issuer level sustainability targets benchmarked by Key Performance Indicators (KPIs) with a penalty mechanism (typically a rate step-up) in case of a failure to meet these. Issuance of SLBs grew rapidly reaching approximately \$100bn end-2022 and representing 10% of the overall sustainable bond market.

In 2022, significant concern was raised about the ambition of sustainability performance targets (SPTs) and the materiality of penalties in this new market. This was covered in [media reports](#) and expressed by some investors. As with green and sustainability bonds, there are however no studies that we know of that evidence actual misrepresentation of targets and KPIs in the SLB market at any significant scale.

Participants in our *Podcast series on market integrity in sustainable finance* (see Annex 1) also expressed concerns about the materiality of the KPIs and ambition of the targets of certain transactions in the SLB market in its early development. To go further, we have conducted inhouse research on the SLB market (see Annex 2) in line with the recommendation³ in the ESA's Progress Report on Greenwashing on methods to monitor greenwashing by exploring controversies reported in the media. We further assessed in the bond documentation references to the Science-Based Targets initiative (SBTi) as a proxy to track ambition.

After evaluating the 100 largest issuers of sustainability-linked bonds from January 2022 to September 2023, we determined that transactions from 15 issuers representing USD20.8 billion (19% of the total amount issued during this timeframe) had elicited some form of controversy. Given that our sample accounts for 82% of the sustainability-linked bond market in the stated period, we concluded that our findings offer a representative insight into the broader market.

Number of SLBs issued vs number of controversies reports



As illustrated in the chart above, our analysis indicates a clear declining trend in absolute and relative terms of the number of controversy reports over the last 12 months. Based on our sample, we have otherwise determined that the number of issuers obtaining SBTi approval for their SLB targets has increased on average since 2021 while issuers

³ "Monitoring may first be done using quantitative indicators based on financial market data, with a view to quantifying the frequency of potential greenwashing occurrences through the monitoring of greenwashing allegations. One possible avenue is the use of data on ESG-related controversies, which are used as input by some ESG data providers in their ESG rating products, or used as separate input data by asset managers." p69 "Progress Report on Greenwashing".

obtaining SBTi approval for their sustainability targets reached 70% in Q2 2023. Although we believe that SBTi approval is a good proxy for ambition, it does not necessarily protect against controversy. Out of our 15 issuers with controversies reports, we found that 8 (53%) of those facing negative media coverage asserted in their documentation that their targets had received SBTi approval.

It is important to note that the Principles provided additional guidance to the SLB market in June 2022 especially through a [KPI registry](#) designed to guide market participants in the understanding of materiality issues, definition of calculation methodologies and/or calibration of sustainability targets. ICMA also released in September 2023 an [SLB Q&A](#) with further relevant guidance.

Recent market feedback on the ambition and materiality of SLBs has improved considerably pointing to a positive trend which our inhouse research on controversies and SBTi alignment tends to support. Nonetheless, further data on the evolution of the market is needed.

Wider concerns exist about the investment methodologies and naming of funds

Participants in our *Podcast series on market integrity in sustainable finance* agreed that greenwashing in the funds space has been an issue. There have especially been concerns about references to sustainability in fund names which can be the biggest indicator of intentionality and can mislead investors if they carry ESG-related words in them.

Generally, we infer from our Podcast series and wider market feedback that several factors may have contributed to greenwashing risks in the sustainable fund industry. These are (i) an underestimation of the difficulties involved in developing and implementing a sustainable investment methodology, (ii) premature marketing in a competitive environment and (iii) an immature regulatory framework.

There are several reports and studies that point to greenwashing concerns in the sustainable fund industry as well as issues arising from regulatory implementation. We note for example the following:

- In February 2022, there was a [downgrading](#) by Morningstar from its European sustainable investment list with the removal of more than 1,200 funds with a combined \$1.4tn in assets most of which declared their sustainable credentials under the EU's Sustainable Finance Disclosure Regulation (SFDR) Article 8 disclosure category which is less stringent than the Article 9 category. Currently only a small portion of the European Fund universe qualifies for the SFDR Article 9 disclosure category. There are also indications that asset managers have interpreted differently SFDR guidance on fund disclosures.
- In 2021, InfluenceMap, a London-based non-profit, found in a [report](#) that 55% of funds marketed as either low carbon, fossil-fuel free or green energy exaggerated their environmental claims. The group also estimated that more than 70% of funds promising ESG goals fell short of their targets.
- Earlier in 2020, a ranking and analysis by the UK charity [Shareaction](#) of 75 of the world's largest asset managers' approaches to responsible investment in found that while all 75 of the asset managers were signatories to the UN Principles for Responsible Investment (PRI), 51% of the managers showed little evidence of appropriately integrating responsible investment across their assets.

Separately and as noted above, there are incidences of regulatory enforcement related to greenwashing in several jurisdictions. The US SEC set up a Climate and Enforcement Task Force in 2021 that has led [to actions](#) involving asset management companies among other and focusing on ESG issues and statements. Australia's ASIC has just reported on its [greenwashing enforcement actions](#) relating for example to fund labels. Germany's Federal Financial Supervisory Authority (BaFin) has been involved in a high profile [greenwashing investigation](#) joined also by the SEC.

Identifying the areas of actual concern is more actionable

Beyond the relative merits of defining greenwashing for regulatory purposes, we argue that it is important to understand and categorise specifically the areas of concern in sustainable finance identified by market participants and especially investors, as well as civil society and of course regulators. We believe that this will help all parties better understand where the issues reside. We also propose that this approach will be more actionable and provide a better understanding of what regulators and the market can do to address them.

For sustainable bonds, these areas of concern would be:

1. **Lack of ambition:** For use-of-proceeds bonds, concerns relate to projects or parts of projects which are believed to be insufficiently green or sustainable, or do not clearly represent a marked sustainability improvement beyond the typical developments expected over time. For SLBs, it applies when KPIs are seen as immaterial, or sustainability performance targets are perceived as easy to achieve, if not already realised, or close to a “business as usual” trajectory.
2. **Strategic inconsistency:** This could occur, for example, where there is a lack of a broader sustainability/ environmental strategy accompanying a green bond especially where there is a clear inconsistency between the green label and what the issuer does beyond the label.
3. **Mismanagement of wider sustainability risks:** this could occur when an issuer does not have an appropriate process to identify and manage wider environmental/social risks and trade-offs for example when the primary objective of a sustainable project may not score highly or could even conflict with other sustainability criteria.
4. **Actual deception:** This would be, for instance, in the unlikely cases that an issuer did not allocate the proceeds to green projects except due to the reasons beyond its control, or if an issuer manipulated its KPIs or omitted material information.

For fund products, it is understood that the points above for sustainable bonds would also apply when investing in these securities. However, for fund products themselves, we believe that the “concern areas” could be categorised as follows:

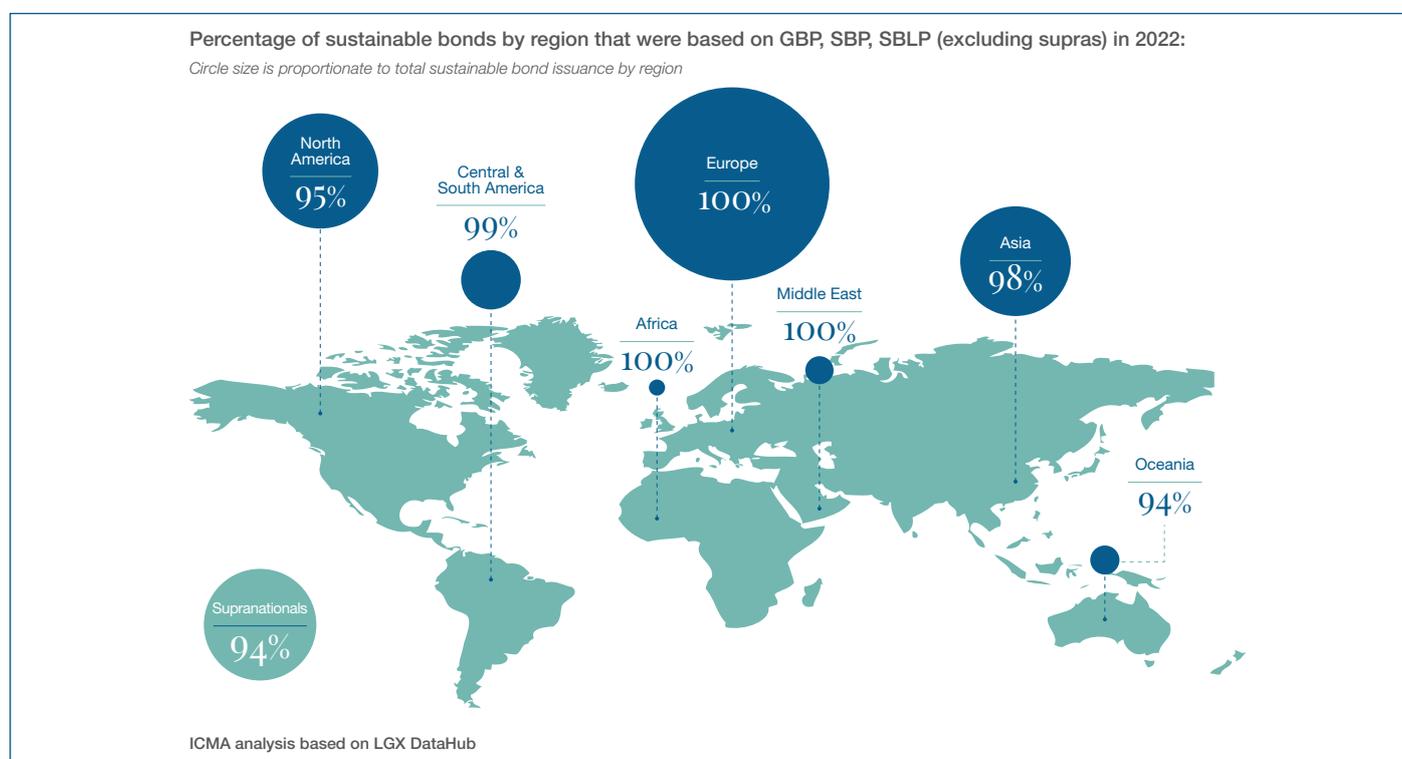
1. **Vague or ambiguous responsible investment methodologies:** e.g., opacity or inconsistency about the baseline criteria being applied, which leads to criticism if portfolio analysis reveals investments in companies that are not seen as committed to environmental objectives, especially to climate mitigation, although they may score highly on governance or diversity for example.
2. **Unclear or misleading fund labelling and naming:** e.g., funds labelled as “Transition” or “Impact” where the underlying strategy is focused on disclosure rather than outcomes.
3. **Actual deception:** for example, not applying a fund’s advertised processes for rigorous ESG screening at the product level (e.g. when the consideration of ESG criteria is applied, but without any effect on the investment policy)

In all these concern areas, there can be overlap between “actual deception” and other categories. This would occur, for instance, if there was a lack of satisfactory disclosure on potential shortcomings of a sustainability claim that could make it misleading and thus bring such behaviours closer to the “actual deception” category.

ICMA's Principles actively mitigate the areas of concern

A de facto global standard for sustainable bond issuers

The sustainable bond market is the largest source of capital market finance available internationally that is dedicated to sustainability and transition. In 2022, the yearly issuance volume reached USD 753 billion, of which 54% from EU issuers. The ICMA [Principles](#) are the de facto global standard for this market and is referenced by [98% of sustainable bond issuance](#), ensuring a global level playing field and avoiding fragmentation.



The Principles provide direct guidance on the areas of concern

The Principles' mechanisms address the concern areas in the following manner:

- **Lack of ambition:** The Principles incorporate environmental objectives and high-level project categories for sustainable bonds and focus on transparency provided by issuers (including on green eligibility criteria) for an informed decision by investors. They also offer impact reporting metrics and guidance for all eligible project categories, require allocation reporting, and recommend the disclosure of external taxonomies and exclusion lists. For sustainability-linked bonds (SLBs), targets must go beyond "business as usual", be externally benchmarked whenever possible, and performance is subject to external verification. The Principles also provide a registry of over 400 KPIs for SLBs.
- **Mismanagement of wider sustainability risks:** The Principles require the disclosure of complementary information on processes by which issuers identify and manage perceived risks related to projects. Issuers are also encouraged to identify mitigants to such risks.

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- **Strategic inconsistency:** The Principles recommend for green and sustainability bonds that information on underlying projects is communicated “within the context of the issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability”. SLBs are designed to track issuer level commitments, and the SLBP require KPIs to be material and the targets to be ambitious, and as such “strategically consistent at the issuer level”.

Additionally, for all types of sustainable bonds:

- The [Climate Transition Finance Handbook](#) (initially published in 2020, updated in 2023 by ICMA) defines transition as alignment with the objectives of the Paris Agreement and recommends the use of science-based targets and the disclosure of climate transition strategy and governance.
- [ICMA's Guidelines for External Reviewers](#) provide voluntary guidance relating to professional and ethical standards for external reviewers, as well as to the organisation, content and disclosure for their reports. In the pre-issuance phase, the external review of the sustainable finance frameworks of issuers typically includes an assessment of the chosen green eligibility criteria, materiality and ambition, environmental/social risk management systems, past controversies, and overarching sustainability strategies while post-issuance review focuses on the verification of allocations, tracking systems, and annual KPI performance.

The Principles do not make explicit recommendations with respect to “actual deception” as such behaviour would clearly be unlawful under existing securities, civil, tort laws and regulations as well as potentially under criminal legislation as explained below.

The Principles are used and endorsed by the official sector internationally

The role of the Principles as an accepted international standard and transparency mechanism has been explicitly or implicitly endorsed by the official sector in various ways:

- **Official sector labels building on the Principles:** Several policymakers and regulators have launched official sector sustainable bond labels that are based on or reference the Principles. In the EU, the [recently agreed Green Bond Standard](#) builds on the Green Bond Principles while being subject to additional requirements such as Taxonomy-aligned projects as well as enhanced transparency and verification requirements. In Asia, the ASEAN Green Bond standards ([revised](#) in 2018) and its other sustainable bond guidance are based on the Principles while Japan’s [Basic Guidelines on Climate Transition Finance](#) align with the Climate Transition Finance (CTF) Handbook (May 2021). Recently, both Turkey’s [Guidelines](#) for green debt instruments and lease certificates (February 2022) and Tunisia’s [Guide](#) on the issuance of green, social, sustainable bonds (January 2022) reference the Principles.
- **Direct & explicit endorsement by official bodies:** In June 2022, the UK FCA [encouraged](#) issuers to adopt voluntarily and apply the relevant industry standards such as ICMA’s Principles for green, social, sustainability bond issuances and the Guidelines for External Reviews when choosing their Second Party Opinion (SPO) providers and verifiers. Also, in the context of its corporate bond decarbonisation initiative, the European Central Bank (ECB) [stated](#) that it may give preferential treatment to green bonds in its primary market bidding behaviour when they are aligned with the Principles and subject to pre- and post-issuance external reviews. In April 2023, the UAE regulator Securities And Commodities Authority (SCA) [issued](#) a decision on the regulation of green and sustainability-linked sukuk and bonds mandating compliance with the ICMA Principles as well as disclosure of green eligibility and exclusion criteria.
- **Alignment of SSAs sustainable bonds with the Principles:** Sovereign, supranational and agency (SSA) entities from all geographies have so far joined the sustainable bond market aligning in almost all cases with the Principles. The European Commission itself is among the largest sustainable bond issuers with its [SURE Social Bond](#) and [NGEU Green Bond](#) programmes aligned with the Principles.

Existing regulatory initiatives are highly relevant

Existing policy and regulatory initiatives already aim to address the areas of concern, but they face usability and implementation challenges. We argue that the focus should generally be to make these rules effective and workable for market participants so that they function as intended.

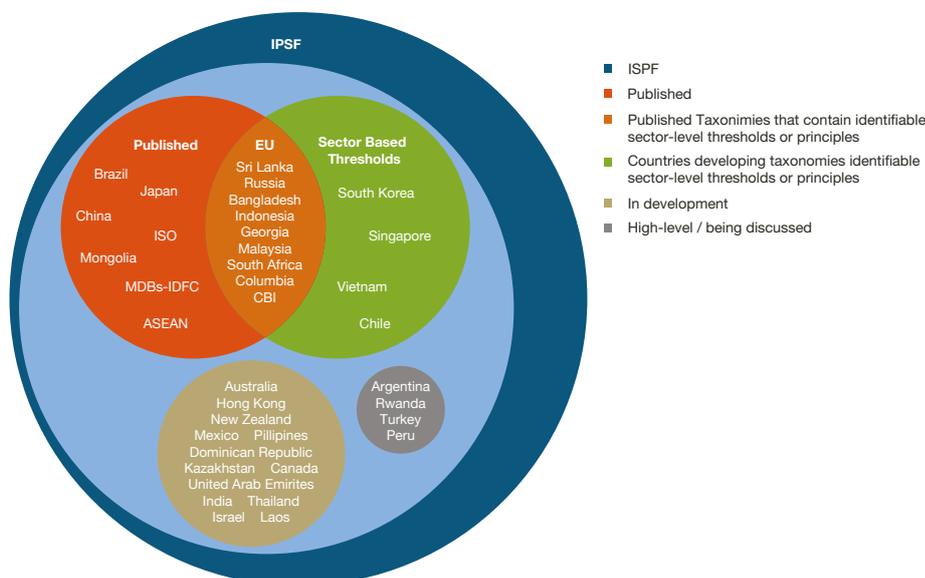
Taxonomies can be used for benchmarking ambition subject to usability considerations

Many jurisdictions have developed taxonomies that can be used to benchmark the ambition of sustainable bonds and investments. These taxonomies are classification systems for activities, assets, and/or project categories that deliver on key climate, green, social or sustainable objectives with reference to identified thresholds and/or targets (see ICMA's [Overview and Recommendations of Sustainable Finance Taxonomies](#) of May 2021). The Green Bond Principles have recommended since June 2021 that issuers disclose the alignment of their projects with official and market-based taxonomies.

Major jurisdictions such as the EU and China already have well developed taxonomies while the UK has recently [re-affirmed](#) its commitment to develop a green taxonomy. In China's onshore market, it is mandatory for green bonds to align with the China Green Bond Endorsed Project Catalogue 2021 Edition while the China Green Bond Principles (July 2022) [allows](#) foreign issuers to use certain international taxonomies.

The EU Taxonomy represents the most granular effort to date to benchmark sustainability claims. However, it is hampered by considerable usability issues which have been recognised by the EU Platform on Sustainable Finance (PSF) (see the EU PSF's [extensive report](#)) and analysed, among other in a [dedicated ICMA publication](#).

There are also international market-based taxonomies such as the Climate Bonds Initiative (CBI) Taxonomy, the International Organization for Standardization (ISO) Taxonomy, and the Multilateral Development Banks (MDBs)-International Development Finance Club (IDFC) Common Principles. The CBI's [database](#), which follows closely its Taxonomy, is used as a green filter for green bonds by some index providers and stock exchanges. In some countries (e.g., Australia, Brazil, Canada, Chile), national taxonomy efforts are being led by the private sector.



Source: [Promoting the international interoperability of a UK Green Taxonomy](#), GTAG, Feb.2023

There are ongoing multilateral efforts to enhance comparability and interoperability between taxonomies by working towards a Common Ground Taxonomy under the umbrella of the [International Platform on Sustainable Finance \(IPSF\)](#). More recently, an additional [bilateral effort has been initiated by China and Singapore](#) under the IPSF to achieve interoperability between their taxonomies and deepen their common understanding of transition activities. Given the global nature of the sustainable finance market success in achieving a usable common taxonomy may be the vital precondition for market clarity on what can be understood as sustainable.

Future corporate sustainability reporting can provide a check on broader strategic consistency

Several groundbreaking market and regulatory initiatives on corporate sustainability reporting will provide helpful strategic context to evaluate the consistency of sustainable bonds with issuer level commitments. These notably include disclosures for transition plans which will, for example, enable investors and other stakeholders to assess whether a transition-themed green bond or SLB issuance is consistent with an issuer' wider transition strategy.

- In January 2022, the UK's FCA [introduced rules](#) for listed companies and large regulated asset owners and asset managers to disclose transition plans as part of their Task Force on Climate-Related Financial Disclosures (TCFD) aligned disclosures, initially on a comply or explain basis. Going forward, building on the [final Transition Plan Taskforce \(TPT\) proposal](#) expected in October 2023, the FCA will launch a consultation to finalise the dedicated transition plan framework which will be part of the broader UK-adopted ISSB standards.
- The International Sustainability Standards Board (ISSB) issued in June 2023 its [inaugural standards](#) (IFRS S1 and IFRS S2). IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium, and long term. IFRS S2 sets out specific climate-related disclosures which refer to transition plans and relevant forward-looking elements such future changes to business model and decarbonisation actions and targets.
- The European Commission adopted in July 2023 the [European Sustainability Reporting Standards \(ESRS\)](#) for use by all companies subject to the [Corporate Sustainability Reporting Directive \(CSRD\)](#). The standards cover the full range of environmental, social, and governance issues. They provide information for investors to understand the sustainability impact of the companies in which they invest and require organisations in scope to report on their transition plans where they have them.

Overview of transition plan definitions

Framework	Definitions
IFRS S2 Climate-related Disclosures (ISSB)	“An aspect of an entity’s overall strategy that lays out the entity’s targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions.”
ESRS E1 (EFRAG)	“An aspect of an undertaking’s overall strategy that lays out the undertaking’s targets, actions and resources for its transition towards a lower-carbon economy, including actions such as reducing its GHG emissions with regard to the objective of limiting global warming to 1.5°C and climate neutrality.”
UK Transition Plan Taskforce (Consultation version)	“A transition plan is integral to an entity’s overall strategy, setting out its plan to contribute to and prepare for a rapid global transition towards a low GHG-emissions economy”.

In the EU, the proposed [Corporate Sustainability Due Diligence \(CSDD\) Directive](#) could also oblige certain large companies to have a 1.5°C-compatible transition plan. In the UK, the FCA is already exploring the merits of issuers elaborating in SLB prospectuses on how SPTs and KPIs link to their transition plans.

DNSH can help manage wider sustainability risks but needs calibration

In the context of green bonds, a most direct regulatory guidance for the “do no significant harm (DNSH)” concept⁴ was included in “[Dos and don'ts relating to green debt securities to avoid occurrences of greenwashing](#)” by the Securities and Exchange Board of India (SEBI). To address greenwashing concerns, SEBI said among other things that issuers shall quantify the negative externalities of green projects and avoid hiding trade-offs or cherry-picking data.

Moreover, many official sector taxonomies including the EU Taxonomy incorporate the DNSH concept albeit with different levels of granularity and stringency. Currently, the EU Taxonomy's DNSH is, however, seen as the main source of important usability issues (see ICMA paper “[Ensuring the usability of the EU Taxonomy](#)”). These are notably widespread data unavailability, heavy reliance on EU legislation and criteria (hindering the assessment of non-EU projects), and lack of proportionality assessment for smaller projects and SMEs.

In the context of the UK's planned green taxonomy, the Green Technical Advisory Group (GTAG) [recommended](#) that the UK should explore alternative means to achieve the goals of the DNSH requirements that make the UK Green Taxonomy more practical and usable while avoiding watering its impact down⁵.

Corporate sustainability rules are also relevant in ensuring that harm to society and the environment is avoided. Many EU countries (e.g., France, Germany, Netherlands) adopted corporate due diligence laws in recent years. The EU's upcoming [CSDD Directive](#) aims to harmonise these national initiatives. It introduces due diligence requirements and other obligations. Importantly, these obligations will not only cover entities' own operations, but also their value chains resulting in a pressure on third party suppliers and entities (including in non-EU countries) to address adverse impacts.

Moreover, the [European Sustainability Reporting Standards](#)⁶ for corporates are based on the “double materiality” concept. As such, the focus will be both on how sustainability matters impact a company and how the company impacts sustainability matters. The ISSB's reporting standards adopt the single materiality approach, but they would also require transparency to the extent that entities' adverse impacts on sustainability would affect their enterprise value mainly due to nature interdependencies and reputational risks.

Towards rules for sustainable fund naming and disclosures

At an international-level, IOSCO recommended to both regulators/policymakers (see the IOSCO's [2021 report](#)) and standard-setting bodies and industry associations (see [Good Sustainable Finance Practices](#)) to provide additional requirement or guidance including on product-level disclosures and practices that would cover (inter-alia):

- **Parameters for the naming of products** to ensure consistency between the fund names and their nature and extent of sustainability focus (including the investment objectives, characteristics, and strategy);
- **Parameters for labelling and classification** to help promote the consistent and correct use of labels and classification systems;
- **Disclosures on investment objective** providing transparency about the nature and extent of a product's sustainability-related investment objectives, including which components of sustainability the product is focused on and whether sustainability is a primary focus of the product; and,
- **Disclosures on investment strategies** to include the investment universe, investment selection process (including the types of ESG strategies used, as well as the use of indices and ESG scores or ratings, the extent of such use, and their methodologies, where applicable), sustainability criteria used, and extent of the portfolio's focus on sustainability.

⁴ The DNSH is the concept that contributing to one sustainability objectives should not create significant trade-offs to others.

⁵ In August 2023, the GTAG released a comprehensive report called “[Streamlining and increasing the usability of the DNSH criteria within the UK Green Taxonomy](#)”.

⁶ The broader legal framework of the ESRS is provided by the [Corporate Sustainability Reporting Directive](#) (CSRD) published in the Official Journal in December 2022.

The UK has already put forward its detailed and consumer protection-focused proposal in its [consultation for Sustainability Disclosure Requirements \(SDR\) and investment labels](#) to tackle greenwashing. It provides three voluntary fund labels based on investment objectives and the primary channel for sustainability outcomes: (i) “Sustainable focus label” with assets that are sustainable for people and/or planet; (ii) “Sustainable improvers” with assets that may not be sustainable now, with an aim to improve their sustainability for people and/or planet over time; and, (iii) “Sustainable impact” with solutions to problems affecting people or the planet to achieve real-world impact.

In the EU, the [Sustainable Finance Disclosure Regulation \(2019/2088\)](#) (SFDR) lays down a comprehensive entity- and product-level transparency regime based on the “double materiality” approach⁷. Among other things, the SFDR distinguishes between three categories of funds: (i) Article 6 funds (all managed funds); (ii) Article 8 funds (which promote environmental or social characteristics); and (iii) Article 9 funds (which have a sustainable investment objective). While this distinction has been introduced for disclosure purposes only, it is being used by the market as a de-facto labelling regime implying different ambition levels⁸. In the absence of clear and harmonised official labels and parameters, this quasi-labelling regime has however led to significant investor confusion, arguably increasing the greenwashing risks and accusations.

The [ESMA Guidelines](#) proposed in November 2022 aim to address some of the issues that have arisen. They propose to introduce thresholds of underlying investments to substantiate sustainability terminology in fund names⁹ in the context of the SFDR Article 8 disclosures. There would also be exclusion criteria as minimum safeguards for funds using a sustainability-related term.

Other jurisdictions have also been active in bringing clarity to fund practices. In Asia, Japan’s existing [FSA guidelines](#) have been amended in March 2023. An “ESG fund” definition has been included together with accompanying naming restrictions for funds that do not fall under this category as well as additional disclosures. In the US, the SEC has proposed two different rules in 25 May 2022. The [first one](#) seeks to categorise funds as “integration funds”, “ESG-focused funds”, “impact funds” and introduce a layered disclosure framework based on the pursued strategies. The [second one](#), adopted on 20 September 2023, ensures among other things that funds with ESG (or similar) terms would invest at least 80% of their assets in accordance with the investment focus that the fund’s name suggests. It also includes a new requirement that a fund reviews its portfolio assets’ treatment under its 80% investment policy at least quarterly and will include specific time frames (generally 90 days) for getting back into compliance if a fund departs from its 80% investment policy.

Similarly, [the ASEAN Sustainable and Responsible Fund Standards](#), published by the ASEAN Capital Markets Forum (ACMF) in February 2023, provide minimum disclosure and reporting requirements for funds that seek to qualify under the standard. The standard provides that the name of an ASEAN Sustainable and Responsible Fund should accurately and proportionately reflect the sustainability features as set out in investment strategies or objectives. The standard lists such potential investment strategies (e.g., active ownership, ESG integration, impact investing, negative and positive screenings) on a non-exhaustive basis backed-up with definitions for each of these and provide that a minimum two-thirds of underlying investments should be made and maintained in accordance with designated strategies or objectives.

At a more high-level, the ASIC’s anti-greenwashing [guidance](#) highlights the current lack of standardised labelling for sustainability-related products and cautions that it could be misleading if a fund’s name includes sustainability-related terminology, but sustainability-related factors are not significant in the investment selection process.

⁷ The detailed implementation of some SFDR provisions is provided by a [delegated act](#) which is currently under [review](#).

⁸ Article 8 and Article 9 funds have been commonly referred as “light green” and “dark green” funds, respectively.

⁹ Briefly, the proposed Guidelines discuss a minimum threshold of 80% of investments should be used to meet environmental or social characteristics or sustainable investment objectives if the fund has any “ESG” or “impact” related words in its name. If the naming includes “sustainable” or derivative terms, at least 50% (within this 80% threshold) should be allocated to “sustainable investments” as defined by the SFDR Art.2(17).

Conclusion and recommendations

We believe that the achievements of sustainable finance, namely in making sustainability investible at scale with transparency and accountability, largely outweigh its shortcomings, but there is no room for complacency. Both market best practice and regulations have a role to play in addressing integrity concerns and greenwashing risks in sustainable finance. We have the following recommendations for policy makers and regulators in this respect:

1. **Concentrate on actionable areas of concern in sustainable finance:** the actual areas of concern in sustainable finance such as lack of ambition in the sustainable bond market or misleading labelling of sustainable funds are generally well understood by both market participants and regulators. They are also actionable. Conversely, catch-all definitions of greenwashing risk paralysing market participants due to both reputational and litigation fears.
2. **Help improve the availability of data and analysis on market integrity in relation to these areas:** there is insufficient data and analysis available on market integrity in both the sustainable bond and fund market which needs to be remedied by efforts from both the official sector and the market. This will be easier to quantify by focusing on the areas of concern identified in this paper rather than broader definitions.
3. **Reference existing legislation where enforcement may be needed:** existing laws and financial regulation contain effective safeguards against misrepresentation and of course fraud. Neither are novel concerns for regulators. Examples of enforcement and litigation on this basis are already under way.
4. **Implement current regulatory initiatives with a focus on international interoperability and usability:** there are multiple regulatory initiatives from major jurisdictions targeting the key areas of concern in sustainable finance. The priority should be (i) to promote their international operability in a global market, and (ii) to address identified usability issues.
5. **Continue to leverage the positive contribution of market best practice:** sustainable finance, and especially the sustainable bond market with ICMA's Principles, is perhaps unique in the degree of available voluntary best practice. Regulators and policy makers can further leverage the best practice the market has developed when they consider that voluntary guidance may be insufficient to support its integrity.

Annex 1 – Podcast series on market integrity in sustainable finance

Between April 2022 and March 2023, ICMA published a series of podcasts on the topic of “market integrity in sustainable finance – greenwashing risks and remedies”. There are 4 episodes (i) greenwashing risks and remedies in the sustainable bond market, (ii) materiality and ambition of sustainability-linked bonds, (iii) sustainable bonds and the real world, and (iv) greenwashing risks and sustainable funds. We have provided high level summaries of these podcasts which are otherwise available online in their entirety.

Episode 1 (31 May 2022) – [Greenwashing risks and remedies in the sustainable bond market](#)

Moderator:

Denise Odaro, formerly Head of Investor Relations, IFC and Chair of the Executive Committee of Principles (until June 2022), now Managing Director, Head of ESG and Sustainability, PAI

Guests:

Eila Kreivi, Chief Sustainable Finance Officer at EIB

Bram Bos, Lead Portfolio Manager Green Bonds at NNIP (NNIP has since been acquired by Goldman Sachs Asset Management)

Sean Kidney, CEO of the Climate Bond Initiative

In this episode, Denise Odaro, formerly IFC and now PAI Partners, and her guests consider broadly greenwashing in the sustainable bond market. They discuss the diversity of greenwashing risks and the absence of an agreed definition. Looking at greenwashing risks, they speak of the concerns from investors when an issuer’s sustainability strategy does not match the credibility of its sustainable bonds. They also discuss the ambition and materiality of SLB KPIs and targets. Concerns are expressed about further bond “sub-labels” and in favour of existing broad sustainable bond products such as green and social bonds. They agree that greenwashing is not prevalent in the sustainable bond market. They also discuss the role of the Principles and converging international taxonomies in the fight against greenwashing. They refer to the issuer level guidance of the Climate Transition Finance Handbook, as well as transition as a theme for both use-of-proceeds bonds and SLBs.

Episode 2 (7 November 2022) - [Materiality and ambition of Sustainability-Linked Bonds](#)

Moderator:

Laurie Chesne, Head of Green & Sustainable Financing & Advisory EMEA, Natixis CIB

Guests:

Nicole Della Vedova, Head of Corporate Finance and Structured, Enel

Felipe Gordillo, ESG Senior Analyst, Mirova

Nate Aden, Finance Sector Lead, Science Based Targets Initiative (SBTi)

Ulf Erlandsson, Founder and CEO of Anthropocene Fixed Income Institute

In the second episode Laurie Chesne, Natixis CIB, together with her guests took a more detailed look at the materiality and ambition of sustainability-linked bond KPIs and SPTs, especially when related to transition finance. They underline the importance of KPI selection, as well as of the link to the issuer’s sustainable and transition strategy. They discuss problematic SLBs with targets that may be immaterial, as well as SLBs mixing targets both material and not, all of which can lead to greenwashing accusations. They refer to SBTi, alongside ICMA’s KPI registry and Climate Transition Finance

Handbook, as resources and tools to help benchmark ambition. They discuss the practices related to impact on bond characteristics and potential pricing benefits for SLBs. They also identify the reputational and even possible litigation risks of missing targets.

Episode 3 (28 February 2023) – [Sustainable bonds and their real world impact](#)

Moderator:

Simone Utermarck, Director, Sustainable Finance, ICMA

Guests:

Isabelle Laurent, Deputy Treasurer & Head of Funding, EBRD (Chair of the ExCom of the Principles since June 2022)

Joseba Mota, Head of Fixed Income and ESG, Iberdrola

Eric Pedersen, Head of Responsible Investments, Nordea Asset Management

Jochen Krimphoff, Global lead data, tools and methods for the Greening Financial Regulation Initiative (GFRI), WWF

Julian Mazzacurati, Senior Economist, Risk Analysis and Economics Department, European Securities and Markets Authority (ESMA)

In the third episode Simone Utermarck, ICMA, and her guests talk about the link between sustainable finance and its impact in the real world. They underline the aim of investors to find consistency between an issuer's sustainable financing and its overall strategy. They also point to common definitions of what is green, improved data availability, consistent metrics, and transparent methodologies (notably for impact reporting) to assess the real world effects of green bonds. Taxonomies are also identified as helpful to enhance market integrity and prevent greenwashing. They discuss usability challenges as has become apparent with the EU Taxonomy. External reviews are highlighted as useful and informative, but not sufficient in themselves. Finally, reference is made to the growing importance of technology (satellite and remote sensing) to help establish impact in the real world.

Episode 4 (6 April 2023) – [Greenwashing risks and sustainable funds](#)

Moderator:

Nicholas Pfaff, Deputy CEO and Head of Sustainable Finance, ICMA

Guests:

Hortense Bioy, Global Director of Sustainability Research, Manager Research, Morningstar

Mark Manning, Strategic Policy Advisor Sustainable Finance, FCA

Patrik Karlsson, Senior Policy Officer, ESMA

Stéphane Janin, Head of Global Regulatory Developments and Public Affairs, AXA Investment Managers

In the fourth and final episode in our series Nicholas Pfaff, ICMA, and his guests looked at greenwashing risks in the funds industry. Participants agree that greenwashing in the funds space has been an issue. They especially identify concerns about references to sustainability in fund names which can be the greatest indicator of intentionality and can mislead investors. Lack of clarity from the regulator is referenced as a potential and unintentional contributor to greenwashing. They note the multiple regulatory initiatives under discussion in the EU and the UK. They agree that fund categorisations and labels can be a way forward, although note that there is less agreement in the market on the underlying definitions and whether thresholds for sustainable investments could/should be incorporated. They discuss ICMA's proposal made in response to ESMA's consultation on Guidelines on funds' names to differentiate between three main types of fund labels based on the sustainability objective they are seeking to achieve.

Annex 2 – Controversy analysis in the Sustainability-Linked Bond Market

Methodology

In our analysis, we examined the leading 100 issuers of sustainability-linked bonds based on the total issuance amount between January 2022 and September 2023. The issuers in focus accounted for 82% of the sustainability-linked bond market during the specified time frame. In line with the recommendation¹⁰ in the ESA's Progress Report on Greenwashing on methods to monitor greenwashing, we explored any controversies surrounding these deals as reported in the media. We also assessed if the bond documentation referred to the Science-Based Targets initiative (SBTi) as a proxy to track ambition.

Findings

Controversies reports

Having reviewed the first 100 sustainability-linked bonds issuers ranked by total amount issued, we identified 15 issuers that had been subject to controversies. From the issuance volume perspective, these 15 issuers represented 19% of the sample issuance volume.

We recognise that relying solely on controversy reports as an indicator of greenwashing concerns has inherent limitations. Smaller sized issuers are less likely to receive press coverage. Thus, among the 100 issuers we examined, there could be additional instances of “controversial” issuances that went unnoticed due to limited media coverage.

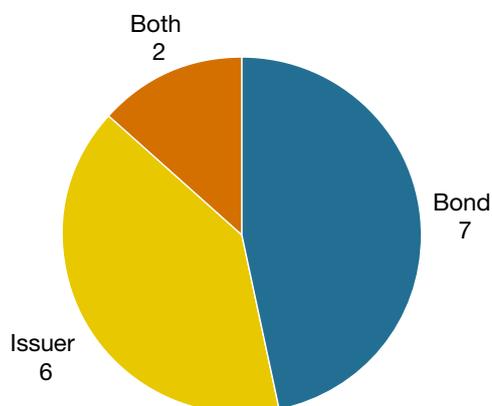
Framework	Number of bonds	USD bn	% of sample issuance volume
Controversies found	15	20.8	19.2%
Controversies not found	85	87.6	80.8%
Total	100	108.4	100%

The identified controversies pertained either to specific deals or to the overarching sustainability profile of the issuer. In several cases, controversies arose on both the deal and issuer levels. Controversies linked to specific deals often involved allegations relating to unambitious targets, inadequate penalties or lack of transparency. Meanwhile controversies related to the issuer's broader sustainability profile were typically more prevalent among issuers from hard-to-abate sectors.

After identifying 15 issuers with reports of controversies, we assessed whether the news articles criticised the bond, the issuer, or both. Our analysis revealed that in seven instances, the bond itself faced criticism. In six cases, the criticism targeted the issuer, while in the remaining two cases, both the bond and the issuer were subjects of negative news reports. Our findings are illustrated in the charts below:

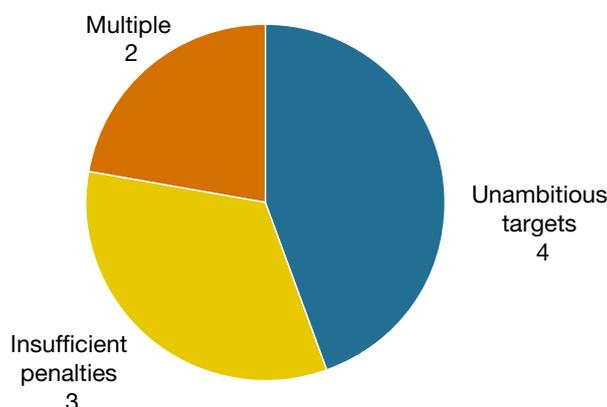
¹⁰ “Monitoring may first be done using quantitative indicators based on financial market data, with a view to quantifying the frequency of potential greenwashing occurrences through the monitoring of greenwashing allegations. One possible avenue is the use of data on ESG-related controversies, which are used as input by some ESG data providers in their ESG rating products, or used as separate input data by asset managers.” p69 “Progress Report on Greenwashing”.

Controversies types breakdown



We subsequently focused on reports where bonds faced criticism. After our review, we found that the primary critiques were about unambitious targets, insufficient penalties, lack of transparency, or a mix of these reasons. Upon examining nine bonds, unambitious targets emerged as the leading cause for criticism, evident in four cases, followed by insufficient penalties in three cases. The remaining two bonds were criticised for multiple reasons (see chart below).

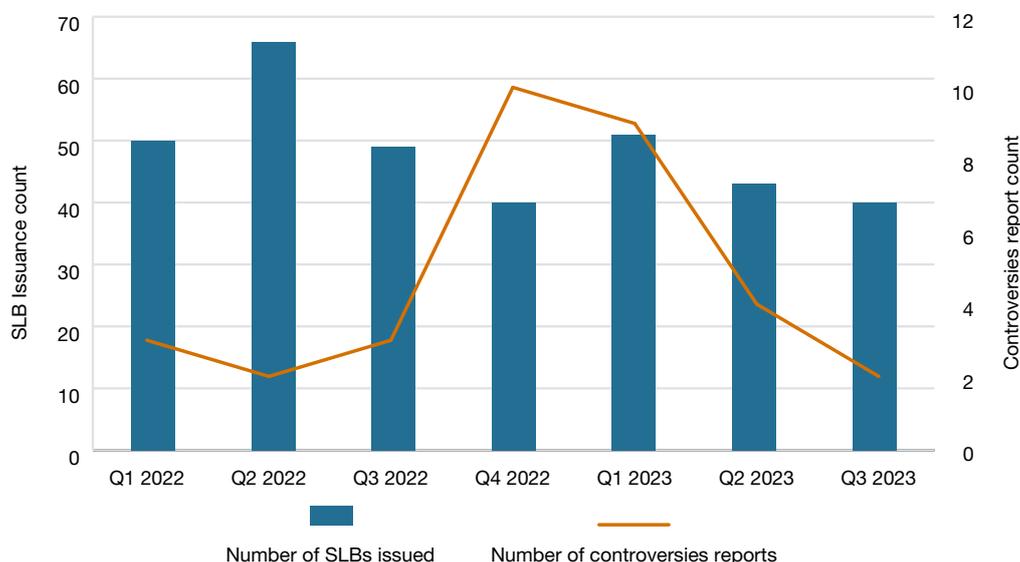
Overview of bond-related controversies



Controversies timeline

In our subsequent analysis, we compared the quarterly issuance of bonds from 2022 onwards with the frequency of controversial reports published within the same quarters. The data revealed that Q2 2022 saw the peak issuance with 66 bonds, whereas Q4 2022 had the highest count of controversial reports, totalling 10. For this analysis, we concentrated on general controversy reports concerning SLBs, including articles that addressed the overall SLB structure without reference to specific issuers. Our analysis indicates a clear declining trend in absolute and relative terms of the number of controversy reports over the last 12 months.

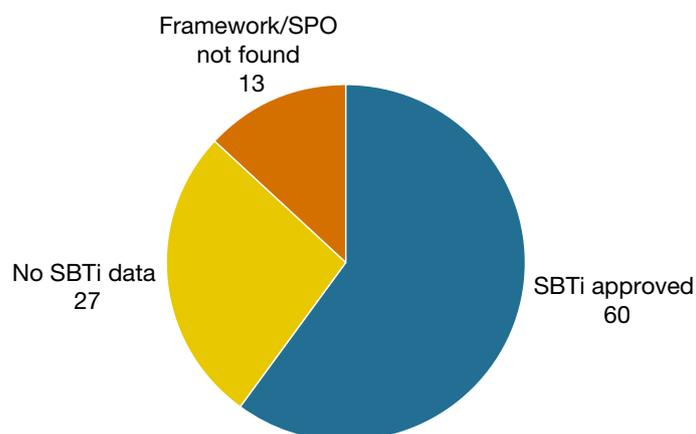
Number of SLBs issued vs number of controversies reports



SBTi approved targets review

Of the 100 issuers evaluated, we identified the SLB framework or SPO for 87. From this subset, 60 had their targets endorsed by the SBTi, while the remaining 27 did not. Our findings are summarised below:

SBTi targets review



We examined the change in the number of issuers whose targets received approval from the SBTi. As explained earlier, our study identified 87 SLB frameworks corresponding to 100 issuers within our selected sample. Subsequently, we categorised these SLB frameworks based on their publication quarters. We then assessed both the cumulative count of issuers with SBTi-approved targets and the quarterly percentage of issuers that received approval for their targets from the SBTi.

Based on our sample, we have determined that the number of issuers obtaining SBTi approval for their SLB targets has increased on average since 2021, and issuers obtaining SBTi approval for their SLB targets reached 70% in Q2 2023. While we believe that SBTi approval is a good proxy for ambition, it does not necessarily protect against controversy. Out of our 15 issuers with controversies reports, we found that 8 (53%) of those facing negative media coverage asserted in their documentation that their targets had received SBTi approval.

Conclusion

After evaluating the 100 largest issuers of sustainability-linked bonds from January 2022 to September 2023, we determined that transaction from 15 issuers (representing 19% (USD20.8 billion) of the total amount issued during this timeframe) had given rise to some form of controversy. Given that our sample accounts for 82% of the sustainability-linked bond market in the stated period, we concluded that our findings offer a representative insight into the broader market.

Our analysis indicates a clear declining trend in absolute and relative terms of the number of controversy reports over the last 12 months. It further shows that the number of issuers obtaining SBTi approval for their SLB targets reached 70% in Q2 2023. While we believe that SBTi approval is a good proxy for ambition, we also found that it does not necessarily protect against controversy.

Overall, our study indicates a positive trend in the integrity of the SLB market as measured by reported controversies and SBTi alignment.

Appendix A – Overview of areas of concern with selected examples and official and market based mitigants

For sustainable bonds (use-of-proceeds bonds and sustainability-linked bonds)			
Concern areas	Selected examples	Legislative/regulatory mitigants	Market-based mitigants
Lack of ambition	<ul style="list-style-type: none"> In UoPs bonds, projects or parts of those found insufficiently green or sustainable SLBs with targets seen as easily achievable or close to a “business as usual” trajectory 	<ul style="list-style-type: none"> Taxonomies from various jurisdictions including the EU Taxonomy and the China Endorsed Green Bond Catalogue A potential requirement for 1.5°C compatible transition plans under the EU’s upcoming CSDD Directive Entity disclosures under ISSB, ESRS, UK TPT, US SEC frameworks allowing comparison of ambitions 	<ul style="list-style-type: none"> The Principles’ requirements/recommendations/guidance: (1) for UoPs bonds: on environmental objectives and high-level project categories, disclosure of external taxonomies, green eligibility and exclusion criteria, allocation and impact reporting and relevant guidance, etc.; (2) for SLBs: on ambition of targets, recent KPI registry with over 400 KPIs, etc. The Climate Transition Finance Handbook’s recommendation for science-based targets. External review scrutiny and ICMA Guidelines for External Reviews Market-based taxonomies (CBI, MDBs-IDFC, ISO)
Mismanagement of wider sustainability risks	<ul style="list-style-type: none"> Lack of an appropriate process to identify and manage wider environmental/social risks and trade-offs for sustainable projects 	<ul style="list-style-type: none"> The DNSH and minimum safeguard concepts under various taxonomies SEBI’s greenwashing guidance requiring quantification of negative externalities of green projects and avoid hiding trade-offs or cherry-picking data in green securities. Human rights and environmental due diligence laws in the EU and in individual countries Corporate disclosure rules such as the ESRS 	<ul style="list-style-type: none"> The Principles’ requirement to disclose complementary information on processes by which issuers identify and manage perceived environmental and social risks related to projects The Principles’ encouragement to identify mitigants to know material environmental and social risks
Strategic inconsistency	<ul style="list-style-type: none"> Lack of a broader sustainability/ environmental strategy that accompanies a green bond Clear inconsistency between the green label and what the issuer does beyond the label 	<ul style="list-style-type: none"> Disclosure frameworks by ISSB, EFRAG, UK TPT including transition plans and other forward-looking information The EU’s entity-level Taxonomy disclosures in particular on CapEx 	<ul style="list-style-type: none"> The Principles’ requirements/recommendations/guidance related to: (1) for UoPs bonds: on the communication of overarching objectives, strategy, policy and/or processes on sustainability; (2) for SLBs: requirement for KPIs to be core, material, and relevant and targets to be “strategically consistent at the issuer level” The Climate Transition Finance (CTF) Handbook’s recommended disclosures including on climate transition strategy and governance External review scrutiny and ICMA Guidelines for External Reviews TCFD and other entity-level sustainability disclosure frameworks
Actual deception	<ul style="list-style-type: none"> Not allocating the proceeds to green projects in a green bond except due to reasons beyond control Manipulating KPIs and relevant data Omitting material information 	<ul style="list-style-type: none"> Securities and markets regulations Civil, criminal and regulatory liability, tort law, etc. 	<ul style="list-style-type: none"> The abidance of market participants to the applicable legal and regulatory framework Allocation reporting External review scrutiny

For fund products

Concern areas	Selected examples	Legislative/regulatory mitigants	Market-based mitigants
Vague or ambiguous responsible investment methodologies	<ul style="list-style-type: none"> Opacity or inconsistency about the baseline criteria leading to criticism as investment selection may have been based on high governance/diversity scores rather than environment 	<ul style="list-style-type: none"> ASEAN: The ACMF's ASEAN Sustainable and Responsible Fund Standards Australia: The ASIC's "How to avoid greenwashing when offering or promoting sustainability-related products" EU: The EU's SFDR and related regulatory guidance for implementation; the EU Ecolabel; public sector supported investment labels (e.g., SRI in France) Japan: The FSA's ESG-related amendments made under the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. UK: The FCA's upcoming SDR and investment labels and its previous "Dear Chair Letter" US: The upcoming SEC rules on sustainability related fund disclosures and naming 	
Unclear or misleading fund labelling/naming	<ul style="list-style-type: none"> Funds labelled as "Transition" or "Impact" where the underlying strategy is not outcome oriented but focused on disclosure 		<ul style="list-style-type: none"> National sustainable investment labels (e.g., FNG-Siegel in Austria, Germany, and Switzerland)
Actual deception	<ul style="list-style-type: none"> Not applying, for example, a fund's advertised processes for rigorous ESG screening at the product level 	<ul style="list-style-type: none"> Most sustainable finance policies/regulations related to funds primarily aim to prevent misleading and deceptive behaviours. Securities and markets regulations Civil, criminal, and regulatory liability, tort law, etc. 	<ul style="list-style-type: none"> The abidance of market participants to the applicable legal and regulatory framework

Appendix B – Official definitions and references of “greenwashing” in various jurisdictions

Jurisdiction (source)	Document/legal tool	Official definitions / references relating to “greenwashing”
Australia (ASIC)	ASIC's How to avoid greenwashing when offering or promoting sustainability-related products (2022)	“In relation to investments, ‘greenwashing’ is the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical.”
EU (ESAs)	Progress Reports on Greenwashing (2023)	The ESAs understand greenwashing as a practice where 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.
EU (ESMA SMSG)	Advice to ESMA SMSG advice to ESMA on additional questions relating to greenwashing (2023)	The practice of misleading investors, notably (but not limited to) in the context of gaining an unfair competitive advantage, by making an unsubstantiated ESG claim about a financial product or service.
EU (Various sustainable finance legislation)	Taxonomy Regulation 2020/852 (recital)	In the context of this Regulation, greenwashing refers to 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.
	Proposed amendment to the Unfair Commercial Practices Directive (recital) (2022)	In order to tackle unfair commercial practices which prevent consumers from making sustainable consumption choices, such as practices associated with the early obsolescence of goods, misleading environmental claims (“greenwashing”), non-transparent and non-credible sustainability labels or sustainability information tools, specific rules should be introduced in Union consumer law.
	Commission guidance on the Unfair Commercial Practices Directive (2021)	The expressions ‘environmental claims’ and ‘green claims’ refer to the practice of suggesting or otherwise creating the impression (in a commercial communication, marketing or advertising) that a good or a service has a positive or no impact on the environment or is less damaging to the environment than competing goods or services. This may be due to its composition, how it has been manufactured, how it can be disposed of and the reduction in energy or pollution expected from its use. When such claims are not true or cannot be verified, this practice is often called ‘greenwashing’.
	Commission Delegated Regulation (EU) 2021/1253)	It is necessary to address concerns about ‘greenwashing’, that is, in particular, 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. In order to prevent mis-selling and greenwashing, investment firms should not recommend or decide to trade financial instruments as meeting individual sustainability preferences where those financial instruments do not meet those preferences. Investment firms should explain to their clients or potential clients the reasons for not doing so, and keep records of those reasons.
India (SEBI)	Dos and don'ts relating to green debt securities to avoid occurrences of greenwashing (2023)	While there are no universally accepted taxonomies on greenwashing, the generally accepted definition of ‘Greenwashing’ is, ‘making false, misleading, unsubstantiated, or otherwise incomplete claims about the sustainability of a product, service, or business operation’.
IOSCO	Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management (2021)	For the purposes of this Report, the term “greenwashing” refers to the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products.
	IOSCO Good Sustainable Finance Practices – Call for Action for Financial Markets Voluntary Standard Setting Bodies and Industry Associations (2022)	For the purposes of the Call for Action, the term “greenwashing” should be understood within this broader context, rather than being restricted to only asset managers, such that it addresses the practice of misrepresenting sustainability-related information, practices or features throughout the investment value chain.

Jurisdiction (source)	Document/legal tool	Official definitions / references relating to “greenwashing”
Japan (FSA)	Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. (2023)	The number of investment products which incorporate Environmental Social and Governance (ESG) factors in their names and investment strategies has been increasing both in Japan and overseas, and at the same time, concerns over “greenwashing” that their actual investments may not be commensurate with their ESG claims are attracting attention globally.
UK (FCA)	Sustainability Disclosure Requirements (SDR) and investment labels (October 2022)	There are growing concerns that firms may be making exaggerated, misleading or unsubstantiated sustainability-related claims about their products; claims that don’t stand up to closer scrutiny (so-called ‘greenwashing’).
US (SEC)	Speech by a US SEC Commissioner “It’s Not Easy Being Green: Bringing Transparency and Accountability to Sustainable Investing”	“... ‘greenwashing,’ or exaggerated or false claims about ESG practices. Greenwashing can mislead investors as to the true risks, rewards, and pricing of investment assets.”

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