CONSULTATION PAPER ON

PRINCIPLES TO MITIGATE THE RISK OF GREENWASHING IN ESG LABELLED DEBT SECURITIES IN THE IFSC

A. Background

1. In order to encourage the growth of Green Bonds, Social Bonds, Sustainability Bonds, Sustainability-linked Bonds and other labelled bonds (collectively referred to as "ESG labelled Debt Securities"), IFSCA had specified the necessary regulatory framework in the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021 ("erstwhile listing regulations"), which have been recently replaced by International Financial Services Centres Authority (Listing) Regulations, 2024 ("Listing Regulations"). The framework for the ESG labelled Debt Securities broadly remains the same under the said regulations and recognizes the following international standards/principles to label the debt securities as "green", "social", "sustainability" and "sustainability-linked" bonds:

   i. International Capital Market Association (ICMA) Principles/Guidelines
   ii. Climate Bonds standard
   iii. ASEAN Standards
   iv. European Union Standards
   v. Any framework or methodology specified by a competent authority or a financial sector regulator in India.

2. The framework also mandates that the issuer to appoint an independent external reviewer to ascertain that the ESG labelled Debt Securities are in alignment with any of the recognised standards mentioned above.

3. In a short span, the listing of around USD 13.93 Bn ESG-labelled Debt Securities in GIFT-IFSC, out of USD 64.31 Bn total debt listings, on IFSC exchanges, as on September 30, 2024, highlights how GIFT IFSC is emerging as a preferred platform for Indian corporates to raise sustainable capital from global investors.

4. The break-up of ESG labelled Debt securities amounting to USD 13.93 Bn is detailed in **Figure-1**.

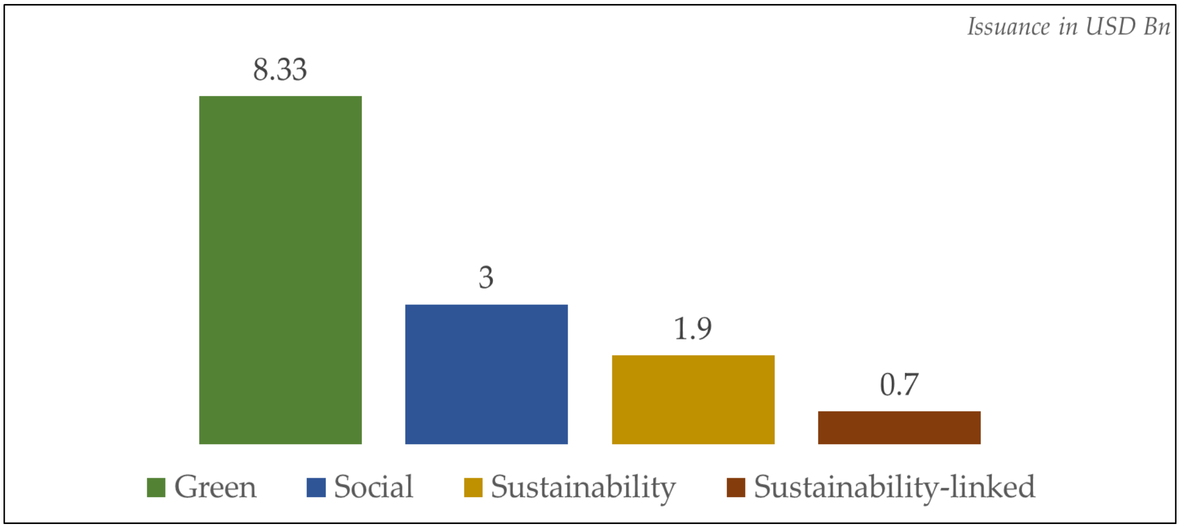

Figure 1: Issuance of various labelled bonds as of September 30, 2024

5. The break-up of various categories of issuers amongst Banks, Multilateral Development Banks (MDBs), Public Sector Undertaking (PSUs), and corporates, is detailed in **Figure-2.**

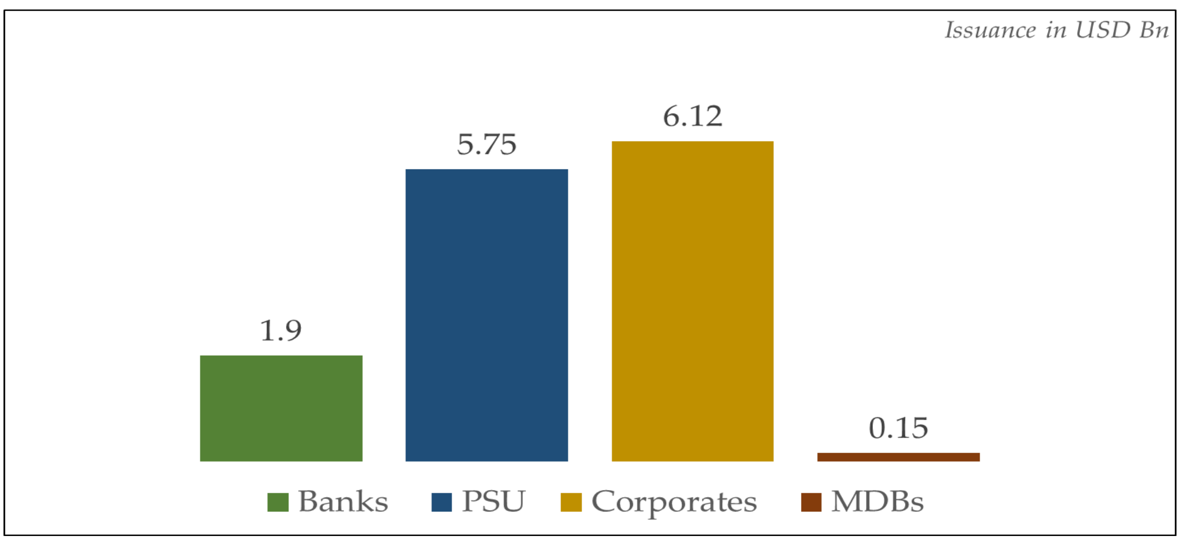

Figure 2: Type of entities who have raised labelled bonds as of September 30, 2024

B. Sustainable Finance and the rise of Greenwashing

1. The **Hon'ble Prime Minister** in July 2022 during the stone laying ceremony of IFSCA headquarters at GIFT City had mentioned that *"I want GIFT-IFSC to be a gateway to global debt and equity capital for sustainable and climate projects."* In the past few years, IFSCA has taken significant steps in accelerating global sustainable capital flows by creating a conducive regulatory environment, inspired by international best practices and with a focus on the needs of developing countries such as India.

2. IFSCA has undertaken initiatives in three key funding areas: Debt Securities, Loans, and Funds. This has led to notable advancements, including the listing of ESG labelled Debt Securities totaling USD 13.93 billion and sustainable lending exceeding USD 1.5 billion by IFSC Banking Units. While there has been a significant rise in sustainable capital from GIFT IFSC, globally, there has been an increasing risk towards greenwashing. Even a few isolated instances of greenwashing could lead to a loss of investors' interest and impact the aim of building a credible financial centre for various sustainable finance activities.

3. The rapid growth of green economy globally is also accompanied by concerns of greenwashing, which can erode investor trust and hinder the progress towards a sustainable future. According to a report published by Asia Investor Group on Climate Change (AIGCC)[1], across geographies, greenwashing claims have been seen through various sectors, including in the retail sector, utilities sector, automotive sector, aviation sector, and the fossil fuel sector.

4. While different jurisdictions have defined "Greenwashing" differently, greenwashing generally refers to deceptive practice of making unsubstantiated, false or misleading claims regarding the sustainability benefits of a product, service, or business.

5. Greenwashing presents a considerable threat to the integrity of the green transition. By diverting capital from genuine sustainable investments, greenwashing undermines the credibility of various sustainable initiatives and diminishes investor confidence. Companies that authentically integrate sustainable practices into their operations may experience enhanced valuations and lower financing costs as the market for sustainable investments continues to grow. While accurate assertions of environmental benefits can bolster a company's reputation and attract investors, false or misleading claims can have detrimental effects on the overall green ecosystem.

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[1] https://www.aigcc.net/wp-content/uploads/2023/04/Greenwashing-and-how-to-avoid-it-An-introductory-guide-for-Asias-Finance-Industry-AIGCC-ClientEarth.pdf

6. Hence, it is important to mitigate the risks of greenwashing. With the growing issuance of ESG labelled Debt Securities on the IFSC exchanges, it is essential to have a robust framework to address this issue.

C. Global Practices

1. To understand the issue further and also study the international practices, IFSCA reviewed the suggestions of International Standard Setting Bodies and practices prevalent in other jurisdictions. A brief of the same is as follow:

   i. **IOSCO:** International Organization of Securities Commissions (IOSCO) published a report on "Supervisory Practices to Address Greenwashing[2]" in December 2023 and a paper on "IOSCO Good Sustainable Finance Practices[3]" in November 2022 identifying good practices to counter the risk of greenwashing. The good practices identified by IOSCO are focused on product-level disclosures which cover areas like naming, labelling and classification of sustainability-related products, investment objectives and strategies disclosure, monitoring of compliance and sustainability-related performance of products.

   ii. **SEBI:** The Securities and Exchange Board of India (SEBI) has introduced guidelines for green debt securities to avoid occurrences of greenwashing by emphasizing on fund utilization, continuous monitoring, and disclosure requirements. Further, vide circular dated February 03, 2023, SEBI also issued a circular[4] on "Dos and don'ts relating to green debt securities to avoid occurrences of greenwashing".

   iii. **Financial Conduct Authority (FCA UK)** has also come out with the Anti Greenwashing rule for all FCA authorized firm. The Rule requires that references made to the sustainability characteristics of a product or service, are (i) consistent with the sustainability characteristics of the product or services and

[2] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD750.pdf
[3] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf
[4] https://www.sebi.gov.in/legal/circulars/feb-2023/dos-and-don-ts-relating-to-green-debt-securities-to-avoid-occurrences-of-greenwashing_67828.html

(ii) clear, fair and not misleading. FCA also came out with guidance[5] to help firms understand and comply with the anti-greenwashing rule.

iv. **ICMA:** ICMA[6] published a report on market integrity and greenwashing risks in sustainable finance in October 2023 and identified four areas of concern of greenwashing with respect to sustainable bonds viz. lack of ambition, strategic inconsistency, mismanagement of wider sustainability risks and actual deception.

v. **Australian Securities & Investments Commission (ASIC):** ASIC issued an "information sheet 271"[7] in June 2022 on avoiding greenwashing while offering or promoting sustainability-related products. It focuses on disclosure requirements and investor protection measures.

2. Based on the examination of the global best practices to mitigate the risk of greenwashing, relevance of the practices to GIFT-IFSC, the assessment of IFSCA on the issue in the context of India and to instill greater confidence amongst global investors, it is proposed that issuers of ESG labelled debt securities in IFSC adhere to the following **five principles:**

   i. Being True to Label - Avoid misleading labels and terminology
   ii. Screen the Green - Transparency in methodology for project selection and evaluation
   iii. Walk the talk - Managing and tracking use of proceeds
   iv. Overall Impact - Quantification of Negative Externalities
   v. Be alert - Monitoring and Disclose

3. A draft circular on the aforesaid principles have been prepared and is proposed to be issued under the regulation 130 of the Listing Regulations. **The circular is largely principle-based with guidance notes and illustrative examples for better understanding.**

[5] https://www.fca.org.uk/publication/finalised-guidance/fg24-3.pdf
[6] https://www.icmagroup.org/assets/documents/Sustainable-finance/Market-integrity-and-greenwashing-risks-in-sustainable-finance-October-2023.pdf
[7] https://asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-related-products/

D. Public Comments

1. Comments and suggestions from the public and stakeholders are invited on the draft **"Principles to mitigate the Risk of Greenwashing in ESG labelled debt securities in the IFSC"** placed at ***Annexure-1.***

2. Comments on the draft circular may be sent by email to **Mr. Abhineet Panwar, Assistant Manager, IFSCA** at abhineet.panwar@ifsca.gov.in and **Mr. Chintan Panchal, Manager, IFSCA** at chintan.panchal@ifsca.gov.in with a **copy** to **Mr. Pavan Kishor Shah, General Manager, IFSCA** at pavan.shah@ifsca.gov.in latest by October 25, 2024.

3. The comments may be provided in the following format (MS Word or MS Excel only):

Name and Details of the Person / Entity **[Organization name (if applicable), Contact No., Email address]**				
Sr. No.	**Paragraph No.**	**Comments/Suggestions**	**Detailed rationale**	**Other supporting Information**

Annexure-1

DRAFT CIRCULAR

F. No. ……. **Oct ____, 2024**

To,

Recognised stock exchanges in the International Financial Services Centres (IFSCs)

Issuers who have listed/propose to list ESG labelled debt securities in the IFSCs

Dear Sir/Madam,

Subject: Principles to mitigate the Risk of Greenwashing in ESG labelled debt securities in the IFSC

1. International Financial Services Centres Authority (IFSCA) recognizes the pivotal role of ESG labelled debt securities (Green Bonds, Social Bonds, Sustainability Bonds, Sustainability-linked Bonds and other labelled bonds as may be specified) in financing sustainable development and transition to a low-carbon economy. However, there is a growing concern globally among stakeholders, including investors, regarding the accuracy and reliability of claims made by issuers about the sustainability benefits of the projects or assets they invest in. While there is no universally accepted definition/taxonomy of greenwashing, the term "*Greenwashing*" generally refers to the deceptive practice of making unsubstantiated, false or misleading claims regarding the sustainability benefits of a product, service, or business operation.

2. In the context of ESG labelled debt securities such claims may exaggerate, misrepresent, or omit information about the projects or assets where the proceeds of issuance are utilised to create a false impression of sustainability, thereby misleading investors. Greenwashing undermines investor confidence and market integrity. This can also result in an uneven playing field between issuers engaging in greenwashing and those who have genuinely *"greened"* operations.

3. The announcement of the Hon’ble Finance Minister in the Budget speech of 2024-25 towards developing a taxonomy for climate finance for enhancing the availability of capital for climate adaptation and mitigation will support in addressing issues related to greenwashing across various sectors in India.

4. Further, the International Financial Services Centres Authority (Listing) Regulations, 2024 (“Listing Regulations”) requires one of the following international standards/principles to be adhered to in order to label the debt securities as “green”, “social”, “sustainability” and “sustainability-linked” bond:

    i. International Capital Market Association (ICMA) Principles/Guidelines
    ii. Climate Bonds standard
    iii. ASEAN Standards
    iv. European Union Standards
    v. Any framework or methodology specified by a competent authority or a financial sector regulator in India.

5. Further, the Listing Regulations in addition to mandating certain initial and annual post issuance disclosures, mandates appointment of an independent external reviewer to ascertain that the ESG labelled debt securities are in alignment with any of the recognised standards mentioned above.

6. International Organization of Securities Commissions (IOSCO) in November 2022 published the paper[8] on “IOSCO Good Sustainable Finance Practices”. The good practices identified by IOSCO focuses on product-level disclosures concerning naming, labelling and classification of sustainability-related products, investment objectives and strategies disclosure, monitoring of compliance and sustainability-related performance of products.

7. Additionally, International Capital Market Association (ICMA)[9] also published a report on “Market integrity and greenwashing risks in sustainable finance” in October 2023 and identified four areas of concern of greenwashing with respect to sustainable bonds viz. lack of ambition, strategic inconsistency, mismanagement of wider sustainability risks and actual deception.

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[8] https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf

[9] https://www.icmagroup.org/assets/documents/Sustainable-finance/Market-integrity-and-greenwashing-risks-in-sustainable-finance-October-2023.pdf

8. In line with the above, practices prevalent in other jurisdictions and in order to further promote transparency, accountability and adequacy of disclosures to investors, the IFSCA hereby issues the following principles which issuers of ESG labelled debt securities in IFSC should adhere to:

Principles

A. *Being True to Label* - Avoid misleading labels and terminology

An issuer of debt security in IFSC shall not use the name “Green”, “Social”, “Sustainability”, “Sustainability-linked” or similar terms or a combination of these terms in the issuance of ESG labelled debt securities or its marketing, unless the securities are aligned with any of the frameworks recognised by IFSCA. Additionally, the offer document and marketing materials, if any must clearly explain how the issue including use of proceeds aligns with the chosen framework and the specific environmental or social objectives it aims to achieve.

Further Guidance: An issuer should refrain from labelling or representing projects/activities as environment friendly with vague green claims when the projects/activities is only partially green, or when the green attributes are not a significant part of its overall environmental impact. Further, there should not be any strategic inconsistencies, to illustrate, 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.

Example of misleading labels:

1. *A bond is being marketed as a Green Bond; however, the issuance is not aligned with any of the recognised frameworks as referred in sub-regulation (1) or (2) of regulation 76 of the Listing Regulations.*

2. *A bond is issued as a sustainability-linked bond; however, the sustainability performance targets (SPTs) are too low or their tracking/reporting is misrepresented, or data is being selectively picked from research while ignoring other data which is unfavourable to issuer.*

B. *Screen the Green* - Transparency in methodology for project selection and evaluation

The issuer shall disclose in the offer document a statement on ESG objectives for the issue of securities along with details of the process followed by the issuer for evaluating and selecting the project. The issuer shall avoid the use of broad or generic statements to describe investment screening criteria. Further, disclosures should enable investors to fully understand the product's sustainability-related investment screening criteria.

Further Guidance:

I. The issuer of the security should clearly communicate:

- ✓ the projects' sustainability objectives and the methodology used to measure the projects sustainability objectives.
- ✓ information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s).
- ✓ various tools deployed for investment decisions.

II. If the issuer has set a certain sustainability target as in the case of sustainability-linked bonds, the issuer should clearly explain:

- ✓ what the target is
- ✓ how and when issuer is expected to meet the target
- ✓ any assumptions issuer has relied on when setting that target

C. *Walk the talk* - Managing and tracking use of proceeds

The issuer shall outline procedures for ensuring funds are directed solely towards projects or activities as defined in the offer document and also disclose the internal control for managing and tracking the use of proceeds. Details of the systems and procedures to be employed for tracking the deployment of the proceeds of the issue must be disclosed by the issuer in the offer document.

Guidance: A detailed allocation plan outlining how the proceeds will be used to finance or refinance projects or activities shall be stated in the offer document. The issuer shall disclose to investors the details of investment and instruments towards temporary placement for unallocated net proceeds. In case of any inadvertent misallocation of green bond proceeds, issuers must promptly disclose this to investors. In extreme cases, it is advisable to consult the investors for early exit opportunity.

Example: *Suppose an issuer intends to use the funds to finance the construction of wind farms. However, due to unforeseen delays in obtaining approval for one of the wind farm sites, the issuer decides to use a portion of the green bond proceeds to invest in a temporary bridge loan for another renewable energy project. While the temporary bridge loan supports one of the objectives such as energy efficient projects/pollution control projects, it wasn't part of the original green bond project plan and might be significantly less environmentally impactful as compared to the wind farm project.*

D. *Overall Impact* - Quantification of Negative Externalities

The issuer shall quantify the negative externalities associated with ESG debt utilization. This could include metrics for residual environmental impacts or potential environmental risks associated with the financed projects.

Further Guidance: The issuer in the offer document shall acknowledge limitations or trade-offs, if any associated with the environmental benefits of the financed projects. Environmental data used in disclosures should be comprehensive, verifiable and issuer must avoid selectively presenting data to create a misleading picture of the overall environmental impact.

Example: *A manufacturer of consumer packaging, uses the proceeds from the issue of bonds for developing a new line of packaging materials under the brand name "EcoSmart" with the claim that it reduces carbon emissions by 50% compared to standard plastic. However, they provide little detailed information on how this reduction is calculated. Additionally, the company only discloses the carbon footprint of the packaging material in isolation, neglecting the full lifecycle impact such as production, transportation, and disposal. This partial approach may give a misleading impression of overall environmental benefits.*

E. *Be alert* - Monitoring and Disclose

Issuers of green debt securities shall continuously monitor and disclose the environmental impact of their projects financed by the issuance. This includes metrics demonstrating a reduction in adverse environmental impacts (e.g., carbon emissions, pollution levels) and progress towards a sustainable economy, as outlined in the offer document.

Further Guidance:

I. The issuer of the security should clearly communicate:

a) List of projects to which proceeds have been allocated as well as a brief description of the projects, amounts allocated, and their expected impact. Qualitative performance indicators and where feasible, quantitative performance measures of the expected/achieved ESG impact of the project(s) shall be disclosed.

b) Information on processes through which the issuer would measure the progress of the perceived sustainability target associated with the relevant projects/activities.

Explanations

i. If the quantitative benefits/impact cannot be ascertained, then the said fact may be appropriately disclosed along with the reasons thereof.

ii. The methods and the key underlying assumptions used in the preparation of the performance indicators and metrics shall be disclosed.

Example

An issuer disclosing environmental impact of their investments, be it qualitative or quantitative, without consistently using same metrics or without disclosing the change in the metrics in the case of quantitative improvements could be considered as case of greenwashing.

9. While the above principles may not be exhaustive, the issuer may choose to adopt such other methods, disclosures and processes that would assure investors as measures against greenwashing.

10. Stock exchanges in an IFSC where the ESG labelled debt securities are listed / intended to be listed shall monitor the initial and ongoing disclosures and where warranted, seek

necessary clarifications from issuers. Any case of potential or actual greenwashing shall be analysed and shall be brought to the attention of IFSCA with comments.

11. The circular is issued in exercise of the powers conferred by Section 12 and 13 of the International Financial Services Centres Authority Act, 2019, read with the regulation 130 of the IFSCA (Issuance and Listing of Securities) Regulations, 2024.

A copy of this Circular is available on the website of International Financial Services Centres Authority (IFSCA) at www.ifsca.gov.in.

Yours faithfully,

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