

Green or Gimmick? IFSCA proposed principles for greenwashing

With ESG-labelled debt securities such as Green and Social bonds driving sustainable development and transition to a low-carbon economy, concerns over greenwashing are also rising, thereby affecting investor's confidence. IFSCA has proposed 5 principles to combat greenwashing in ESG debt which are in-line with IOSCO and ICMA guidelines that emphasize transparency in sustainable finance. Under the proposed circular, IFSC stock exchanges will monitor disclosures made by the issuers and report instances of greenwashing, if any, to IFSCA.

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Being true to label

- Not to use terms like "Green", "Social", "Sustainability" or similar terms unless securities align with IFSCA-recognized frameworks (as per Reg. 76 of Listing Regs.).
- Disclosure in offer document: Alignment with chosen recognized framework & objectives to be achieved by the issue.
- No Green labeling in case of partially green projects (projects in which green attributes are not a significant part of overall investment objective).

Screen the green

- Disclose ESG objectives and the process for evaluation & selection of projects in offer document.
- Detailed explanations of investment screening criteria instead of generic or broad statements.

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Walk the talk

- Issuer to establish and disclose controls and systems for utilisation of funds and monitoring the same.
- Disclose a detailed allocation plan and manner of temporary parking of proceeds in offer document.
- Promptly disclose any misallocation of funds to investors and give exit opportunity.

Quantify negative externalities

- Quantify negative environmental impacts or risks associated with utilization from ESG debt securities.
- Disclose any limitation or trade-offs related to project's environment benefits in offer document.
- Disclosed environmental data to be complete and verifiable; no cherry-picking

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Be alert: monitoring and disclosure

- Continuous tracking and disclosure of environmental impacts of projects funded. Disclose metrics showing the impact of projects such as carbon emissions, pollution level, etc.
- Disclose funded projects, allocated amount and expected impacts, including qualitative & quantitative indicators.