



IOSCO Final Report on Supervisory Practices related to Greenwashing

March 2024

The International Organisation of Securities Commissions (IOSCO) published, in December 2023, a Final Report describing the main initiatives developed in several jurisdictions to address the phenomenon of greenwashing, both at the level of asset managers and providers of environmental, social and governance (ESG) ratings and data. The Report includes, in particular, a study related to the implementation of the recommendations in IOSCO's 2021 Report on sustainability-related practices, policies, procedures and disclosure in asset management¹ and the subsequent IOSCO 2022 Call for Action².

The growth of ESG and sustainability-related products has created various challenges, among which we can highlight reliability, consistency and comparability of available information and the risk of greenwashing. Such risks include (i) data gaps at the corporate level, (ii) concerns related to the transparency, quality and reliability of ESG ratings and data product providers, including lack of transparency on methodologies, (iii) lack of consistency in terminology applicable to the labelling and classification of sustainability-related products, (v) limitations in skills and expertise of industry participants, and (vi) evolving regulatory approaches.

While some of these challenges are currently being addressed, greenwashing represents a key issue to market conduct, which brings on risks to investor protection and market integrity. Overcoming such risks is not easy, as greenwashing can take different forms and vary in scope and severity. On the other hand, greenwashing can take place throughout the entire investment value chain and any market participant (from issuers to asset managers to ESG ratings and data providers) could engage in this behaviour.

In general, greenwashing could lead to a decline in investor confidence on sustainable finance. In order to ensure a healthy global market, sustainability-related information needs to be reliable, consistent and comparable, and related ESG products must be marketed and managed in a way to not undermine investor confidence.

¹ 2021 Final Report on the Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf>

² 2022 IOSCO Call for Action: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf>

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Sustainability-related standards under the scope of IOSCO

Respuesta

IOSCO's recent endorsement of the IFRS S1 and IFRS S23 standards on financial reporting related to sustainability, recently published by the International Sustainability Standards Board (ISSB4), is an important

step towards ensuring the consistency, comparability and reliability of such information. After a thorough review, IOSCO has considered that ISSB standards are appropriate as a comprehensive framework for the development of sustainability-related financial reporting in capital markets, both in terms of raising capital and trading in financial markets, and supports their usefulness in accurately assessing sustainability risks and opportunities in financial markets. IOSCO calls on its 131 member jurisdictions, which regulate more than 95% of the world's financial markets, to assess how to adopt, implement or draw on these standards in the context of their jurisdictional arrangements in a way that promotes consistent and comparable information for investors on climate and other sustainability-related issues.

It is also very important to ensure that the activities carried out by asset managers and the way they market ESG products to investors meet certain requirements. In this regard, many jurisdictions have already taken steps to establish regulatory and supervisory expectations for the asset management industry in line with the IOSCO recommendations published in November 2021. Despite all this, efforts to bring ESG ratings and data product providers into the regulatory perimeter are still at an incipient stage and remain, for the time being, fragmented.

³ <https://www.iosco.org/news/pdf/IOSCONEWS703.pdf>

⁴ [IFRS - Who we are](#)

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What are the main conclusions of the Report?

Respuesta

As previously mentioned, the Report includes a mapping of regulatory and supervisory approaches and practices (current or planned) of regulators to address greenwashing in areas of asset management and ESG ratings and data providers, including challenges and limitations in data availability that hinder the implementation of IOSCO's 2021 recommendations.

The main conclusions of the Report state the following:

- There is no overall definition of greenwashing. The aforementioned IOSCO 2021 Asset Management Report refers to greenwashing as a phenomenon of misrepresenting sustainability-related practices or features of investment products. The analysis reached in this report concludes that most jurisdictions do not specifically define greenwashing in their corresponding legislation through legally binding provisions. However, many authorities have provided guidance on the identification of greenwashing and the associated risks. In addition to greenwashing, other malpractices such as "greenhushing"⁵ and "green-bleaching"⁶ are gaining importance. Although there are no specific frameworks to regulate said concepts, some regulators have started to address such malpractices in different ways.

- Most jurisdictions have supervisory tools and mechanisms in place to address greenwashing under the scope of asset managers and their products. For example, regulators carry out assessments or reviews of the policies, procedures, practices and reporting of asset managers (as part of the authorisation or registration process or as part of the process of ongoing review of compliance by authorised entities); conduct specific inspections related to this issue; collect information, monitor investor complaints and supplement information through interactions and dialogue with the industry. Regulators also carry out reviews (thematic or specific) of data published at a product and marketing campaign level, as well as general market research on the publication of financial data related to sustainability. It is worth highlighting that the use of technology could also enhance supervisory capacity and play an important role in fostering sound and transparent sustainable financial markets, thereby mitigating the risks of greenwashing.

- Educational and awareness-raising measures and training activities are also used as proactive tools to prevent greenwashing. Some regulators provide guidance or set certain requirements on the expertise asset

managers' staff are expected to have in order to manage and provide sustainable finance products to retail investors. Some regulators have launched different actions to improve their staff's expertise and skills in relation to sustainable finance and the entire supervisory cycle related to such products (for example, authorisation, supervision/oversight and enforcement). Moreover, financial education initiatives, at investor and industry level, are promoted to fight greenwashing.

On the other hand, the market for ESG ratings and data products is undergoing rapid growth. This market is concentrated around a small number of suppliers with a global presence, alongside a larger number of suppliers with a more regional focus or offering more specialised services. Some of the major market participants (particularly, certain credit rating agencies, exchanges, data and index providers) have acquired and continue to acquire smaller, specialised ESG ratings and data providers and have invested significant resources to develop their own ESG expertise and skills. In this context, the market for ESG data products and ratings remains largely unregulated. However, some jurisdictions are currently developing mandatory or voluntary policy frameworks for ESG ratings and data products providers. The Report lists the key elements of such new frameworks.

- According to information provided by IOSCO's Affiliate Members Consultative Committee (AMCC)⁷, its members, at international and domestic level, are taking steps to improve consistency of terminology, which could lead to improved classification and labelling of investment funds. This is in line with the best practices set in the IOSCO 2022 Call for Action⁸.

- Coercive measures have also been applied to cases of greenwashing, including infringement notices to monetary fines, revocation of licences, suspension of business activity, public reprimands or even the establishment of possible civil or criminal responsibilities, according to the severity of the case of greenwashing in question. In fact, according to the report, the way in which relevant enforcement action could be implemented in some cases of greenwashing is currently being analysed. In this regard, jurisdictions have pointed out that the implementation of specific penalties or sanctions would allow them to target greenwashing more effectively. While authorities have strived to adapt their supervisory practices and enforcement regimes to prevent and address greenwashing, properly verifying the adequacy and effectiveness of such mechanisms is still necessary.

- Lastly, the cross-border nature of sustainable finance investments requires appropriate international cooperation. This cooperation, including sharing experience and expertise, as well as the exchange of relevant information and data, is necessary to ensure market integrity and investor protection. Securities regulators have launched different mechanisms and instruments (bilateral and multilateral) to provide mutual support throughout the regulatory cycle (that is, authorisation, supervision/oversight and enforcement). IOSCO is in a position to continue to support these initiatives from a global perspective to ensure that securities regulators have the necessary framework for cooperation.

Although regulators and market participants have established measures, greenwashing continues to represent an essential problem that poses risks to investor protection and market integrity. Preventing the proliferation of sustainability-related products from increasing the risk of greenwashing is also a matter related to culture. Greenwashing will continue to be a high risk for international sustainable finance markets as long as the quality and reliability of information available to investors does not improve. Thus, the Report states that it would be desirable for all interested parties to foster cultures that promote the adoption of best practices aimed at avoiding the prejudice of consumers and markets. In this respect, the industry's commitment is crucial to this goal.

In any case, in order to properly address greenwashing, competent authorities require sufficient capacity and adequate resources. Several jurisdictions, particularly in emerging markets, shall require support in the design and implementation of their action plans in relation to any commitments related to achieving net zero

emissions and, more specifically, in implementing new corporate sustainability requirements and new or improved supervisory practices. IOSCO aims to help jurisdictions to build such capacities, in collaboration with other bodies where the circumstances so require.

⁵ Greenhushing is the act of intentionally limiting or completely concealing information about an entity's credentials related to sustainability for the purpose of misleading investors.

⁶ Green-bleaching is the practice of hiding the "green" nature of products and services in order to avoid the application of specific standards or regulations. Source: https://www.esma.europa.eu/sites/default/files/2023-01/esma22-106-4384_smsg_advice_on_greenwashing.pdf

⁷ Affiliate Members Consultative Committee (iosco.org): AMCC is made up of 68 affiliate members representing securities and derivatives markets, market infrastructures, self-regulatory bodies, investor protection funds and clearing funds, as well as other bodies with interests in regulated markets.

⁸ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf>

Useful links:

[IOSCO Final Report: Supervisory Practices to Address Greenwashing. December 2023.](#)

IOSCO endorsement assessment of the ISSB Standards for sustainability-related disclosures. July 2023.

[Call for Action \(IOSCO Good Sustainable Finance Practices for Financial Markets Voluntary Standard Setting Bodies and Industry Associations\). November 2022.](#)