Greenwashing in Indian Capital Markets: Evaluation of SEBI's ESG Disclosure Framework and Sustainable Finance

Greenwashing is a practice that involves spreading false or exaggerated information about ESG aspects of a particular business, investment, or its financial performance. It occurs when businesses or financial institutions portray themselves as environmentally responsible without sufficient evidence to support those claims, thereby creating a misleading impression among investors and consumers.

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INTRODUCTION

Over the past decade, investors have increasingly re-evaluated their investment strategies by placing greater emphasis on the environmental, social and governance (ESG) performance of potential investee companies alongside their financial performance. This shift reflects the growing recognition that integrating ESG considerations is not merely a matter of corporate responsibility but an essential component of sustainable and responsible business practices, complementing the pursuit of long-term financial returns. Consequently, regulators across jurisdictions have responded by introducing measures to facilitate and, in many cases, mandate the incorporation of ESG considerations into corporate governance and investment decision-making.

At the same time, the commercial advantages associated with responsible business practices have also created opportunities for greenwashing, the practice of making misleading, unsubstantiated, or exaggerated claims regarding the environmental or sustainability performance of a company, financial product, or investment. Greenwashing undermines the credibility of ESG disclosures, sustainability ratings, and ESG-linked financial products, thereby eroding investor confidence and market integrity. Against this backdrop, this paper examines the evolution of India's sustainable finance framework and evaluates the extent to which SEBI's ESG disclosure regime, including the Business Responsibility and Sustainability Report (BRSR), the BRSR Core framework, and the Green Debt Securities framework for corporate issuers, can effectively address the challenges posed by greenwashing. It also undertakes a comparative analysis of the regulatory approaches adopted by India, the European Union (EU), and the United Kingdom (UK) in governing ESG disclosures, sustainable financial products, and green bonds.

EVOLUTION OF ESG INVESTMENT IN INDIA

India's sustainable finance has evolved through policies and initiatives targeting corporate governance, capital markets and climate change adaptation. For instance, Section 135 under the Companies Act, 2013 mandated certain large companies to spend at least a proportion of their profit on Corporate Social Responsibility ("CSR")[1]. While the law did not explicitly require ESG integration, it was a step toward encouraging the concept of "doing well by doing good," in addition to the traditional focus on profit maximisation.

However, the early initiatives and regulations were not sufficient to standardise ESG disclosure and reporting as they failed to consider key aspects of ESG, notably the environment. SEBI took a welcome cue from the Companies Act provisions by introducing the mandatory Business Responsibility Report ("BRR") for large companies.

1. *Section 135, Companies Act, 2013, Act No. 18 of 2013, Acts of Parliament, 2013 (India).*

Despite the introduction of the BRR, SEBI's ESG incorporation and disclosure practice was initially criticised for promoting ESG reporting without standardised criteria, providing investors with inadequate disclosure guidance. SEBI amended its policy in 2021, replacing the BRR with the Business Responsibility and Sustainability Report (BRSR)[2] for India's largest one thousand listed companies by market capitalisation. BRSR is based on the National guidelines on Responsible Business Conduct (NGRBC)[3], which stipulate policies on responsible business practices in India. The report requires businesses to disclose qualitative and quantitative information across nine principles covering environmental aspects, employees, human rights, governance, and other responsible business areas following standard mandatory sustainability-related accounting procedures[4]. Overall, these changes in reporting practices have enhanced the comparability and reliability of ESG disclosures, enabling investors to make more informed and accurate assessments of companies' sustainability performance.

In addition to the SEBI disclosure rules, the Reserve Bank of India (RBI) also took initiatives to tackle climate-related financial risks. In particular, the RBI has formed the Sustainable Finance Group and developed the Sovereign Green Bond Framework that supports the issuance of green bonds and the growth of sustainable finance in the country.[5]

SEBI further strengthened its ESG regulatory framework by introducing the BRSR Core.[6] The BRSR Core requires top listed companies to disclose key ESG indicators, which third-party assurance providers must independently verify to ensure that the reported information is accurate, reliable, and credible. Notably, Value Chain disclosure became mandatory to enhance the sustainability reporting of suppliers. In relation to the BRSR Core, SEBI issued guidance to ESG Rating Providers to standardise ESG rating practices and disclosures.

Another significant development was SEBI's introduction of the Green Debt Securities framework[7], which sets out disclosure requirements for green bond issuers, covering the use of proceeds, project evaluation, and impact reporting. These requirements enhance transparency and accountability, enabling investors to assess whether funds are genuinely used for environmentally sustainable projects and reducing the risk of greenwashing.

GREENWASHING: DEFINITION AND KEY CONCERNS

Greenwashing is a practice that involves spreading false or exaggerated information about ESG aspects of a particular business, investment, or its financial performance. It occurs when businesses or financial institutions portray themselves as environmentally responsible without sufficient evidence to support those claims, thereby creating a misleading impression among investors and consumers. When it comes to finance, greenwashing ultimately makes it hard for investors to differentiate between sustainable and non-sustainable investment options, which undermines the credibility of ESG ratings.

The concerns encompass various activities and practices, which include unsubstantiated claims and assertions of ESG-friendliness of an investment product, omission of relevant information on ESG risks and use of misleading ESG-related terms and language in marketing products and services. With the rising popularity and adoption of ESG investing, the prevalence and volume of greenwashing activities have increased alongside their associated risks. The ESG-related regulations and guidelines issued by the EU and the UK provide enhanced disclosure and reporting requirements for ESG information, products and sustainability-linked bonds; the EU's SFDR[8] promotes transparency by mandating ESG-compliant investment products to disclose ESG-related risks, while the UK's FCA[9] issued a sustainability-related transparency rule and an anti-greenwashing rule to ban ESG-related false claims.

The International Organisation of Securities Commissions (IOSCO) is an international organisation that brings together securities regulators from over 130 jurisdictions, including the Securities and Exchange Board of India (SEBI), on a single platform, to promote regulatory cooperation and the development of international securities standards. While IOSCO recommendations are not binding, they carry significant weight in international markets. IOSCO's recommendations[10] concerning ESG disclosures and supervision include a call for greater transparency of disclosures and supervision to counter the risks associated with greenwashing and contribute to the provision of more reliable information to investors.

The risks of greenwashing should not be underestimated. One case that drew significant attention was the scandal around one of the asset management. According to the lawsuit, the company deliberately misrepresented the degree of ESG (environmental, social and governance) integration in its investment practices. In addition, the supervisory authorities of Germany and the United States conducted an on-site inspection, followed by imposition of

2. *Securities and Exchange Board of India (SEBI), Circular No. SEBI/HO/CFD/CMD2/CIR/P/2021/562, Business Responsibility and Sustainability Reporting by Listed Entities (May 10, 2021).*

3. *Ministry of Corporate Affairs, Government of India, National Guidelines on Responsible Business Conduct (NGRBC) (2019).*

4. *Security and Exchange Board of India (SEBI), Circular No. HO/49/14/14(7)2025-CFD-POD2/I/3762/2026 Master Circular for compliance with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 by listed entities.*

5. *Reserve Bank of India, Discussion Paper on Climate Risk and Sustainable Finance (July 27, 2022); Ministry of Finance, Government of India, Framework for Sovereign Green Bonds (November 9, 2022).*

6. *Securities and Exchange Board of India (SEBI), Circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122, BRSR Core – Framework for assurance and ESG disclosures for value chain (Issued on July 12, 2023).*

7. *SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, Chapter IX (as amended by the SEBI Green Debt Securities Amendment, February 2023).*

8. *Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.*

9. *Financial Conduct Authority (FCA), Sustainability Disclosure Requirements (SDR) and investment labels, Policy Statement PS23/16 (Anti-Greenwashing Rule, GC24/3).*

10. *International Organisation of Securities Commissions (IOSCO), Recommendations on Sustainability-Related Disclosures for Asset Managers and ESG Ratings and Data Product Providers, Final Report (November 2021).*

several fines on the parent company.[11] The case shows that the supervision of sustainable finance requires proper risk control, regulation of information disclosure policy, and audit of investment products. Moreover, this case marks the shift in the approach of securities regulators who now consider greenwashing a threat to investor protection and not only an environmental problem.

SEBI ESG DISCLOSURE FRAMEWORK: BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING AND ESG RATING PROVIDERS

SEBI's initial framework for enhanced ESG disclosure comprised the Business Responsibility Report (BRR),[12] which mandated listed firms to reveal their business responsibility practices. The first report received criticism for its limited scope as well as the absence of standardised ESG disclosure requirements. As a result, SEBI introduced the re-designed Business Responsibility and Sustainability Report (BRSR) in 2021 to replace the BRR. The BRSR expanded the scope of disclosure by requiring the top listed companies to report qualitative and quantitative information on environmental, social and governance matters using a common disclosure framework based on the National Guidelines on Responsible Business Conduct (NGRBC). Overall, the switch from BRR to BRSR allowed greater disclosure of ESG information while also improving uniformity and comparability between different reports.

> The rise of sustainable finance has made ESG considerations a necessity rather than a choice in capital markets, resulting in the integration of ESG disclosure requirements into regulatory frameworks. While the incorporation of ESG factors promotes responsible business conduct and enables investors to make more informed investment decisions, it is ultimately the quality, reliability, and credibility of such disclosures that determine their effectiveness in fostering transparency, accountability, and investor confidence.

The introduction of the BRSR Core marked another step towards strengthening ESG disclosure and reporting. According to the new requirements, companies are obligated to report on ESG matters using standardised indicators. Further, key ESG indicators will undergo third-party verification, which enhances reliability. In relation to the Core, the value chain disclosure has been mandated for improved ESG reporting of suppliers.

SEBI's ESG-related guidelines also target ESG rating providers. SEBI recognises the importance of ESG ratings and acknowledges their role in supporting investment decisions as well as promoting ESG performance and accountability. Nevertheless, ESG rating practices pose various risks to investors due to the use of different ESG rating methodologies by ESG rating providers. The Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2023 introduced Chapter IV-A into the SEBI (Credit Rating Agencies) Regulations, 1999, establishing a dedicated regulatory framework governing ESG Rating Providers to adopt standardised disclosure requirements on methodology while also considering conflict of interest management policies and governance policies. Consequently, SEBI has enhanced the reliability of ESG ratings.[13]

GREEN DEBT SECURITIES FRAMEWORK

Green Bonds play a significant role in sustainable finance, and SEBI's guidelines on Green Debt Securities enable investors to make informed investment decisions. According to the guidelines, the objectives, eligible projects, application of proceeds and allocation reports must be disclosed to promote transparency. At the same time, the guidelines target greenwashing by highlighting various activities that must be avoided when issuing green bonds. For instance, the guidelines are clear on disclosure requirements for ESG-related claims and ensure that the language used is not misleading. Issuers must therefore avoid exaggerated ESG-related claims and selective disclosure of information. By imposing stricter disclosure requirements, SEBI has enhanced the reliability and accountability of green bonds. It is nevertheless essential to ensure that sustainability indicators used to measure the impact of green bonds are subject to independent assurance.

Even though India's Green Debt Securities framework includes mandatory disclosure requirements, there is no independent assessment or standardised approach for verifying and quantifying the sustainability claims made by companies issuing green debt securities. Therefore, there are no mechanisms for ensuring that the environmental benefits promised by those companies are actually achieved which results in an increase in greenwashing either overtly or covertly.

The controversy over the ESG scores of some of India's largest listed companies, including those in the Adani Group, after the release of the Hindenburg Research report in 2023, serves as a cautionary tale about the challenges of ESG assessment practices. The controversy was broader than just environmental scores since various accused parties made several other allegations, but it served as an illustrative example that ESG ratings need greater transparency and standardised methodologies to gain the trust of investors.[14]

11. *U.S. Securities and Exchange Commission, SEC Charges Deutsche Bank Subsidiary DWS Investment Management Americas Inc. for Anti-Money Laundering Violations and Misstatements Regarding ESG Investments, Press Release No. 2023-194 (September 25, 2023).*

12. *SEBI Circular No. CIR/CFD/DIL/8/2012, Business Responsibility Reports (August 13, 2012).*

13. *Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2023, Gazette of India, pt. III sec. 4 (Issued on July 3, 2023).*

14. *Hindenburg Research, "Adani Group: How The World's 3rd Richest Man Is Pulling The Largest Con In Corporate History" (Published on January 24, 2023); See also Supreme Court of India, Vishal Tiwari v. Union of India, Writ Petition (Civil) No. 162 of 2023.*

COMPARING ESG REGULATION IN INDIA, EU AND THE UK

A comparison of ESG-related regulations in India, the EU and the UK demonstrates that the latter two regions have implemented ESG disclosure requirements as well as supervisory measures targeting ESG claims and products. The ESG regulations in these jurisdictions recognise the significance of addressing greenwashing by introducing more stringent requirements for ESG disclosure, reporting, ratings, and products. While India has implemented some measures targeting ESG disclosure and reporting, the ESG regulations in the EU and the UK are more comprehensive, as they promote enhanced disclosure requirements and verification of ESG claims and products. However, unlike the regulatory frameworks in the European Union (EU) and the United Kingdom (UK), India's framework remains largely disclosure-oriented and contains relatively limited provisions governing the accuracy, verification, and use of ESG claims in marketing and investor communications.

India's introduction of the BRSR, BRSR Core, guidelines on ESG rating providers and Green Debt Securities illustrates the country's commitment to ESG integration while promoting transparency in ESG disclosure and reporting. However, the comparison shows that India's ESG-related rules and regulations are not as comprehensive as those of the EU and the UK. As a result, SEBI must consider supplementing its ESG disclosure requirements with additional rules and regulations targeting ESG claims and products so that the filings are in line with the actual facts.

The European Union adopts a comprehensive approach by regulating both corporate disclosure and sustainable investment products. Instruments such as the Sustainable Finance Disclosure Regulation (SFDR) require financial market participants to disclose how they integrate sustainability risks into their investment decisions, while the European Green Bond Standard (EuGBS)[15] sets out requirements regarding eligibility criteria, taxonomy (framework for classification) and third-party verification for green bond issuance. Consequently, the EU framework seeks not only to improve the availability of ESG information but also to ensure that sustainability-related claims are capable of independent verification.

While India's ESG disclosure requirements promote transparency and comparability of ESG reports between companies, they do not go as far as the ESG regulations in the EU and the UK. The disclosure requirements in the EU and the UK mandate companies to disclose specific ESG-related information. Unlike the EU and UK, India presently mandates BRSR disclosures only for the listed entities, while ESG reporting remains voluntary for many other listed entities and unlisted companies.

In addition, the ESG regulations in the EU and the UK promote independent assurance of ESG disclosures and reports to enhance the reliability of the information. As such, India needs to complement its ESG disclosure requirements with stricter rules and regulations targeting ESG claims and products as well as make ESG disclosure mandatory for all companies.

CHALLENGES

SEBI has undeniably catalyzed ESG integration through the introduction of ESG disclosure requirements. However, the current ESG-related regulations present various challenges which hinder the promotion of sustainable finance as well as protect investors from ESG-related greenwashing. First, India's ESG disclosure requirements focus mainly on transparency and reporting of ESG-related information. While the emphasis on transparency is significant and promotes ESG integration, it may not

15. *Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds.*

be sufficient in addressing the risks posed by ESG-related greenwashing. The guidelines present several limitations which affect the reliability of ESG claims and disclosures.

Firstly, the ESG disclosure requirements do not mandate ESG reporting in accordance with a standardised ESG taxonomy. The absence of an ESG taxonomy makes it difficult to compare the ESG performance of companies, which increases the risks of ESG-related greenwashing. Although SEBI has introduced a regulatory framework on ESG Rating Providers, there are still certain questions about conflicts of interest and the lack of a standardised methodology when it comes to ESG. Overall, the regulator has enhanced transparency, but ESG scores provided by different rating agencies may vary based on the respective methodologies.

Under the current ESG regulations, ESG rating providers utilise different ESG rating methodologies, which increases the risk of conflicting ESG ratings for the same company. Although SEBI has introduced guidelines targeting ESG rating providers, the guidelines do not prevent ESG rating providers from engaging in conflicts of interest when issuing ESG ratings. As such, the guidelines fail to address the risks posed by ESG rating providers, which results in ESG-related greenwashing. Another challenge associated with ESG disclosure requirements in India relates to their application. The requirements apply to listed companies but not private limited companies, thus limiting their effectiveness. However, the introduction of the BRSR Core mandates assurance of ESG disclosure, which addresses this concern to a great extent. Another limitation is that the ESG reporting framework is mandatory only for specified listed entities, while ESG reporting remains voluntary and not a mandatory requirement for many other companies. Consequently, a significant portion of Indian companies continues to fall outside the mandatory ESG disclosure regime, which results in disruption in transparency.

While the ESG reporting requirements enhance ESG disclosure, they may not prevent ESG-related greenwashing of claims. As such, additional measures must be introduced to enhance supervision and promote accountability of ESG disclosures, ratings and reports. One of the key ways of enhancing accountability of ESG disclosure relates to the supervision of ESG disclosure assurance providers. SEBI must ensure that ESG disclosure assurance providers adhere to mandatory regulations to prevent ESG-related greenwashing. Another important aspect of supervision and accountability of ESG disclosure in India relates to the detection and punishment of ESG-related greenwashing, which enhances credibility and accountability of ESG disclosure.

Another limitation of the current framework is that SEBI only governs the reporting structure and disclosure of information for ESG at the time of publication through the BRSR and related requirements, while companies are not required to maintain a single repository of all claims made in materials presented to investors, sustainability reports, websites, advertisements, and other sources of information. As a result, investors may not be able to assess sustainability-related assertions beyond the information specified in the requirements, making it challenging to identify unsubstantiated claims or instances of greenwashing.

Ultimately, the effectiveness of India's ESG framework is determined by the extent to which it is implemented. The process of fulfilling the requirements of the BRSR and the BRSR Core is demanding as it requires eligible listed companies to design and implement ESG data collection and control systems. They must also obtain reasonable assurance for the prescribed BRSR Core disclosures and potentially require significant value chain partners to give ESG-related information during the transitional period. These requirements are associated with increased compliance costs and administrative burden, particularly for firms and value chain stakeholders who do not have the financial and technical capability.

POLICY RECOMMENDATIONS

While these frameworks require companies to make periodic mandatory disclosures relating to sustainability, they do not address the broader need to ensure consistency and accountability across all sustainability-related disclosures, claims, and representations made by companies. Such statements may appear in investor presentations, annual and sustainability reports, corporate websites, advertisements, media statements, or other public communications. As these disclosures often remain fragmented and dispersed across multiple platforms, it becomes difficult for investors and regulators to assess whether ESG-related claims are consistent, adequately substantiated, and accurate.

India has taken several positive steps toward ESG Disclosure via BRSR, BRSR Core, ESG Rating Providers regulation, and Green Debt Securities framework. Despite that, as we can see from the aforesaid comparison, India's ESG framework is still disclosure-driven and lacks critical features to prevent greenwashing. To make India's ESG governance more credible and reduce the risks of greenwashing without imposing additional regulatory costs on the business, the following recommendations are being made.

Firstly, it is proposed that SEBI should create a Centralised ESG Claims Registry in which companies would be required to file all material ESG-related claims that are likely to influence investment decisions directly or indirectly, along with the relevant supporting information or documentation, including explanations of the methodologies applied, critical assumptions used, data sources cited, reporting periods referenced, and whether the claims have undergone third-party assurance or auditing. The registry should be open to the public and keep track of changes and corrections to prior claims.

The proposed registry will complement the BRSR Framework, as it will go beyond the requirements of the BRSR, and by doing so, it will improve transparency and accountability while relieving companies of the obligation to deal with unrelated claims. It would help investors and analysts assess the consistency of a company's ESG-related claims, enable assurance providers to evaluate claims for conformity, and allow regulators to identify misleading or inaccurate assertions. Since the SEBI Act 1992 gives SEBI the flexibility to prescribe the format and content of disclosure without extensive legislation, such a registry could be created through subordinate legislation without making any changes to the parent statute.

Secondly, SEBI should introduce a comprehensive substantiation framework requiring all ESG claims to be supported by verifiable evidence, irrespective of whether they are recorded in the Centralised ESG Claims Registry or disseminated through investor presentations, corporate websites, advertisements, media communications, or other public disclosures. SEBI should require any ESG claims (not only green ones) to be substantiated with supporting documentation and evidence on how exactly the claim was produced. Those companies making green claims, net-zero claims, or any other ESG-related assertions should describe the methodology used to calculate them, the underlying assumptions, and whether those claims were third-party verified. Such a framework would prevent greenwashing to a considerable extent and would improve the credibility of ESG ratings issued by ESG Rating Providers.

Thirdly, SEBI should impose a dedicated supervisory and enforcement mechanism for ESG-related matters. Instead of relying solely on voluntary disclosure, SEBI can and should take a proactive role in ESG governance. In particular, the ESG supervisory unit can perform thematic reviews of ESRs, investigate potential greenwashing cases, respond to investor inquiries, and coordinate ESG-related guidance and regulation. This approach would help achieve higher ESG governance quality in capital markets while not introducing additional regulatory costs via extra disclosure requirements.

Fourthly, a Standing Joint Consultative Committee should be constituted comprising representatives of the Ministry of Environment, Forest and Climate Change (MoEF&CC) and the Securities and Exchange Board of India (SEBI). The Committee should be tasked with identifying and deliberating on emerging issues at the intersection of environmental regulation and sustainable finance, recommending appropriate policy and regulatory measures to strengthen environmental protection, and coordinating efforts to prevent and address greenwashing.

Finally, SEBI should impose greater transparency on ESG Rating Providers in relation to their methodologies rather than trying to harmonise them. All ESG Rating Providers should be obliged to disclose sufficient details regarding the calculation of each particular ESG metric, the weightings of individual metrics, sources of data, treatment of data inconsistencies and absences, controversy resolution policies, and rating review processes. Such transparency facilitates the ability of investors to understand similarities and differences between the ESG ratings issued by different ESG Rating Providers.

CONCLUSION

The rise of sustainable finance has made ESG considerations a necessity rather than a choice in capital markets, resulting in the integration of ESG disclosure requirements into regulatory frameworks. While the incorporation of ESG factors promotes responsible business conduct and enables investors to make more informed investment decisions, it is ultimately the quality, reliability, and credibility of such disclosures that determine their effectiveness in fostering transparency, accountability, and investor confidence.

Since the introduction of the Business Responsibility Report (BRR), India's ESG regulatory regime has evolved significantly with the development of the Business Responsibility and Sustainability Report (BRSR), the BRSR Core, the framework governing ESG Rating Providers and the Green Debt Securities framework. Overall, the changes to the ESG disclosure rules in India have enhanced the quality and transparency of ESG reporting in capital markets. At the same time, it should be noted that the ESG regulation framework in India differs significantly from the ESG reporting rules in the European Union and the UK.

While the Indian law utilises the disclosure principle as a tool for combating greenwashing, the EU and the UK complement disclosure obligations with regulation of ESG claims, sustainability-related financial products, third-party verification, and regulatory oversight. Consequently, while India's disclosure framework represents an important step towards sustainable finance, it remains insufficient as a comprehensive anti-greenwashing regime.

The analysis also identified shortcomings relating to ESG claims, inconsistent ESG ratings, limited reporting coverage, and implementation challenges. These factors affect the likelihood of successful sustainable finance development in India and should be addressed by introducing stronger regulations in the area of ESG claims, sustainability-themed financial products, auditing of ESG rating providers and ESG-related disclosures.

India's sustainable finance framework must provide investors with reliable, accurate, and decision-useful information while fostering accountability among reporting entities. The future of ESG in India is not a question of the quantity of disclosures but of their quality. It lies in ensuring that ESG disclosures are accurate, credible, and effective, and that they are supported by robust enforcement. Reliable disclosures, coupled with effective regulatory oversight, will enable investors to make better-informed investment decisions, strengthen market integrity, and reduce the risk of greenwashing.