



# Practical ideas for strengthening Green Bonds accountability

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## Introduction

Sustainable debt markets have long been dominated by green bonds, primarily structured as use-of-proceeds instruments. In recent years, however, new labels have emerged—most still adhering to the “use-of-proceeds” model.<sup>1</sup> A notable exception is the rise of Sustainability-Linked Bonds (SLBs), which tie interest rates directly to the achievement of environmental or social targets. These instruments gained significant momentum between 2019 and 2023 but growing criticism and heightened scrutiny from investors have since led to a sharp decline in issuance.<sup>2</sup>

Despite this, SLBs introduced a shift in how sustainability is treated within labeled debt. Targets are no longer buried in corporate reports — they are made explicit, with financial consequences for falling short. This note explores the potential to integrate such accountability mechanisms into green bonds, combining the transparency of SLBs with the project-specific rigor of traditional green bonds to strengthen market credibility.

## Green bonds: the challenge of long-term accountability

Within the universe of labeled-debt, green bonds are classified as “Use-of-Proceeds” instruments—meaning the capital raised must be allocated to environmentally beneficial projects. However, the market operates with minimal regulatory oversight. Its primary framework is the “[Green Bond Principles](#)”, developed by the International Capital Market Association (ICMA), which outline eligible project categories and offer guidance on governance, reporting, and auditing. While widely adopted, these principles are voluntary and lack legal enforceability.

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<sup>1</sup> “[Guidelines for the issuance of thematic labelled financial instruments](#)”, Climate Bonds Initiative, Feb 2025.

<sup>2</sup> “[A full rebirth of SLBs is unlikely, says ING](#)”, Environmental Finance, Oct 2025.

Due to their broad and non-prescriptive nature, several organizations have emerged to ensure market credibility. The [Climate Bonds Initiative](#) (CBI), for example, conducts rigorous evaluations and awards certification labels to qualifying bonds. More recently, the European Union introduced the [EU Green Bond Standard](#) (GBS), which mandates that at least 85% of proceeds be directed toward projects aligned with the [EU Taxonomy](#). Despite these efforts, enforcement remains weak. Issuers who fail to comply with the Green Bond Principles face few legal repercussions, and investor legal actions over misuse of funds or inadequate reporting are rare. Moreover, since both CBI and the EU GBS are voluntary standards, some bonds may be self-labeled as “green” despite lacking substantive environmental credentials.

This lack of accountability poses risks to the market. Investor trust may erode if labels fail to reflect genuine sustainability, potentially undermining the financing of the green transition. Legitimate issuers could also suffer, facing higher capital costs due to skepticism around the structure. A key issue is the absence of post-issuance oversight. Beyond optional annual reports, there is little to ensure ongoing compliance. A company’s sustainability priorities may shift dramatically—hypothetically even toward carbon-intensive projects—while still retaining its green bond designation. Although some investors conduct their own due diligence, many lack the resources to do so consistently.

One notable example is Thames Water’s green bond debacle which raised no legal response from investors.<sup>3</sup> The company ceased publishing annual impact reports detailing how proceeds were being used—yet the bond retained its green label and continued trading under that designation, despite the obvious lack of compliance with Green Bonds standards. The company subsequently defaulted on its debt and paid a £122.7m fine for breaching rules over sewage spills and shareholder payouts.<sup>4</sup>

In this context, Sustainability-Linked Bonds present a compelling alternative. By tying financial terms to long-term environmental performance, they offer a dynamic mechanism for tracking a company’s commitment to sustainability over time.

## Sustainability-Linked Bonds: following through on targets

The first Sustainability-Linked Bond (SLB), issued by Enel in 2019, marked a turning point in the labeled-debt market by directly tying interest rates to sustainability performance.<sup>5</sup> Unlike traditional green bonds—where failing to meet environmental targets

<sup>3</sup> [“Green bonds down the drain: What Thames Water’s debt crisis could mean for UK sustainable finance”](#), IEEFA, Oct 2024.  
<sup>4</sup> [“Thames Water fined £122.7m in biggest ever penalty”](#), BBC, May 2025.  
<sup>5</sup> [“Why Enel turned to sustainability-linked bonds”](#), Environmental Finance, June 2022.

often carries no financial consequence—SLBs introduced a mechanism of accountability: if issuers fall short of their stated goals, investors receive compensation. This commitment is legally binding, embedded in the bond’s prospectus.

SLBs are governed by the [Sustainability-Linked Bond Principles](#) published by the International Capital Market Association (ICMA). However, these guidelines remain broad and lack detailed prescriptions regarding the ambition of targets or the severity of penalties. In theory, stronger targets and more meaningful penalties should lower the issuer’s cost of capital, aligning financial incentives with environmental ambition.<sup>6</sup>

Initially, the market saw a surge in SLB issuances, many of which featured weak targets and minimal penalties—prompting criticism and skepticism. Over the past year, issuance volumes have declined, but the overall quality has improved as investors and second-party opinion (SPO) providers have developed more rigorous frameworks and expectations. Still, SLBs present challenges for both issuers and investors. Structurally, they are complex instruments—essentially capital-guaranteed structured products with conditional coupons—which may fall outside the mandate of certain investors.

For issuers, SLBs can be unforgiving. Sustainability performance is often assessed at a single point in time, leaving little flexibility for companies operating in difficult regulatory environments. For instance, delays in getting authorizations for building renewable infrastructure can extend timelines. If a company commits to reducing emissions by 50% by 2050 but achieves the goal in 2052, it may still be penalized—despite the remarkable achievement. This rigidity can discourage genuine efforts and increase financing costs for environmentally committed issuers. Moreover, SLBs rarely account for evolving scientific standards or policy frameworks, which may shift the definition of what constitutes meaningful sustainability performance over time.

## How exchanges can strengthen green bond quality

Lately there’s been growing buzz around Green Sustainability-Linked Bonds (GSLBs). They’re appealing because they aim to combine the best of both worlds—use-of-proceeds transparency plus long-term accountability—but they don’t solve the core issue: the inherent complexity of Sustainability-Linked Bonds. <sup>7</sup>

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<sup>6</sup> “[An Option Pricing Approach to Sustainability-linked Bonds](#)”. Mielnik, S. & Erlandsson, U.. Oct 2023.  
<sup>7</sup> “[Potential for sustainability-linked bond market revival after Slovenia’s landmark issuance](#)”, IEEFA, July 2025.

To address the dual challenge of long-term accountability and ensuring the credibility of Use-of-Proceeds (UoP) issuers, we propose two key enhancements to the green bond market:

**1. Green bond labels should be awarded by exchanges on which the bonds are listed**

Green bond labels should no longer be self-declared. Instead, they should be granted by the exchange where the bond is listed, contingent on specific criteria:

- A verified Second Party Opinion (SPO) for their Green Financing Frameworks
- Clearly defined sustainability targets aligned with the bond’s stated objectives, subject to annual review. For instance, if proceeds are intended to reduce a company’s CO<sub>2</sub> emissions, a measurable carbon trajectory should be established.

**2. The label should be reviewed annually**

The green bond label should be reassessed annually. Issuers who fail to publish an audited allocation and impact report would lose the label. To further align green bonds with corporate transition plans, issuers should report annually to the exchange on key performance indicators (KPIs) tied to their sustainability targets.

- If the issuer fails to meet its targets for two consecutive years, the bond would be placed under observation.
- If non-alignment persists into the third year, the label would be revoked with a possibility for appealing for the issuer.

This approach represents a meaningful innovation. First, providing exchanges with a minimum level of oversight on the possibility to claim the label would provide some minimum guarantees on the seriousness of issuers. Two, it would tie together proceeds and sustainability performance. To that extent, this structure is close to Green SLB, but without the penalty payment. Losing the green label would trigger exclusion from green bond portfolios, as stipulated in many prospectuses—potentially leading to significant repricing. This mechanism could incentivize issuers to maintain their commitments. Referring back to the Thames Water example in section two, the company would have lost its green bond label, potentially protecting green bond investors from the subsequent default and environmental scandal.

Unlike Sustainability-Linked Bonds (SLBs), which impose penalties at a fixed future date, this structure enables continuous monitoring. The target would not be observed in some distant future but progress would be observed annually. The

consequence—losing the label—is simpler for investors to understand and avoids the complexity of structured products with variable coupons.

## Potential benefits for issuers

This proposal would require only modest adjustments from issuers compared to the current process — primarily involving more communication with the listing exchange. But for it to gain traction, issuers must see clear market incentives: investor demand and lower financing costs. The EU Green Bond Standard (EU GBS) offers an interesting precedent. Despite its stricter requirements, it’s gaining popularity among investors and issuers alike, with EU GBS bonds heavily oversubscribed.<sup>8</sup>

If companies are already committed to issuing green bonds, defining measurable sustainability targets and committing to issuing annual impact reports should be a natural extension—not an excessive burden. This shift would filter out issuers lacking genuine environmental commitments. While tighter standards may shrink the overall market, they would likely improve its quality, and subsequently the credibility of the entire green bond ecosystem, an essential aspect for funding the green transition.

## Key takeaways

The framework proposed in this paper would bring two practical innovations to the green bond market: a label defined externally rather than self-assigned, and the possibility of revoking that label if specified conditions are not met. This approach would shift market practice and help strengthen issuer credibility. It is particularly relevant for climate transition bonds, where investors seek greater assurance about the reliability of issuers’ transition plans.

<sup>8</sup> [“First EU green bonds listed on Euronext: a new milestone for sustainable finance”](#), Euronext, Feb 2025