3 July 2025

Call for Action

to investors, policymakers and regulators

Green Bonds Under Opaque Loans

A Call to Pause and Reform
Green Bond Lending Practices through
Transparent and Fintech-Enabled Solutions

ABC™ score

*Introducing **ABC Score**™ - as a Solution to Increase Transparency in Green Bond Markets*

Executive Summary

Securities lending involving green bonds poses a rapidly emerging integrity risk with direct implications for sustainability strategy, risk governance, and fiduciary duty. While green bonds are structured to support the climate transition, their unmonitored deployment in lending markets risks undermining that purpose.

A persistent lack of transparency in secondary market activities—including securities lending, collateral reuse, repurchase agreements, and derivative exposure—not only erodes trust in existing instruments but may also stall the development of future green finance markets.

This paper highlights the material ESG and operational risks associated with such practices and calls on institutional leaders to act decisively.

It also recognises limitations of current industry-led technological and governance practices. It then introduces a set of provisional metrics that will be tested and integrated into the broader ABC Score™ – an AI-enhanced tool designed to improve transparency and traceability across financial markets. While the ABC Score™ will address a wide range of integrity challenges, this paper focuses on its application to the green bond lifecycle as a particularly urgent and illustrative case.

Contents

1 Introduction

Green bonds are fixed-income instruments intended to finance environmentally sustainable projects and to signal their issuers' alignment with broader climate transition goals. The continued success of the green bond market will depend not only on robust issuance standards but also on well-functioning and transparent secondary markets. As green bonds increasingly circulate through these markets, they are—or may become—subject to securities lending practices that lack transparency and risk undermining their intended environmental purpose.

While securities lending is often justified by its ability to generate incremental returns, these marginal gains may involve significant trade-offs when applied to green bonds—particularly when transparency and accountability mechanisms are lacking.

This paper recognises recent efforts to improve transparency in the US, including proposed securities loan disclosure rules.[1] Even if implemented, these initiatives remain jurisdiction-specific and do not address the broader, cross-border transparency challenges—particularly those unique to green and sustainability-labelled bonds—that this paper seeks to highlight.

Accordingly, this paper calls on investors, policymakers and regulators to urgently review—and where necessary and appropriate—restrict the lending of green bonds until comprehensive frameworks for transparency, traceability, and environmental integrity are implemented. It also introduces the ABC Score™ in this context as a governance-based tool that will enable stakeholders to assess, monitor, and calibrate green bond lending practices.

This paper was developed in the context of the Global PSSL Principles[i], which recognise the importance of securities lending for efficient markets while promoting transparency, stewardship, and sustainability across its practices.

[1] U.S. Securities and Exchange Commission. *Final Rule: Reporting of Securities Loan.* Fact sheet. Available at: https://www.sec.gov/files/34-98737-fact-sheet.pdf [accessed 22 June 2025].

2 THE TRANSPARENCY IMPERATIVE IN GREEN BOND MARKETS

Securities lending involving green bonds, without transparency safeguards, may also conflict with the investment mandates of responsible asset owners and mislead end beneficiaries. The green bond label risks becoming a tool for legitimizing environmentally questionable practices when there is limited or lacking lifecycle transparency and stewardship.

This lack of transparency exposes stakeholders to reputational, legal and financial risks, and it may represent a structural failure: the financial instruments intended to support sustainable investment may be facilitating the opposite by entering opaque strategies.

The lack of well-functioning and more transparent secondary markets poses a structural challenge to the continued growth and credibility of the green bond market. Without visibility into post-issuance use—such as lending, short-selling, or collateral reuse—investors and regulators have no tools to verify whether green labels retain their integrity after issuance.

While green bonds funding is usually allocated at issuance, the responsibility for ensuring environmental alignment goes beyond that stage. Key stakeholders should share an ongoing responsibility to uphold environmental integrity throughout the bond's lifecycle. Consider a green bond issued to finance a solar project: while its initial use of proceeds may pass sustainability assessments, once the bond enters opaque secondary markets—lent, rehypothecated, or shorted without clear justification—its integrity and traceability can be compromised. These practices can affect the bond's reputation, might distort its pricing, and ultimately discourage the reinvestment of similar instruments in the future.

Legal scholarship has already flagged a broader issue of post-issuance obligations.[2] While green bonds may appear to include environmental commitments, these are often vaguely worded, and non-binding. This leaves investors with limited legal recourse in cases of misuse.[3] This legal ambiguity highlights the specific need to examine how secondary market activities can undermine the stated environmental goals that green bonds are intended to achieve.

[2] John P Hunt, 'Green Bond Reporting' (2024) Columbia Business Law Review 201.
[3] Ibid, 214.

This current transparency vacuum highlights deeper structural weaknesses: fragmented oversight, the absence of post-issuance guidance and problematic coordination among trade associations – where collaboration may serve to reinforce self-serving institutional boundaries rather than address systemic challenges in a holistic manner. Without full lifecycle visibility and shared accountability, even genuinely green projects risk becoming entangled in secondary-market behaviours that conflict with long-term sustainability goals.

Finally, industry-led governance and technological approaches in securities lending remain poorly aligned with the complexity and purpose of sustainable finance—particularly in the context of transparency. However, it is worth noting that the 2025 ICMA Green Bond Principles AGM reaffirmed the importance of robust transparency and disclosure across the full green bond lifecycle.

3 Call for Action

This paper proposes the following immediate steps to safeguard the integrity of green bonds and ensure that sustainable finance evolves with credibility and coherence:

1. Review Practices of Securities Lending in Green Bond Markets
   Asset owners and ESG-focused funds should review all lending agreements for consistency with ESG policy, stewardship codes, and green label commitments. They should collaborate with internal compliance and data teams to flag and track green-labelled assets at point of custody. Additionally, asset owners and investors should assess whether proposed green bonds for lending have limited liquidity, which may make them ill-suited for lending in the first place, heightening risk for both lenders and borrowers.
2. Consider Temporarily Suspending the Lending of Green Bonds
   Following internal assessments, suspend lending until minimum standards for transparency, traceability, and sustainability-consistent use are being implemented. Without clear transparency safeguards, securities lending may undermine the integrity of green bonds and the broader credibility of sustainable finance.
3. Demand Transaction-Level Transparency
   Investors should demand full visibility into the counterparty, duration, and intended use of any green bond loan. While they may rely on custodians or agent lenders to execute these programs, it is their responsibility to set clear expectations for transparency—ensuring that green-labelled instruments are not used in ways that contradict climate or sustainability objectives.

It is recommended to engage custodians and lending agents to develop protocols aligned with evolving green finance standards. Transparency is a prerequisite for stewardship.

4. **Establish a Stewardship Framework for Lending**
   Key stakeholders should co-develop, in collaboration with regulators, a stewardship framework specifically for green bond lending—one that aligns with green finance taxonomies and reinforces existing stewardship codes. However, to ensure this framework has a practical impact, investors and, when appropriate, regulators must take an active role in adopting, enforcing, and refining it to complement existing and upcoming binding regulation. This includes integrating lending considerations into stewardship policies, setting conditions in mandates, and driving accountability across the lending chain.

5. **Clarify Regulatory Oversight**
   Regulators should assess whether current securities lending practices—especially those involving green-labelled instruments—conflict with the goals of sustainable finance regulation. This includes examining lending's role in facilitating greenwashing, market misuse, or post-issuance sustainability drift.

6. **Support Independent Governance Tools**
   Stakeholders should actively support the development of independent governance tools (such as the ABC Score™) that aim to assess, balance, and calibrate key aspects of sustainable finance, including the treatment of green bonds in securities lending programs. While the ABC Score™ is currently under development, it is being led by Global PSSL, an impartial, independent, and not-for-profit initiative, and is designed to complement—not contradict or compete with—existing regulatory and market-based frameworks. The green bond component will represent one part of a broader ABC Score™ architecture intended to enhance transparency, accountability, and systemic alignment across sustainable financial markets.

GLOBAL PSSL

4 Relevant Key Risks and Red Flags

The action points in section 3 were developed on the basis of the following key risks and red flags which will be bolstered with additional research in due course.

Design Tensions for Green Bond Lending

Summary: As green bonds circulate through secondary markets, they are—or may become—subject to securities lending practices that lack transparency and risk undermining their intended environmental purpose. This risks eroding the environmental integrity of the instruments and creating ESG misrepresentation exposure.

Once green bonds enter lending programs, they are often handled like conventional fixed-income instruments—a process largely blind to their environmental designation due to the absence of dedicated controls or reporting. This enables downstream transactions that may contradict the bond's environmental purpose:

- Short selling by market participants with no sustainability mandate.
- Collateral reuse in synthetic transactions that detach the asset from its green purpose. In addition, lending green bonds may present challenges under existing collateral guidelines: their environmental designation and limited availability can complicate eligibility assessments, and in the event of borrower default, it may be difficult to source equivalent green bonds—increasing both operational and reputational risk for the lender.
- Derivative overlays (e.g. credit default swaps (CDS) or total return swaps) that may obscure true exposure, enable speculation, or misalign incentives, including cases where market actors stand to benefit from sustainability underperformance without accountability. Opacity around end-use and counterparty prevents asset owners from understanding the true impact of the loan.

Bond underwriters also play a pivotal role in shaping the market, yet current practices offer no requirement to assess or disclose how green bonds might be treated post-issuance, particularly in lending programs.[4] This omission leaves a gap in the ESG value chain, where bonds marketed as sustainable may later be used in opaque transactions that undermine their environmental purpose.

[4] A good overview of the underwriting for the project bonds is available here: John Dewar (ed) *International Project Finance. Law and Practice* (Oxford University Press 2019).

Meanwhile, in the United States, market-led green securitisation—such as solar asset-backed securities (ABS)[5] and Property Assessed Clean Energy (PACE)-backed instruments—has expanded in recent years and would clearly benefit from well-functioning secondary-market mechanisms. Yet, there are no proposals to guide post-issuance activities such as securities lending, repo, and short-selling.

A particularly illustrative case is that of (PACE)-based green bonds. These instruments were created with strong environmental intentions but have faced well-documented challenges in delivering on their green promise.[6] Notably, despite early ambitions to create a liquid secondary market for PACE-backed bonds,[7] no such market has materialised to date.

This persistent gap reinforces the need to build credible and transparent post-issuance best practice in advance of any broader secondary market activity, to avoid missed opportunities for effective green bond market development. The PACE example underscores the relevance of this call-to-action paper: it highlights the importance of transparency not only for safeguarding environmental integrity, but also for enabling responsible market behaviours—such as securities lending and short selling—that can expose greenwashing or other ESG misalignments. As such, the case offers a particularly compelling lens through which to examine both systemic risk and potential for reform.

[5] See for example: Crédit Agricole Securities, *U.S. Residential Solar ABS 101* (2022) <https://www.ca-cib.com/sites/default/files/2022-03/Project-Bond-Focus-Solar-ABS-2022.pdf> accessed 22 June 2025.
[6] *Residential Property Assessed Clean Energy Financing* (Regulation Z) *Final Rule*, 12 CFR Part 1026 (FR 90(6) 10 January 2025) <https://www.federalregister.gov/documents/2025/01/10/2024-30628/residential-property-assessed-clean-energy-financing-regulation-z> accessed 22 June 2025.
[7] Renewable Energy World, 'PACE Financing Concept Provides Hope for Renewable Energy Projects' (6 March 2013) <https://www.renewableenergyworld.com/energy-business/new-project-development/pace-financing-concept-provides-hope-for-renewable-energy-projects/> accessed 30 June 2025.

TRANSPARENCY VACUUM AND MANDATE MISALIGNMENT

> *Summary*: Current securities lending systems offer no visibility to investors on the end-use of their green assets. Securities lending remains a 'black box' in many institutional investment portfolios. This prevents effective ESG due diligence and may violate the spirit of binding regulation and evolving stewardship expectations.

There is a growing attention to ESG integration, market integrity, transparency and effective and reliable markets in the Sustainable Finance Disclosure Regulation (SFDR),[8] EU GBS and evolving stewardship expectations. Despite that, securities lending remains a 'black box' in many institutional investment portfolios. Green bonds are marketed—and increasingly relied upon—as one cornerstone of sustainable investment. They channel capital toward projects with environmental positive outcomes, such as renewable energy, energy efficiency, or biodiversity protection. EU regulators have already raised concerns about the "[d]iverging rules on the disclosure of information, on the transparency and accountability of external reviewers of environmentally sustainable bonds."[9] However, they missed an opportunity to enhance the transparency of lending practices of green bonds, especially in the context of incoming green bond-compliant securitisations.

Where ESG mandates or regulatory frameworks (e.g. Art 9 of SFDR, EU Taxonomy,[10] or UK Stewardship Code)[11] require demonstrable environmental alignment, lending without restrictions or oversight may breach internal policies or regulatory expectations—particularly when green assets are used to finance carbon-intensive short positions.

Key concerns include:

- No visibility of how borrowed green bonds are used.
- Limited disclosure on counterparty identity, duration, or purpose.
- No guidance on whether lending supports short positions that contradict climate goals.

---

[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 [2019] OJ L 317/1 <https://eur-lex.europa.eu/eli/reg/2019/2088/oj/eng> accessed 25 June 2025.
[9] Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds [2023] OJ L 2631 <https://eur-lex.europa.eu/eli/reg/2023/2631/oj/eng> accessed 22 June 2025.
[10] European Commission, *EU Taxonomy for Sustainable Activities* (undated) <https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en> accessed 25 June 2025.
[11] Financial Reporting Council, *UK Stewardship Code 2026* <https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code/> accessed 25 June 2025.

In the US, new rules such as SEC Rule 10c-1a[12] aim to increase transparency in securities lending, including borrower identification and transaction reporting. However, Rule 10c-1a is currently being challenged in court, and its outcome could delay or weaken these efforts.[13] Even if implemented, these initiatives remain jurisdiction-specific and do not address the broader, cross-border transparency challenges—particularly those unique to green and sustainability-labelled bonds—that this paper seeks to highlight.

Securities lending is often justified by its ability to generate incremental returns. But these marginal gains come with potentially large trade-offs when applied to green bonds. In this context, lending green bonds without adequate transparency creates reputational, ethical, and broader financial systemic risks by eroding investors' trust in reliable markets as well as ESG/sustainability labels (e.g. greenwashing) and misaligning incentives at scale.

This transparency gap stands in contrast to the growing consensus, including among senior central bank officials, that a well-functioning and credible secondary market is essential to the green bond ecosystem. For example, a senior manager at the Italian Central Bank has offered to explore potential governance tools with Global PSSL to support this agenda.[14]

Market Infrastructure and Governance Weaknesses

> *Summary*: Most securities lending infrastructures lack ESG-sensitive protocols. Green bonds are treated as fungible collateral, without traceability mechanisms. Securities lending is handled as a distinct domain in emerging fintech solutions, compounding structural gaps.

Securities lending infrastructures continue to operate largely outside ESG frameworks, lacking mechanisms to trace the flow or verify the environmental alignment of green-labelled instruments.

[12] U.S. Securities and Exchange Commission, 'Final Rule: Reporting of Securities Loan' <https://www.sec.gov/files/34-98737-fact-sheet.pdf> accessed 22 June 2025.

[13] AIMA, Press Release: NAPFM, AIMA and MFA File Opening Brief Challenging the SEC's Securities Lending and Short Position Reporting Rules (6 March 2024) <https://www.aima.org/article/press-release-napfm-aima-and-mfa-file-opening-brief-challenging-the-sec-s-securities-lending-and-short-position-reporting-rules.html> accessed 22 June 2025.

[14] Based on correspondence with a senior official at the Banca d'Italia (Italian Central Bank) re: work on green bonds and secondary markets.

Green bonds are generally treated as fungible collateral,[15] without system-level controls that would safeguard against misuse inconsistent with their environmental purpose or stewardship commitments. Meanwhile, securities lending continues to be treated as a separate operational and conceptual domain in many incoming fintech and governance-layer solutions—despite its structural and functional overlap with other forms of collateralised finance.

In addition to regulatory fragmentation, the Common Domain Model (CDM)[16]—a flagship initiative driven by Fintech Open Source Foundation (FINOS) in collaboration with industry trade associations to standardise financial lifecycle modelling—reveals a deeper structural limitation. First, the CDM does not currently incorporate sustainability considerations, reinforcing technical standardisation without addressing sustainability or post-issuance accountability for green-labelled assets. Secondly, while CDM logically bundles repurchase agreements (repos) and bonds to reflect shared collateral flows, it curiously treats securities lending as a separate domain, despite its collateralised structure and operational parallels with repos.[17] This separation—likely a consequence of project phasing rather than functional logic—risks entrenching artificial silos within market infrastructure. The result is a critical blind spot: green bonds, like other sovereign and corporate debts, circulate fluidly across both repo and lending markets, yet lack a unified modelling approach. For sustainable finance to evolve with credibility and transparency, bonds must be modelled holistically across all forms of reuse, not segmented by contract type.

Reputational and Litigation Risks

> *Summary*: The current governance and market weaknesses present escalating reputational and litigation risks.

When beneficiaries discover their climate-labelled holdings have been used in ways contrary to stated ESG objectives, litigation risk and brand damage may escalate sharply. As ESG misalignment increasingly features in shareholder resolutions and civil society campaigns, this is a vulnerability vector for fiduciaries.

---

[15] See a note that covers some tensions around fungibility requirements: Gong Cheng, Torsten Ehlers and Frank Packer, 'Sovereigns and sustainable bonds: challenges and new options' (Bank for International Settlements, BIS Quarterly Review, 19 September 2022) <https://www.bis.org/publ/qtrpdf/r_qt2209d.pdf> accessed 27 June 2025.

[16] The Fintech Open Source Foundation (FINOS) (2025) <https://www.finos.org/common-domain-model> accessed 22 June 2025.

[17] The Fintech Open Source Foundation (FINOS), *Common Domain Model* (2025) <https://2419532.fs1.hubspotusercontent-na1.net/hubfs/2419532/Projects%20%2B%20SIGs/CDM%20-%20Common%20Domain%20Model/CDM%20Short%20-%20Resource%20Page.pdf> accessed 22 June 2025.

This lack of cohesion also raises deeper concerns about how market structure is shaped—and protected. The division embedded within the Common Domain Model (CDM)[18]—where bonds and repos fall under one domain (traditionally linked to the International Capital Markets Association (ICMA)[19] and securities lending under another (aligned with the International Securities Lending Association (ISLA)[20]—may reflect institutional territories rather than functional logic. While such boundaries are often framed as operational or legal distinctions, they can reinforce opacity and limit transparency-enhancing innovation.

Recent legal cases provide a warning: in the US stock-loan antitrust litigation,[21] major financial institutions were accused of colluding to block a start-up from introducing a more transparent lending exchange platform. Similarly, in the European bond trading cartel case, post-trade opacity enabled sustained collusive conduct between market participants.[22]

As sustainable finance becomes more embedded in core capital markets, stakeholders with genuine sustainability objectives must confront a hard truth: market infrastructure—if left unchallenged—can entrench behaviours that resist transparency, competition, and public accountability. In this context, independent initiatives advocating cross-market transparency may find themselves excluded from formal reform processes—not for lack of rigour, but because they disrupt long-standing legacy alignments. Such exclusions may themselves give rise to future legal challenges.

[18] See above section on Market Infrastructure and Governance Weaknesses.
[19] International Capital Market Association (ICMA) (2025) <https://www.icmagroup.org/> accessed 22 June 2025.
[20] The International Securities Lending Association (ISLA) (2025) <https://www.islaemea.org/> accessed 22 June 2025.
[21] *Iowa Public Employees Retirement System et al. v. Bank of America Corp.*, Case No. 1:17-cv-06221, U.S. District Court, Southern District of New York. See also a note: Cohen Milstein, 'Current Cases. Stock Loan Antitrust Litigation' (2025) <https://www.cohenmilstein.com/case-study/stock-loan-antitrust-litigation/> accessed 22 June 2025.
[22] Cases T-441/21, T-449/21, T-453/21, T-455/21, T-456/21 and T-462/21 *UBS Group AG and Others v European Commission* [2025] ECLI:EU:T:2025:337. See also a note: Court Of Justice of the European Union. *Cartel in the European Government Bonds sector: the General Court largely confirms the decision of the Commission*. Press Release no. 39/25. Luxembourg (2025). <https://curia.europa.eu/jcms/upload/docs/application/pdf/2025-03/cp250039en.pdf> accessed 22 June 2025.

5 The ABC Score™: Addressing Post-Issuance Blind Spots in Green Bonds

The lack of transparency and actual, or potential, misalignments between green bonds' labels and their market behaviour reinforce the urgent need for governance tools such as the ABC Score™. This tool aims to provide a fuller assessment, balance, and calibration opportunities for the green-labelled instruments beyond issuance.

In contrast to conventional ESG ratings or pre-issuance certifications, the ABC Score™ focuses explicitly on post-issuance practices. In addition to sustainability considerations, it addresses broader themes of market integrity, investor trust, governance and market infrastructure. Currently in development, the ABC Score™ is an AI enhanced governance-oriented tool designed to provide more transparency into the markets.

The AI component expands the framework's reach, analytical power, and reliability. By training the model on a combination of regulatory filings, trade data, custodial disclosures, public stewardship reports, and verified climate impact statements, the ABC Score™ can detect patterns that may signal greenwashing, governance breakdowns, or misuse of green instruments. Crucially, it integrates both quantitative signals (e.g. frequency of lending) and qualitative assessments (e.g. narrative disclosures and stewardship alignment).

In the context of this paper, the Score will offer publicly accessible, independent insights into the post-issuance use of green bonds. By assessing factors such as transparency, alignment with green objectives, and counterparty integrity, the Score aims to help investors, regulators and other key stakeholders monitor potential risks that existing infrastructure models may not capture. A selection of indicative ABC Score™ metrics is included in the Annex of this paper to demonstrate how this framework can support greater traceability and accountability in sustainable finance.

6 Conclusion

If sustainable finance is to remain credible, its instruments must retain integrity not only at issuance but across their entire life cycle. This paper identified key blind spots that undermine that goal: opaque securities lending practices, market infrastructure that treats green-labelled assets as fungible, and governance gaps that allow environmental commitments to be diluted or ignored.

Without clear oversight, traceability, and stewardship, the green bond label risks devolving into a performative marker—vulnerable to greenwashing and systemic misalignment. These risks are not abstract: they manifest in legal ambiguity, reputational exposure, and the erosion of trust.

This analysis highlighted how existing fintech and governance structures—particularly in securities lending—remain poorly aligned with the needs of climate-aligned investment. Market segmentation, institutional boundaries, and opaque post-trade behaviours continue to obstruct transparency and accountability. These dynamics may even hinder reform and may sideline independent initiatives or entrench outdated models.

To address these structural weaknesses, this paper proposed a practical, multi-level action agenda—ranging from internal reviews of lending practices, temporary restrictions to regulatory reviews and the support of governance tools such as the ABC Score™. While green bonds are the focus here, the broader implications extend to all sustainability-labelled in opaque secondary markets.

As sustainable finance matures, post-issuance accountability must become a core pillar. The future of the green bond market — and investor confidence in sustainability-labelled assets — depends on it. Annex below presents initial ABC Score™ metrics designed to enhance green bonds' transparency and lifecycle traceability. These metrics will be further refined and tested in collaboration with key stakeholders in the second half of 2025.

The paper calls on investors, policymakers, and regulators to act with urgency. The credibility of sustainable finance demands no less.

7 Annex: Proposed ABC Score™ Metrics for Green Bonds Lending

This annex presents a first structured interpretation of each ABC Score™ metric, including definitions, practical examples, and the scoring logic. It aims to assist organizations in evaluating the transparency, accountability and sustainability practices of green bond lending effectively. The examples apply to green bonds but are also applicable to other labelled bonds such as social bonds or sustainability-linked bonds. Global PSSL will issue further metrics as appropriate.

The ABC Score is intentionally developed to support a holistic approach to assessment. While many metrics apply directly to financial instruments like green bonds, others are designed to evaluate the practices of institutions connected to those instruments—including asset owners, regulated advisers, or market infrastructure providers. This approach allows the ABC Score™ to reflect both the lifecycle of a financial product (e.g. how a bond is lent or reused) and the surrounding ecosystem of actors influencing its transparency and integrity. As a result, the Score can be adapted for self-assessment, due diligence, or market-wide comparison—whether by investors, advisors, or regulators.

Global PSSL CIC is keen to receive comments on these proposed metrics. We will continue developing them for testing exercises based upon publicly available information with the help of artificial intelligence and sophisticated modelling software. We will issue more guidance as to how the scores can be maintained internally by organizations alongside public communication recommendations.

We recognise that some of the metrics may require significant effort to implement. That is why we are developing the ABC Score™ to support governance maturity by offering a structured, evidence-based mechanism for assessing lending risks associated with green bonds and other sustainability-labelled assets. The ABC Score™ is designed to help organisations demonstrate proactive alignment between commercial decision-making and sustainability commitments, thereby fulfilling key elements of good governance best practice. To ensure its integrity, the ABC Score™ will be subject to strong oversight and periodic governance reviews.

METRICS ON TRANSACTION-LEVEL TRANSPARENCY

M1 – Use-of-Proceeds Clarity

Objective: Assesses the alignment of stated use of proceeds with actual project outcomes.

Practical Examples

- Evidence of capital flows to eligible green projects.
- Audited impact reports or post-issuance tracking.

Scoring Guidance

- 8–10: Clear, verified project matching with impact reporting.
- 5–7: Vague or partially-aligned reporting.
- 0–4: No follow-up, or use-of-proceeds discrepancies.

M2 – Loan Visibility Score

Objective: Measures the proportion of investment portfolios including green bonds with disclosed, traceable underlying loan data on green bonds.

Practical Examples

- Disclosure of green bonds lending practices.
- Disclosure of loan beneficiaries for a specific project type.
- Clarity on whether proceeds refinance existing or new projects.

Scoring Guidance

- 8–10: Full or near-full transparency across portfolios.
- 5–7: Partial disclosure; some gaps or aggregation.
- 0–4: Opaque loan structures or unverified claims.

M3 – Underwriting Accountability Score

Objective: Measures whether underwriters include transparency risks tied to lending.

Practical Examples

- Underwriters include parameters re: conflicts in lending vs green issuance.
- Integration of sustainability risks relating to loans in the underwriting (due diligence).

Scoring Guidance

- 8–10: Underwriting policies with clear references to green bond lending are disclosed.
- 5–7: Partial or high-level policies disclosed.
- 0–4: Obscure references to policies, or lack of policies.

M4 – Green Bonds Lending Conflict Flags

Objective: Identifies and flags lending activities that may conflict with a bond's green credentials.

Practical Examples

- Unclear short selling of green bonds.
- Using green bonds as collateral for controversial (unacceptable by organizations) transactions.
- Lending to counterparties violating green bond purposes.

Scoring Guidance

- 8–10: No conflicts and transparent management.
- 5–7: Occasional lapses with mitigations.
- 0–4: Frequent or unmanaged conflicts.

GLOBAL PSSL

M5 – Securitised Green Bond Integrity Score

Objective: Evaluates transparency coherence in securitised green bonds.

Practical Examples

- Clarity on securitised asset pools for special purpose vehicles.
- Alignment of tranches with green bonds goals.

Scoring Guidance

- 8–10: Full traceability of green credentials and credible structuring.
- 5–7: Some opacity or weak downstream assurance.
- 0–4: Green credentials mismatches across securitisation chain.

M6 – Secondary Market Liquidity vs Purpose Mismatch Ratio

Objective: Assesses whether secondary trading or lending undercuts the green bond intent. It captures a key behavioural tension between the financial treatment of green bonds in secondary markets, and their original sustainability objective.

Practical Examples

- High turnover driven by yield with no assessment of green bonds' intent.
- High turnover that balances well the green bonds' credentials.
- Lending used to bypass long-term holding commitments.

Scoring Guidance

- 8–10: Liquidity that explicitly balances the green bonds' element in the portfolio.
- 5–7: Mixed liquidity motives.
- 0–4: High speculation misaligned with green bonds' goals.

M7 – Derivatives Risk and Transparency Metric

Objective: Assesses how derivatives are used in relation to green bonds; distinguishing between transparent, risk-managed hedging practices and speculative or contradictory overlays. Excessive or opaque use of derivatives may erode the integrity of green bonds by severing economic exposure from stewardship accountability, masking intended green bond positioning, or enabling profit from sustainability breaches.

Practical Examples

- The utilisation of credit default swaps (CDS) to speculate against green bonds.
- Synthetic Positions Undermining Bondholder Stewardship.

Scoring Guidance

- 8–10: No or minimal use of derivatives that interfere with ownership benefits. Where derivatives are used, positions are transparently disclosed, risk-managed, and clearly aligned with the objectives of the green bond (e.g. interest rate or currency hedging without undermining environmental integrity).
- 5–7: Use of derivatives for risk management purposes, with partial or unclear alignment to the green bond's stated objectives. Limited transparency or justification of how derivative overlays support the sustainability mandate.
- Use of derivatives that fully offset the economic or stewardship value of the green bond, including speculative overlays, contradictory positions (e.g. CDS on same green bond issuer), or synthetic exposures with no engagement or transparency.

M8 – Repo Transparency Alignment Score

Objective: While the original use of proceeds is fixed at issuance, excessive or opaque use of repos involving green bonds may erode the long-term purpose integrity of the asset. This occurs when stewardship is interrupted, short selling is enabled, and the bond circulates as a liquidity tool instead of serving as a long-term commitment to sustainable finance.

Measures the extent to which repurchase practices involving green bonds are made transparent and align with the stated purpose of the bonds.

Practical Examples

- Disclosure of green bonds inclusion as repo collateral.
- Assessments of counterparty profile.
- Internal policies ensure repo use aligns with long-term investment goals.

Scoring Guidance

- 8–10: Repo activity involving green bonds is fully disclosed, short-selling is traced, the alignment of counterparties is verified.
- 5–7: Partial disclosure, limited oversight on how green bonds are used on secondary markets.
- 0–4: No reporting or practices contradict sustainability objectives.

GLOBAL PSSL

M9 – Reverse Repo Stewardship Risk Indicator

Objective: While the original use of proceeds is fixed at issuance, the excessive or opaque use of reverse repos involving green bonds may erode the long-term integrity of the asset. This occurs when stewardship is abandoned, disclosures are distorted, and the bond functions purely as collateral rather than a vehicle for sustainable finance.

Assesses whether institutions borrowing green bonds via reverse repo monitor and manage green -related risks, including short-term use or resale to controversial actors. Assesses whether the reverse repo may weaken the use-of-proceeds integrity through dis-incentivizing investors/asset owners to conduct appropriate impact reforms. Assesses whether the reverse repo may render each green bond as a 'liquidity token' rather than 'green asset'.

Practical Examples

- Reverse repo used to temporarily source green bonds for public relations/regulatory window-dressing.
- Onward lending of green bonds to ESG-risky entities.
- No monitoring of reverse repo ESG implications.

Scoring Guidance

- 8–10: Robust oversight and alignment with stated green bonds' goals.
- 5–7: Limited review of counterparty or purpose.
- 0–4: No controls - green bonds potentially misused.

M10 – Market Behaviour Divergence Score

Objective: The MBDS aggregates signals from underlying metrics—such as derivatives alignment, repo/reverse transparency, and stewardship consistency—to provide a single score reflecting the behavioural credibility of green bond claims in secondary markets. It measures whether market participants' actions align with the stated sustainability objectives of green bonds.

Practical Examples

- Labelled green bonds traded like high-yield junk (it consistently trades at a steep discount, with high turnover and volatility where market participants treat the bond as a risky, short-term opportunity, rather than a long-term sustainable investment).
- ESG claims contradicted by counterparties' market activity. For example, an asset owner reports green bond holdings, but simultaneously sells CDS protection on the same issuer — potentially taking on credit risk exposure without engaging in direct stewardship. Alternatively, green bonds are used as collateral in reverse repos by counterparties engaged in high-carbon financing, with no oversight or restriction.

Scoring Guidance

- 8–10: Market behaviour clearly aligns with green bond labels; consistent, transparent, and stewardship-driven.
- 5–7: Partial alignment; some divergence exists but is explained or managed.
- 0–4: Significant misalignment; behaviour contradicts ESG claims or lacks transparency.

GOVERNANCE RELATED METRICS

M11 – Governance Maturity Score

Objective: Assesses the maturity of governance structures that specifically relate to green bonds including oversight of green bond lending, securities finance, and stewardship. The score reflects whether green bond lending risks are clearly addressed through defined responsibilities, accountability mechanisms, and conflict of interest controls.

Practical Examples

- A board-level or senior committee regularly reviews lending practices involving green bonds.
- A dedicated stewardship officer/team is responsible for overseeing lending, collateral use, and secondary market behaviour.
- Policies clearly align commercial lending objectives with sustainability commitments, ensuring that financial performance and sustainability integrity are mutually reinforcing, and that any potential conflicts of interest are transparently managed.
- Transparent governance disclosures referencing green bond lending frameworks, internal audits, or policy evolution.

Scoring Guidance

- 8–10: Mature governance structures that explicitly include oversight of green bond lending and related market behaviours; conflict management and accountability structures are clearly defined.
- 5–7: General ESG or stewardship governance is in place, but lacks specific focus on lending-related risks or is sandboxed.
- 0–4: No relevant governance or accountability, unclear responsibilities or unmanaged conflicts of interest.

M12 – Corrective Action Score

Objective: Measures how effectively institutions respond to deficiencies or risks in green bond lending practices by implementing timely, transparent, and impactful policy or procedural changes. This includes responses to internal findings, external recommendations, regulatory developments, or voluntary standards.

Practical Examples

- Policy update after allegations or evidence of malpractice, misrepresentation or greenwashing.
- Strengthening controls on utilisation of (reverse) repurchase agreements, derivatives use or disclosures following internal audits.
- Public commitment to improve problematic practices within a defined timeframe.

Scoring Guidance

- 8–10: Timely and adequate policy revisions, comprehensive systems in place; evidence of continuous improvement.
- 5–7: Reactive or delayed changes; partial alignment with evolving best practices.
- 0–4: Failure to act on known issues; cosmetic or performative updates lacking depth or transparency.

M13 – Stewardship Engagement Frequency Score

Objective: While green bonds rarely carry formal voting rights, investors can influence issuer behaviour through consent solicitations, restructuring processes, or trustee engagement — particularly when bond terms or sustainability performance are at stake. Tracks how often organisations engage to uphold stated credentials in green bond lending. Stewardship Engagement Frequency Score is primarily a self-assessment tool for asset owners, investors etc. designed to measure the regularity and depth of engagement related to green bond stewardship — particularly in the context of lending and secondary market practices

Practical Examples

- Engagement with issuers/SPVs on lending policies.
- Voting (when available) or collaborative actions targeting green bonds lending risk.
- Public position statements or reports that clarify expectations around responsible lending or use of ESG-labelled instruments.

Scoring Guidance

- 8–10: Regular, proactive engagement specifically addressing green bonds lending practices; includes direct dialogue, voting (where applicable/possible), and participation in collaborative stewardship efforts.
- 5–7: Occasional or indirect engagement on lending-related issues (when direct engagement is possible); may include general stewardship with limited focus on lending.
- 0–4: Little to no evidence of stewardship activity related to lending; passive or disengaged approach.

M14 – Asset Owner Policy Consistency Score

Objective: Evaluates whether asset owners' policies and practices regarding lending green bonds are consistent with their public sustainability commitments.

Practical Examples

- References to green bond lending available in stewardship reports.
- Sustainability policies apply to both investment and relevant secondary market themes.
- Participation in initiatives supporting transparency re: green bonds lending.

Scoring Guidance

- 8–10: Clear alignment between sustainability commitments and secondary market practices.
- 5–7: Moderate alignment, some transparency but limited enforcement.
- 0–4: Practices contradict or undermine public commitments.

M15 – Wealth Advisors Transparency & Purpose Alignment Score

Objective: Assesses whether investment or financial advisers to (ultra) high-net-worth individuals – (U)-HNWIs and family offices provide transparent, purpose-aligned advice on green bond allocations — particularly regarding how such bonds are used in lending, financing, or short-term trading contexts.

Practical Examples

- Advisors explain how green bonds may be reused (e.g. lending, repo) and discusses potential trade-offs with long-term goals.
- Products marketed as 'green' include disclosure on lending, rehypothecation, or financing reuse.
- Client is offered strategy options that limit reuse risk or improve traceability.
- Advisor does or does not disclose conflicts of interest.

Scoring Guidance

- 8–10: Advice clearly addresses transparency, purpose consistency, and green bonds lending risks. Clients given meaningful choices.
- 5–7: Some disclosure on green bond practices or purpose alignment, but limited follow-through with clients.
- 0–4: Marketing emphasises green credentials, but lacks clarity on post-investment behaviour. Risk of misalignment.

M16 – Bank Stewardship Accountability Score

Objective: Assesses whether banks involved in green bond origination, repo, or trading act with accountability regarding how those instruments circulate post-issuance.

Practical Examples

- Underwriters consider downstream exposure of green bonds to lending and other relevant practices on the secondary markets.
- Experts in secondary market transactions and traders track and classify green bonds distinctly.

Scoring Guidance

- 8–10: Clear and distinct handling of green bonds across business units with consistent disclosure (e.g. to asset owners).
- 5–7: Limited transparency and partial oversight in selected departments/business units.
- 0–4: Green bonds handled as any other fixed income asset without regard to stated purpose.

M17 – Short Seller Purpose Alignment Score

Objective: Evaluates whether entities that engage in short selling of green bonds (or related instruments) act in a way that supports transparency and accountability — whether through pre-event (activist) or post-event disclosure — and whether their activities undermine or reinforce public trust in the use of green labels.

Practical Examples

- Activist short seller publishes rationale for challenging misleading sustainability claims before entering position.
- Firm discloses its short position in post-trade reports or regulatory filings with explanation of purpose.
- Short selling strategy includes internal checks on product integrity or reputational consistency.

Scoring Guidance

- 8–10: Purpose-aligned shorting, disclosed (before or after) with rationale tied to market integrity.
- 5–7: Rationale is unclear or undisclosed, but position does not contradict stated principles.
- 0–4: Short selling appears opportunistic or inconsistent with responsible market conduct.

M18 – Trade Association Influence Clarity Score

Objective: Assesses whether industry trade associations meaningfully support transparency, integrity, and accountability across the green bond lifecycle — including lending, repo, and market behaviour. Emphasis is placed on inclusive governance, verifiable implementation, and resistance to tokenistic or selective practices.

Practical Examples

- Publicly endorses and implements open data standards or lifecycle-based reporting frameworks.
- Engages genuinely diverse, impartial, credible stakeholders following assessments re: underrepresented NGOs, and independent experts.
- Be reflective on risks re: self-serving networks.
- Offers accessible data into market practices beyond public relations exercises.

Scoring Guidance

- 8–10: Transparent, inclusive, and impactful support for market-wide transparency and integrity.
- 5–7: Selective or partial transparency; limited stakeholder breadth or inconsistent disclosure.
- 0–4: Lacks transparency or enables opacity; engagement is superficial or exclusionary.

Author:
Dr Radek Stech
CEO of Global PSSL, Founder of ABC Score™ and a Senior Lecturer in Law, Exeter Law School.

ACKNOWLEDGEMENTS

Thanks to Nest Pensions for giving me the impetus to bring this work forward at a critical moment for the market and to the Exeter Law School for its continuous support for my research and impact activities. I am grateful to the Economic and Social Research Council (ESRC), part of UK Research and Innovation, for the grant that laid the foundation for Global PSSL. Thanks to Diandra Soobiah, Sarah Wilson FRSA, Kenneth Gutwillig, Michael Riggs, Pat Sharman, Isaac Al-Araimy, Robert W. Cobbs and Michael Stanley-Jones for their comments on the drafts of paper, and the publication strategy. I am also grateful to Wiktor Liszkiewicz, Ela Slota and Darryl Wilkins for their additional useful comments and project support at the Global PSSL Secretariat.

[i] Global Principles for Sustainable Securities Lending (Global PSSL) 2021. Available at: https://gpssl.org/wp-content/uploads/2021/09/Global-PSSL-2021-supported-by-opening-signatories.pdf [accessed on 3 July 2025]