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Green Label Claim-Test Card: The Four Diligence Tests of October 2026

RAPID FIELD CARD • FREE DIRECT DOWNLOAD
Current version — Oct 31, 2026. Update history: https://bcesg.org/green-finance-complete-professional-guide/

• THE FOUNDATIONAL PRINCIPLE: A LABEL IS A CLAIM, NOT A CATEGORY

Green finance is not a self-executing product category. It is a **claim** — that capital raised under a green designation is governed by a stated framework, allocated to defined eligible purposes, and reported against them. In October 2026, that claim can be tested four distinct ways: against **voluntary market principles**, against **scientific certification**, against **statutory regulation**, or against **court/regulator enforcement**.

THE TWO MARKET FAMILIES: WHERE DOES THE LABEL ATTACH?

INSTRUMENT ARCHITECTURE

1. USE-OF-PROCEEDS INSTRUMENTS

The Rule: An amount equal to net proceeds is dedicated exclusively to eligible environmental projects. The label attaches to the *use of money*.

• **Instruments:** Green Bonds (GBP June 2025), Social/Sustainability Bonds, Green Loans (LMA/LSTA March 2025), Transition Bonds (Nov 2025), EuGB (Title II).
• **Proceeds Tracking:** Formal sub-account or sub-portfolio tracking. Refinancing share and look-back periods must be disclosed.

2. SUSTAINABILITY-LINKED INSTRUMENTS

The Rule: Proceeds are raised for general corporate purposes. The label attaches to the issuer's *forward-looking KPI targets*.

• **Financial Consequence:** Coupon step-up (or step-down) triggered if predefined Sustainability Performance Targets (SPTs) are missed.
• **Verification:** Mandatory independent external verification at least annually and at every trigger date under SLBP June 2024.

TEST 1: AGAINST VOLUNTARY MARKET PRINCIPLES (ICMA / LMA / APLMA / LSTA)

MARKET STANDARD

Standard / Edition	Core Components & Requirements	Key Precision Rules & Market Pitfalls
ICMA Green Bond Principles (June 2025 Edition)	**4 Core Components:** 1. Use of Proceeds (eligible green categories) 2. Process for Project Evaluation & Selection 3. Management of Proceeds (tracking) 4. Reporting (annual allocation & impact)	• **Reviews are Recommended, not Core:** Issuers claim GBP alignment without an SPO; the market prices the absence of review. • **Tracking ≠ Trust:** Management means internal ledger tracking (sub-account/sub-portfolio), not bankruptcy remoteness. • Disclose financing vs. refinancing share and look-back period.
ICMA Sustainability-Linked Bond Principles (June 2024 Edition)	**5 Components:** 1. Selection of KPIs • 2. Calibration of SPTs 3. Bond Characteristics • 4. Reporting 5. **Verification** (mandatory)	• **Verification is Required:** Independent external verification against targets is mandatory annually and at every trigger date (must be public). • **Commensurate & Meaningful:** Principles set no minimum penalty step-up; market average is only 24.8 bps per target.
LMA / APLMA / LSTA Loan Principles (26 March 2025)	Green Loan Principles (GLP) and Sustainability-Linked Loan Principles (SLLP) written in mandatory **"shall"** language.	• **Private Disclosure:** Use of proceeds and reporting are owed strictly to participating lenders; public reporting is only a "should". • SLLP requires trajectory evidencing improvement beyond business as usual.
Transition Finance Guidelines (Handbook 2020 / June 2023; Guidelines Nov 2025)	Entity-level strategy (Handbook) + standalone use-of-proceeds label for high-emitting projects going beyond green scope (Nov 2025).	• Must prove substantial quantifiable GHG reduction, no feasible low-carbon alternative, beyond BAU, and carbon lock-in analysis. • Fossil infrastructure requires brownfield-only and phase-out commitments.

TEST 2: AGAINST SCIENTIFIC CERTIFICATION (CLIMATE BONDS STANDARD V4.3)

SCIENTIFIC THRESHOLDS

Operative Standard: Climate Bonds Standard v4.3 (August 2025; draft v4.4 consultation July 2026 is non-operative).

- **Instrument-Level Decision:** Certification applies to the specific bond/instrument, never to a general corporate framework.
- **Sector Criteria:** Substantive pass/fail thresholds live in dedicated sector criteria documents, not general process text.
- **Secretariat Decision:** Approved external verifiers audit conformity, but the formal certification decision is made by the Climate Bonds Secretariat.

The Standard's Legal Disclaimer: Certification speaks strictly to *conformity at the time of certification*. It carries no legal guarantee or implication that any environmental target has been achieved or will be met.

Scope: Certifies green instruments, physical assets, qualifying non-financial entities with sector-aligned transition plans, and SLB debt.

TEST 3: AGAINST STATUTORY LAW — EUROPEAN GREEN BOND STANDARD (EuGB)

LEGALLY ENFORCEABLE STANDARD

Regulation (EU) 2023/2631 (applicable 21 Dec 2024): The only green bond regime in the world with direct legal force. Voluntary to adopt, but exclusive once chosen: only bonds meeting Title II can use "European Green Bond" or "EuGB".

Compliance Article	Statutory Mandate	Operational Detail & Common Errors
Article 4: Full Allocation	100% of proceeds allocated before maturity in accordance with EU Taxonomy.	Applies across 5 asset classes: fixed assets, qualifying CapEx/OpEx, financial assets created ≤ 5 years, and household assets. Portfolio approach for FIs.
Article 5: Flexibility Pocket (Max 15% Cap)	Strictly limited derogation for activities lacking screening criteria.	**Not "85% aligned and 15% anything":** Only activities where no technical screening criteria exist in force, or international support — generic DNSH still applies.
Mandatory Transparency & Review Timeline	Factsheet • Allocation Reports • Impact Report • Prospectus	1. Pre-issuance review (positive opinion) before issuance. 2. Allocation reports every 12 months until full allocation. 3. **Mandatory post-full-allocation review**. 4. Impact report (review optional for impact, *mandatory for allocation*).
ESMA External Reviewer Supervision	Mandatory registration and supervision under ESMA. Transitional regime ended **21 June 2026**.	Only **7 registered reviewers** as of 16 Oct 2026: Moody's (France & Germany), Sustainable Fitch Ireland, S&P Global Europe, ISS-Corporate, FSG Sustainable, KPMG SA. Fines: ESMA €20k–€200k. National fines: ≥ 2× profit or ≥ €500k / 0.5% turnover, 1-yr ban.

TEST 4: AGAINST ANTIFRAUD ENFORCEMENT & DISCLOSURE REGULATIONS

POST-ISSUANCE LIABILITY

UNITED STATES: PROCESS & NAMES RULE

No federal green bond standard exists. Claims are policed under Securities Act §17(a), Exchange Act §10(b)/Rule 10b-5, and Advisers Act §206(4).

- **SEC Enforcement Precedents:** *BNY Mellon* ($1.5M, May 2022) for un-reviewed investments; *Goldman Sachs* ($4M, Nov 2022) for failure to follow written ESG procedures; *DWS* ($19M ESG / $25M total, Sept 2023) for marketing un-implemented ESG integration.
- **Names Rule (80% Policy):** Funds with "green/ESG" names must invest ≥80% in line with the name. Compliance: **11 June 2026** (≥$1B AUM); **11 Dec 2026** (<$1B).

EU & UK: MARKETING & PROMOTION RULES

Strict statutory discipline on marketing terminology and fund claims:

- **EU Empowering Consumers (Directive 2024/825):** Applicable 27 Sept 2026. Blacklists generic claims ("green", "climate friendly") without recognized excellent performance, and bans all product claims of neutral/reduced impact based on carbon offsetting.
- **UK FCA Anti-Greenwashing Rule:** In force 31 May 2024. All sustainability claims must be fair, clear, not misleading. 4 voluntary SDR fund labels since 31 July 2024.

⚠ THE QUANTIFIED CREDIBILITY GAP (CLIMATE BONDS INITIATIVE EVIDENCE)

$1.35 Trillion
Cumulative Labeled vs Aligned Gap ($8.1T labeled vs $6.75T aligned end-2025).

14% Aligned
Only 14% of SLBs (17% by amount) met Climate Bonds climate methodology ($309B unaligned).

24.8 bps
Average coupon step-up across 58% of SLBs containing financial penalties.

35% Late
35% of GSS issuers failed to report within 365 days of issuance; 76% reviews limited assurance.