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Legal Framework in Türkiye within the Scope of Transition from Greenwashing to Green Trust*

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ABSTRACT

This study examines the phenomenon of greenwashing, whereby businesses develop misleading strategies based on environmental and social awareness, and evaluates the legal regulations developed in Türkiye to combat this practice. This study examines the causes, forms, and social, institutional, and financial impacts of greenwashing, highlighting how the phenomenon undermines the achievement of sustainability. The study positions the concept of green trust not merely as a marketing perception but as a regulatory mechanism encompassing transparent reporting, standards-based measurement, independent auditing, and green taxonomy-based classification. Türkiye's regulatory framework is mapped holistically by considering the TSRS standards of the Public Oversight Authority, the sustainability principles of the Capital Markets Board, the Green Asset Ratio of the Banking Regulation and Supervision Agency, and the draft National Green Taxonomy. Furthermore, Türkiye's regulations have been compared with the EU Green Taxonomy and ISSB S1–S2 standards to reveal how a developing economy aligns with global sustainable finance norms. Ultimately, the study emphasizes that regulations play a critical role not only in establishing technical standards but also in creating a green trust foundation that strengthens investor confidence and social environmental awareness.

***Keywords**: Greenwashing, Green Trust, Sustainability Reporting, Sustainability Legislation in Emerging Markets*
***JEL Codes**: M14, M40, M48*

Yeşil Yıkamadan Yeşil Güvene Geçiş Kapsamında Türkiye'de Yasal Çerçeve

ÖZET

Bu çalışma, işletmelerin çevresel ve toplumsal duyarlılık üzerinden yanıltıcı stratejiler geliştirdiği yeşil yıkama (greenwashing) olgusunu incelemekte ve Türkiye'de bu uygulamayla mücadele amacıyla geliştirilen yasal düzenlemeleri değerlendirmektedir. Bu kapsamda yeşil yıkamanın nedenleri, biçimleri ve toplumsal, kurumsal ve finansal etkileri ele alınarak bu olgunun sürdürülebilirlik hedeflerini nasıl tehdit ettiği gösterilmektedir. Çalışma, yeşil güven (green trust) kavramını yalnızca bir pazarlama algısı olarak değil; şeffaf raporlama, standartlara dayalı ölçüm, bağımsız denetim ve yeşil taksonomi temelli sınıflandırmayı içeren bir düzenleyici mekanizma olarak konumlandırmaktadır. Kamu Gözetimi Kurumu'nun TSRS standartları, Sermaye Piyasası Kurulu'nun sürdürülebilirlik ilkeleri, Bankacılık Düzenleme ve Denetleme Kurumu'nun Yeşil Varlık Oranı ve Ulusal Yeşil Taksonomi taslağı birlikte ele alınarak Türkiye'nin düzenleyici çerçevesi bütüncül biçimde haritalanmıştır. Ayrıca, Türkiye'nin düzenlemeleri AB Yeşil Taksonomisi ve ISSB S1–S2 standartları ile karşılaştırılarak gelişmekte olan bir ekonominin küresel sürdürülebilir finans normlarıyla nasıl uyum sağladığı ortaya konmuştur. Sonuç olarak çalışma, düzenlemelerin yalnızca teknik standartlar değil, aynı zamanda yatırımcı güvenini ve toplumsal çevre bilincini güçlendiren bir yeşil güven zemini yaratmada kritik rol oynadığını vurgulamaktadır

***Anahtar Kelimeler**: Yeşil Yıkama, Yeşil Güven, Sürdürülebilirlik Raporlaması, Gelişmekte Olan Piyasalarda Sürdürülebilirlik*
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1. INTRODUCTION

Climate change, resource scarcity, rapid urbanization, and industrial pollution have become key global challenges. Growing awareness of these risks has prompted governments and businesses to develop action plans to protect the environment and ensure sustainable development. The concept of sustainability, which emerged as a result of these developments, has become an important starting point for countries worldwide to protect the future. The concept of sustainability emerged because of these developments and has become a significant reference point for protecting the future globally. As sustainability awareness grows, stakeholders increasingly pressure companies to reduce their environmental impacts, making sustainability a core global agenda. The definition of sustainability was first comprehensively defined in 1987 in the "Our Common Future" report published by the Brundtland Commission of the United Nations. This document, known as the Brundtland Report, aimed to support the development of the international economy while simultaneously achieving sustainable development. This document established an ideological and theoretical framework for the protection of the environment and natural resources. (Çanakçıoğlu, 2024) and (Başar, 2024). The report defines sustainability as "meeting present human needs without compromising the ability of future generations to meet their own needs" (WCED, 1987). This definition was later revised and adopted globally at the United Nations Conference on Environment and Development held in Rio de Janeiro in 1992, placing it in a broader perspective. In line with these developments, governments around the world have undertaken various global initiatives aimed at contributing to sustainable development and preventing devastating consequences for future generations.

With the increasing awareness of sustainability around the world, some businesses quickly turned this sensitivity into an opportunity. They began to highlight the "green" aspects of their products. As the number of green products grew, the use of green trademarks also increased. Applications for environmentally friendly trademark registrations rose, and the green economy rapidly expanded. (Bradley, 2011). In parallel with this growth, some businesses exaggerate or misrepresent their environmental commitments, creating a perceived gap between their statements and their actual practices. This has led to the increasing prevalence of the phenomenon of greenwashing, which means that companies exaggerate or misleadingly project their environmentally friendly image (Koch and Denner, 2025) and (Netto et al., 2020). In this respect, sustainability reporting is defined as a process in which companies transparently share their environmental and social performance. However, in connection with greenwashing, it has been revealed that these reports are not always accurate or transparent. Many companies fail to fulfill their sustainability commitments and instead present "green" messages in their reports. Such misleading reports often prevent consumers and other stakeholders from accessing accurate information (Sundarasena et al. 2024).

On the other hand, researchers have comprehensively examined the driving forces behind greenwashing, drawing on various theories including institutional, stakeholder, legitimacy, and signaling theories, thereby obtaining valuable research findings. In this regard, it can be said that greenwashing has the following two fundamental mechanisms of effect:

• Creating legitimacy: Providing financial advantages to the company by managing the perception of regulators and financial institutions.

• Reputation signal: Gaining a competitive advantage in the market by conveying an environmentally friendly image to stakeholders.

The basis of these mechanisms lies in legitimacy theory and signaling theory, and they can provide companies with short-term benefits. (Li et al., 2025)

Legitimacy theory argues that companies must comply with social values and corporate norms to sustain their existence. Therefore, companies must continuously legitimize their activities to meet regulatory requirements and stakeholder expectations. From the perspective of legitimacy theory, a company receiving an environmental penalty indicates that its legitimacy, which is necessary for its survival, is at risk. When stakeholders notice a company's greenwashing behavior, this can result in a loss of reputation, a decline in stock prices, a loss of competitive advantage, and the loss of government subsidies, tax incentives, and other social resources, which further complicates the company's existence and development. Therefore, the balance between environmental legitimacy gains and such costs may reduce or eliminate companies' incentives to engage in greenwashing. (Li et al., 2025)

On the other hand, signal theory explains how companies can create the impression that they are environmentally conscious by providing false or misleading information about their environmental performance. According to this theory, companies with low environmental performance try to create a better image than the actual situation within the company by claiming to be environmentally friendly. Companies with high environmental performance engage in transparent environmental reporting to demonstrate their high performance and differentiate themselves from others. However, signal theory emphasizes that companies with low environmental performance tend to create the impression of being environmentally friendly through symbolic actions rather than accurate information (Zhang et al., 2022)

Considering the emergence of the concept of greenwashing and its theoretical foundations, this study examines the phenomenon of "greenwashing", where businesses develop misleading strategies based on environmental and social sensitivity and examines the legal regulations developed in Türkiye to combat this practice. This study contributes to literature in three ways:

- First, it comprehensively maps Türkiye's rapidly developing sustainability legislation by bringing together scattered regulations such as POA/TSRS standards, CMB sustainability principles, BRSA's Green Asset Ratio, and the National Green Taxonomy under a single framework.
- Secondly, it aims to move greenwashing literature beyond voluntary corporate behavior by positioning the concept of “green trust” not merely as a marketing-based perception, but as a mechanism that also encompasses regulatory tools such as mandatory reporting, independent assurance, and taxonomy-based classification.
- Thirdly, by comparing Turkish regulations with the EU Green Taxonomy and ISSB S1–S2 standards, it places the example of a developing country within the context of global sustainable finance discussions.

2. METHODOLOGY

This study adopts a qualitative document analysis approach to examine regulations aimed at combating greenwashing. Official legislation and guidance documents published between January 2020 and July 2025 that are related to sustainability reporting, assurance auditing, green finance, and taxonomy were reviewed. The main sources included in the analysis are:

- The sustainability reporting standards of the Public Oversight Authority (KGK/TSRS),
- The sustainability principles and related circulars of the Capital Markets Board (SPK),
- The Banking Regulation and Supervision Agency's (BDDK) Green Asset Ratio circular,
- The draft National Green Taxonomy, and
- The Ministry of Trade's Environmental Claims Guide.

The documents were examined under the main themes of reporting, assurance, taxonomy, and financial indicators using thematic coding, and the findings were compared with the EU Green Taxonomy and ISSB S1–S2 standards. Due to the ongoing updates to the legislation, the findings reflect the regulations in force as of July 2025.

3. CONCEPTUAL FRAMEWORK OF GREENWASHING

3.1. The Concept of Greenwashing

The term greenwashing was first used in 1986 by environmentalist Jay Westervelt in an article criticizing the hospitality industry. Westervelt argued that while hotel chains present the reuse of towels as an environmentally friendly practice, they were in fact ignoring their larger environmental impact, and that underlying this green rhetoric was the aim of cost reduction. (Pearson, 2010).

The term "greenwashing" has no generally accepted definition. Oxford English Dictionary defines greenwashing as "disinformation spread by an organization to present an environmentally conscious public image". Some researchers use the Greenpeace organization's definition as "the act of misleading consumers about a company's environmental practices or the environmental benefits of a product or service." (Purnamasari and Umiyati, 2024) and (Gregory, 2024). According to another definition, greenwashing is the disclosure of social and environmental responsibility activities by businesses for the sole purpose of creating a favorable impression and manipulating existing or potential stakeholders. From an accounting perspective, greenwashing is an attempt to create an environmentally conscious image for stakeholders by presenting misleading, incomplete, or exaggerated information about a company's environmental performance or the environmental benefits of its products/services. This indicates that there is a decoupling between the company's actual environmental practices and the information it provides to the public or investors. The underlying theory is that businesses publish sustainability reports to create a green image, even if they do not actually have powerful performance in social and environmental areas. Greenwashing allows businesses to hide their negative environmental and societal impacts often by publishing only positive information. (Mahoney et al., 2013). In fact, greenwashing is not an unintentional mistake, but as a deliberate attempt to provoke stakeholders. (Pedersen and Andersen, 2023).

In greenwashing, businesses claim to be environmentally friendly but fail to deliver on these claims in reality; they often employ misleading advertising and public relations strategies to create the impression that companies offer environmentally friendly products or processes. Such practices can lead to environmental impacts being ignored simply to create an environmentally friendly image. (Purnamasari and Umiyati, 2024). Greenwashing is carried out through advertising, packaging, labels, and company sustainability reports. Companies often mislead consumers by advertising their environmental friendliness, seeking to gain a short-term competitive advantage (Liu et al., 2023).

In this respect, Volkswagen's "Dieselgate" scandal, which emerged in 2015, is one of the most striking examples of greenwashing. The company claimed its diesel vehicles were environmentally friendly, but it was found to have manipulated emissions during testing. Similarly, the fact that some fashion brands offer "sustainable collections," while not paying attention to environmental or social sustainability in their overall production policies has led to "ethical clothing" becoming a tool for greenwashing (Delmas and Burbano, 2011) and (Hotten, 2015).

Most researchers define greenwashing as environmental fraud or misleading environmental claims. However, some studies emphasize that greenwashing can be related not only to environmental but also to social issues. (Gatti et al., 2019).

Social vanity occurs when companies attempt to create a positive image with exaggerated or misleading statements about social responsibility issues while concealing actual social problems. (www.reprisk.com, 2025). On the other hand, greenwashing should not be seen merely as "misleading advertising"; it is also a strategy in which companies present only positive information about their environmental or social performance and conceal negative information. In this context, greenwashing can be understood not only as covering up negative information about environmental and social harm, but also as concealing the significance of these harms (Gatti et al., 2019).

A global study by RepRisk reveals that one out of four climate-related ESG risks in 2023 was linked to greenwashing. Furthermore, a significant correlation was found between greenwashing and social washing practices within publicly traded companies. Between September 2018 and September 2023, 31% of companies associated with greenwashing were also associated with social distancing. Globally, 55% of greenwashing cases also included a social component. By country, 44% of companies associated with greenwashing in the US and 39% in the UK have a history of social distancing, compared to 31% globally. While recent studies suggest that social washing is particularly focused on diversity and inclusion, the practice is also associated with various social issues, including human rights violations, corporate complicity, and employment discrimination. While greenwashing cases are on the rise globally, this practice has seen a significant increase in Europe and the United States, particularly in the banking and financial services sectors (www.reprisk.com, 2025). Chart 1 below lists the themes of social washing according to RepRisk.

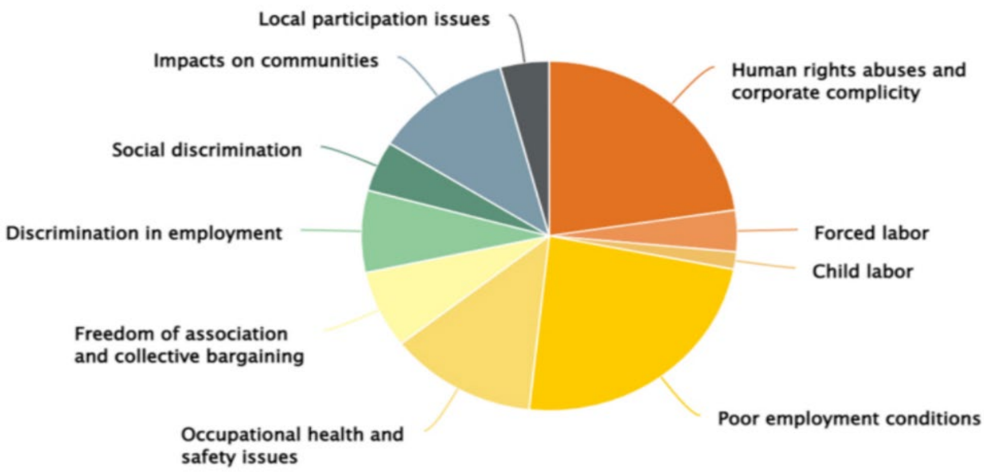

Chart 1: Social washing themes according to RepRisk
Source: (www.reprisk.com, 2025)

According to Chart 1, the most common social washing themes are human rights violations and corporate complicity. While greenwashing may potentially provide companies with a marketing and competitive advantage in the short term, it has been argued that in the long run, these strategies can have negative consequences for companies' reputations and sustainability goals.

3.2. Underlying Causes of Greenwashing

The reasons that lead businesses to greenwashing emerge in different ways. The main ones are listed below (Liu et al., 2023) and (Dempere et al., 2024) and (Sneideriene and Legenzova, 2025):

- **Creating Competitive Advantage:** Environmentally friendly products and services hold a significant place in today's consumer preferences, so companies can aim to gain a competitive advantage by adopting a greenwashing strategy. Companies use this strategy to differentiate themselves from their competitors and gain more market share in the short term by claiming to be environmentally friendly. Environmentally conscious consumers may increase sales of companies by turning to brands that give the impression of being environmentally friendly. However, greenwashing is limited to creating a seemingly environmentally friendly image, without achieving true sustainability performance.
- **Regulatory Pressures and Societal Expectations:** Governments and international authorities demand companies be environmentally responsible. Under these pressures, some companies may employ greenwashing strategies to appear to fulfill their environmental responsibilities rather than actually fulfilling them. Societal expectations of environmental responsibility may drive companies to adopt such misleading strategies.
- **Reputation Management and Investor Relations:** Companies aim to earn public trust by fulfilling their environmental responsibilities. An environmentally friendly image is a source of prestige, especially for large companies. While greenwashing may boost companies' reputations in the short term, it can also lead to a loss of trust in the long run. Companies that claim to be environmentally friendly through greenwashing, but

actually harm the environment, may be perceived as "fraudulent" by the public, damaging their reputations in the long run.

- **Financial Advantages and Marketing Strategies:** Companies attempt to attract consumers' attention by creating the impression that they are environmentally friendly through green washing. This impression can increase a company's market share and generate short-term financial gains. Eco-friendly products and sustainability-related products, in particular, are experiencing increasing demand in the market. Therefore, companies are using greenwashing strategies to generate financial gains and gain competitive advantage.
- **Government Incentives and Subsidies:** Government subsidies and incentives for environmental sustainability can motivate companies to take steps to improve their environmental performance. However, to secure these incentives, some companies may manipulate their environmental reports by applying greenwashing.
- **Financial Constraints and Lack of Resources**: Greenwashing is a strategy often employed by companies experiencing financial difficulties. If companies are unable to make the investments necessary to fulfill their environmental responsibilities, they often try to create the impression that they are environmentally friendly. This can make them more attractive and attract consumers in the short term.

3.3. Forms of Greenwashing

The forms of greenwashing, which have been further developed over time to help consumers recognize instances of examples of greenwashing in the marketplace, which have emerged as marketing deceptions, are listed in Table 1 below.

Table 1. Types of Greenwashing to Influence Consumer Perception

Greenwashing Style	Definition (Explanation)	Example
Hidden Compromise	Promoting a product as environmentally friendly by focusing on only a narrow environmental feature and ignoring its overall environmental impact.	While some paper products are claimed to be made from trees from sustainable forests, greenhouse gas emissions released during the production process or the chlorine used in bleaching cannot be ignored.
Lack of evidence	Environmental claims that do not have readily available supporting	Claiming to have a certain percentage of recycled content but providing no evidence of this percentage paper towels.

Greenwashing Style	Definition (Explanation)	Example
	information or are not verified by a reliable third-party certification.	
Uncertainty	The claim is made in a vague, unclear, or overly general manner, misleading the consumer.	The phrase "all natural" on the labels of some products is a phrase used without any concrete explanation or criteria. This is because substances such as uranium and mercury also occur naturally, but they are toxic. Being “natural” does not automatically mean “environmentally friendly.”
Indifference	This refers to making environmental claims that may be true but are minor and do not actually help consumers identify greener products	The statement that products do not contain "CFCs." This information does not offer any additional environmental benefits to the consumer, as CFCs (chlorofluorocarbons) are already prohibited by law.
Hiding the Worst Alternative	Claiming that one aspect of the product is better ignores other harmful aspects.	The fact that cigarettes are organic does not eliminate their fundamental environmental and health hazards.
Lie (fabrication)	Claims containing untrue information about the product's environmental qualities	Some products claim to have international certifications for energy saving, even though they actually do not have any.
Fake Approval	Deceiving consumers through misleading symbols, statements, or visuals that create the false impression of genuine environmental certification.	A paper towel product that claims to “fight global warming” with a symbol on its packaging that gives impression of fake certification.
Spreading fear	Environmental claims that create an artificial climate of distrust to create the impression that “not participating” in a business practice is risky or dangerous.	Some conventional car manufacturers are pushing consumers away from sustainable transportation choices by messaging about the inadequacy of charging infrastructure or high energy consumption of electric vehicles.
Broken promises	Businesses claim that their activities will bring wealth and development to people living in poor and rural areas, but these promises are often not fulfilled. On the contrary**,** these regions face irreversible environmental and social damage.	Some mining companies claim that they will create employment and develop infrastructure in the rural areas where they operate. But after the environmental destruction, the residents are **unemployed**, unhealthy and unsupported to be released.
Injustice	Instead of addressing the people affected by their activities, businesses focus on those from whom they get support, thus deepening environmental inequality and social injustice.	Oil and natural gas companies target urban and investment communities through advertising and information campaigns as a tool for environmentally friendly and economic development within the scope of rock cracking, which involves injecting a mixture of water, sand, and chemicals deep into the rocks at high pressure. However, people living in rural areas where the cracking process takes place are concerned about water pollution, air quality deterioration and are left with direct negative effects

Greenwashing Style	Definition (Explanation)	Example
		such as health problems.
Dangerous consequences	Environmental communication masks harmful consequences with a seemingly positive message.	An energy company announces investments in renewable resources while simultaneously conducting activities that release toxic waste in other regions.
Profiting at the expense of people and the environment	Companies aiming for profit at the expense of people and the environment.	A company emphasizes environmental awareness in its sustainability reports while simultaneously conducting projects that destroy nature in low-income areas or employing workers in poor conditions.

Source: Adapted from (Bradley, 2011) and (Netto et al., 2020)

Table 1 above is based on earlier studies and presents a consumer-oriented and ethically based classification. Another perspective is more business-oriented, which identifies the types of greenwashing. Later studies are more strategy-oriented and examine greenwashing through corporate strategies and communication tactics. These can be listed as in Table 2.

Table 2. Types of Greenwashing in Company Strategies

Greenwashing Type	Definition	Example
Greenlighting	Creating an environmentally friendly image by exaggerating environmental practices with limited impact.	The fact that ready-to-wear brand, which highlights a small collection of organic cotton, relies on child labor for its main production.
Greenhushing	Avoiding audits and criticism by deliberately concealing sustainability efforts.	The technology company that invests in energy in its data centers does not share this information in its sustainability report because it is afraid of criticism for its shortcomings regarding electronic waste.
Green rinsing	Avoiding accountability with ever changing ESG targets	Plastic polluting beverage company constantly changing its recycling targets without achieving them.
Green Orientation	Environmental responsibility to the consumer by loading the company’s own effect pushing into the background.	Bottled water brand calls on consumers to separate plastic but increases carbon emissions by transporting its product long distances.
Green Crowd	Avoiding individual responsibility by participating in a group or alliance.	Airline company 'zero emissions' alliance participation but takes no operational steps.
Green Labeling	Presenting the product/service as environmentally friendly with unverified, vague environmental claims.	Cosmetic brand '100% natural content' claim carries but contains toxic ingredients and the claim is uncertified.

Source: https://www.narterlaw.com/greenwashing-yesil-aklama-turleri/ and https://www.winssolutions.org/tr/yesil-yikamanin-6-turu-sirketler-surdurulebilirlik-konusunda-halki-nasil-yaniltiyor/

As can be seen from Table 2, each type of greenwashing demonstrates how stakeholders are misled by manipulating companies' sustainability claims.

3.4. Impacts of Greenwashing on Society, Institutions and Consumers

The effects of greenwashing are not limited to the accuracy of companies' environmental claims; they have multi-layered and profound effects on consumers, companies, and society. These effects are detailed below (Gatti et al., 2019):

- Greenwashing is a serious problem, not only challenging the veracity of companies' environmental claims but also having multifaceted effects on consumers, companies, and society. From a consumer perspective, the discrepancy between companies' environmental rhetoric and their actual practices leads to a loss of trust. This creates confusion, negative impacts purchasing decisions, and weakens brand loyalty, especially among individuals with high environmental awareness. When consumers encounter such deceptive approaches, they may perceive the brands as insincere and fraudulent, damaging their reputation in the long run. Furthermore, the "green trust" bond established between companies and consumers is damaged, and societal trust in environmental rhetoric can also be undermined.
- While greenwashing may initially create a positive image for companies, they can eventually pose risks to corporate credibility and financial stability. Increased public awareness leads to closer scrutiny of companies' sustainability claims, and any discrepancies quickly become apparent. This can undermine trust not only with external stakeholders but also with employees within the company. Conflicts at the management level can lead to internal crises and a loss of faith in sustainability within the organization.
- At the societal level, greenwashing threatens the credibility of environmentally responsible collective efforts. False sustainability rhetoric undermines faith in the sincerity of environmental movements, leading to a decline in civic engagement and hindering the spread of environmental awareness. For actors such as civil society organizations, investors, and environmental organizations, in particular, such deceptive practices re-examine their relationships with corporations. This process, far from

achieving the intended environmental benefits, conceals harmful impacts, facilitating the emergence of even greater ecological crises.

- Furthermore, greenwashing can have serious legal consequences for companies. Environmentally friendly claims that mislead consumers can be subject to legal penalties under advertising and marketing regulations. This not only complicates companies' compliance processes but also further damages their reputation during times of crisis. Consequently, greenwashing is not only an unethical marketing strategy but also a serious threat to the principles of trust, transparency, and sustainability.

3.5. Financial Impacts of Greenwashing on Businesses

The effects of greenwashing on financial reporting emerge in various dimensions listed below.

- **Reliability of Financial Statements:** The omission of environmental risks and investments from financial statements creates "silent liabilities" on a company's balance sheet and income statement. For example, if the potential risk of a fine for a production facility that fails to comply with carbon emission limits is not included in the reports, the financial statements will not reflect the truth. (Herzig and Schaltegger, 2006).
- **Investor Confidence:** Green marketing practices influence investors' investment decisions based on environmental sustainability. Bonds labeled "green" or companies with high ESG scores may be perceived as lower-risk and ethical investments. However, if this perception is based on manipulated statements, investor confidence is eroded, creating ethical crises in the market (Lyon and Montgomery, 2015).
- **Corporate Reputation and Financial Performance:** Greenwashing scandals can lead to sudden declines in a company's share value. For example, Volkswagen lost over 40% of its market value after its emissions scandal in 2015, demonstrating the direct financial impact of misleading environmental claims (Hotten, 2015).
- **Cost of Capital:** There is no evidence that greenwashing itself directly affects the cost of capital. However, ESG scores are associated with lower costs of debt and lower costs of equity. Firms with green redesigns may achieve lower costs of debt due to higher

ESG scores and may benefit from this by using more debt to lower their overall weighted average cost of capital (Gregory, 2024).

- **Risk Profile:** Greenwashing increases firm-specific or non-diversifiable risk. Firms undergoing greenwashing experience more ESG-related controversies, which can harm the firm's revenue and market value. The increased likelihood of future ESG-related controversies also supports the notion that greenwashing constitutes a unique source of risk. For investors, greenwashing masks the company's risk exposure, leading to underpricing of capital and, consequently, inefficient capital allocation. In developed markets, ESG activities are associated with lower capital costs and, consequently, lower systemic risk. Greenwashing has no overall impact on systemic risk (Gregory, 2024).

In addition, the effects of greenwashing on financial performance metrics can be listed as follows (Gregory, 2024):

- **Return on Equity (ROE):** Companies that have undergone greenwashing tend to have lower return on equity. There is a consistently negative correlation between greenwashing and return on equity. This can reduce consumer trust in companies, impacting their purchasing behavior and, consequently, affecting a company's revenue level and volatility.
- **Free Cash Flow to the Firm (FCFF):** Greenwashing has a mixed relationship with free cash flow to the firm. Greenwashing is associated with higher free cash flow for firms that engage in greenwashing, while brownwashing (which does not promote its environmental activities) is associated with lower free cash flow for firms that do not promote their green activities. Firms that engage in greenwashing can offset the negative effects on return on equity with short-term cash flows by reinvesting less and borrowing for asset depreciation.
- **Tobin's Q:** The greenwashing variable has a positive and significant coefficient on Tobin's Q, indicating that firms with a high level of greenwashing are associated with higher long-term value. In emerging markets, ESG activities are associated with Tobin's It positively affects Q and adds value to the firm.
- **Feedback Loop with ESG Ratings:** The fact that ESG rating firms place a higher weight on environmental and social communications and fail to account for the

possibility of greenwashing could create a feedback loop that encourages green-making firms to increase their greenwashing efforts to achieve higher ESG ratings.

As a result, greenwashing can be used as a tool to reduce firms' capital costs and improve their financial performance, but they can also create a hidden source of risk that can expose shareholders and creditors to large value fluctuations. This can lead to firms becoming "addicted" to improving their financial performance by improving their ESG scores through greenwashing (Gregory, 2024).

4. TRANSITION FROM GREENWASHING TO GREEN TRUSTGREEN TRUST

Trust can be defined as the degree of willingness to believe in another party based on expectations regarding that party's competence, reliability, and benevolence. Based on this definition, the widely accepted definition of green trust was established by Chen (2010). According to this, "green trust" is defined as "the willingness to trust a product, service, or brand based on belief or expectation derived from its environmental performance, benevolence, and competence." In studies, Chen's definition is used as a reference to measure green trust, and the measurement consists of the following five items (Chen and Chang 2013):

- You believe that the environmental image of this product is generally reliable.
- You think that the environmental functionality of this product is generally reliable.
- In general, you believe that this product's environmental claims are reliable.
- This product's environmental performance meets your expectations.
- This product delivers on its promises regarding environmental improvement.

The process of transitioning from a business that applies "greenwashing" to a business that builds "green trust" means ensuring transparency and abandoning the misleading and deceptive practices that form the basis of greenwashing. As can be understood from the explanations above, greenwashing has an adverse effect on green trust. Therefore, transparency in the transition to green trust is critical to reversing this negative impact mechanism. The transition from greenwashing to green trust —that is, companies' trustworthiness in environmental matters and their shift away from greenwashing actions— will be possible only if they adopt a transparent, accurate, and action-based approach. Several factors that can facilitate this transition can be listed as follows (Purnamasari and Umiyati, 2024) and (Gregory, 2024), (Leblebici and Koçer, 2024), (Uğurlu, 2024):

- **Transparency and Accuracy:** Providing accurate and verifiable information about companies' environmental and social activities is crucial for building green trust. Companies should be encouraged to report transparently on their environmental responsibilities and sustainability practices. Environmentally friendly claims should not be used solely for advertising purposes; they must be accurate, based on verifiable data, and reported transparently. All data should be presented clearly, without omitting negative environmental information. Standardized and reliable indicators reduce the risk of greenwashing and increase transparency and comparability. In this context, it is essential that sustainability information be integrated with financial reporting and presented in a verifiable manner. Furthermore, the company providing the product or service must ensure that it complies with the law and ethical principles regarding greenwashing.
- **Standardized and Reliable Indicators:** The lack of standardized and reliable indicators in areas such as financial products increases the risk of greenwashing. Standardized indicators, such as lifecycle-based environmental and social impact indicators that can be adapted for sustainability assessment, can increase transparency and comparability.
- **Effective Internal Audit and Control Systems:** The effectiveness of internal audit systems plays a critical role in preventing greenwashing. Companies with strong internal audit systems can more transparently audit the accuracy of environmental commitments and prevent misrepresentations. Greenwashing can also negatively impact companies' internal audit processes. While internal audit plays a critical role in ensuring the accuracy of companies' financial and operational processes, greenwashing practices can undermine the effectiveness of this process. Weak internal control and internal audit systems can cause companies implementing greenwashing to fail to monitor their environmental commitments and even lead to environmental impacts being overlooked and failures to meet sustainability targets being recognized. Greenwashing practices create opportunities for companies to fail to fulfill their

environmental responsibilities, and deficiencies in internal audit mechanisms exacerbate this situation. Consequently, greenwashing facilitates companies' failure to meet their environmental commitments, while weak internal control and internal audit processes also lead to significant gaps.

- **Harmonized Regulations with International Legislation:** The role of the government and regulatory bodies in combating greenwashing is crucial. Independent audits and compliance with international regulations are key tools in preventing greenwashing, and reporting processes should be shaped not only by companies' own initiative but also by legal regulations.
- **Comprehensive and Standardized Reporting:** Comprehensive and standardized reporting of sustainability information ensures its integration with financial reporting. This reporting framework should be determined by the legal authority to be compliant, comparable, and consistent with international regulations and updated as necessary. Businesses need to report their non-financial (environmental, social, and governance - ESG) data in a more formal, comprehensive, and standardized manner. Numerous standards or frameworks exist globally that can provide guidance for sustainability reporting and contribute to a more balanced and fair view by providing a framework for sustainability reporting. In this context, integrating sustainability information with financial reporting and presenting it in a verifiable manner is essential. Therefore, new-generation sustainability reporting standards, such as IFRS S1 and S2 developed by the International Financial Reporting Standards Board (IFRS Foundation), aim to achieve this integration and prevent greenwashing. International agreements and regulations (e.g., EU sustainable finance action plan, EU Green Deal) also encourage companies to provide information about their sustainability commitments and greenhouse gas emission reductions.
- **Substantive Disclosures and Performance:** Focus on substantive environmental disclosures rather than symbolic actions ("green talk"). Symbolic actions have been found to be negatively correlated with financial performance. Corporate social responsibility practices should reflect genuine and strong social and environmental records, not simply to look "good."

- **Avoiding Selective Disclosure:** Businesses should avoid selectively disclosing only positive information about their environmental performance without disclosing negative information. Companies in countries with greater scrutiny and global standards are less likely to engage in selective disclosure, suggesting that external auditing increases transparency.
- **Independent Audits and Ratings:** Independent sustainability audits and ratings help prevent greenwashing. To prevent greenwashing, sustainability reporting must be verified by independent audits. Auditing processes and procedures to ensure this verification must be clearly defined, and authorized auditors must hold the necessary certification and update their knowledge through ongoing training.

As can be seen from the explanations above, effectively combating greenwashing is possible not only through strengthening internal company transparency and oversight mechanisms, but also through the effective functioning of national and international frameworks developed by legal authorities. This fight also necessitates a multi- stakeholder structure that requires constant review.

5. LEGAL LEGISLATION ON TRANSITION FROM GREENWASHING TO GREEN TRUST IN TÜRKİYE

In Türkiye, where international regulations are rapidly being transposed into national legislation, the fight against greenwashing has begun to take its place in legal regulations. This process is crucial for companies to fulfill their reporting obligations and strengthen their infrastructure (borsaistanbul.com, 2025). In this context, the steps taken and regulations introduced in our country to combat greenwashing are as follows:

- Regulations of the General Directorate of Consumer Protection and Market Surveillance under the Ministry of Trade
- National Green Taxonomy
- Sustainability reporting and auditing legislation put into effect by the POA (KGK) as the legal authority.
- Guidelines and circulars published by the CMB (SPK)
- BRSA (BDDK) published communiqués.

In general, a regulatory and supervisory framework for sustainability is emerging, but as definitions of sustainability become clearer, consumer/investor awareness increases, and regulations expand, greenwashing will diminish.

5.1. Public Oversight Accounting and Auditing Standards Authority

The Public Oversight, Accounting and Auditing Standards Authority (POA-KGK) has assumed a central role in the management of the reporting and auditing of sustainability information and is authorized to determine and publish the Turkish Sustainability Reporting Standards (TSRS) to ensure the compliance and validity of sustainability reports with international standards. POA's standard-setting efforts parallel those of the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB). POA began publishing the TSRSs by incorporating these international standards into Turkish legislation in 2023. The Turkish Sustainability Reporting Standards (TSRS), published by POA, are fully compatible with the International Sustainability Reporting Standards and establish the legal and technical framework for sustainability reporting in Türkiye (kgk.gov.tr, 2024).

Corporate sustainability reporting obligations in Türkiye are determined by quantitative thresholds set under the Turkish Sustainability Reporting Standards (TSRS). Companies that, for two consecutive fiscal years, meet at least two of the following three criteria.

(i) total assets of five hundred million Turkish Lira,

(ii) annual net sales revenue of one billion Turkish Lira and

(iii) an average workforce of 250 employees

are required to prepare sustainability reports in compliance with TSRS 1 (general sustainability disclosures) and TSRS 2 (climate-related disclosures). Entities outside the mandatory scope may adopt the standards voluntarily. Beginning in September 2024, these reports must also be subjected to an independent assurance engagement to enhance credibility and combat greenwashing. Limited assurance will initially be provided under GDS 3000 (“Assurance Engagements Other than Audits or Reviews of Historical Financial Information”) and GDS 3410 (“Assurance on Greenhouse Gas Statements”) until the forthcoming SGDS 5000 standard is issued.

From the standpoint of preventing greenwashing, TSRS 1 and TSRS 2 transform greenwashing discourses from empty promises to concrete reality. It establishes a transparent, comparable, and verifiable annual reporting system that transforms the company into a statement and serves the purpose of ensuring reliable sustainability in the Turkish capital markets. In this regard, it is considered an important guide in meeting the need for transparency against greenwashing. Furthermore, making sustainability reporting mandatory and standardized for certain businesses will enable companies to present their sustainability performance in a transparent and comparable manner, thus preventing greenwashing.

5.2. National Green Taxonomy

One of the important tools to combat greenwashing in Türkiye's green transformation process is the Green Taxonomy. The Green Taxonomy considers environmental and social impacts of economic activities. It can be defined as a system that classifies what is considered “environmentally sustainable” with objective criteria and is applied in the EU as EU Taxonomy It is being developed specifically for Türkiye, taking Regulation as an example.

To accelerate its green transformation in line with its sustainable development goals, Türkiye has made the creation of a national green taxonomy a strategic priority with its Twelfth Development Plan covering the 2024–2028 period and its Medium-Term Program covering the 2025–2027 period (narterlaw.com, 2024). This approach was supported by the Green Deal Action Plan published in 2021, which clearly outlined Türkiye's commitment to accelerating the transition to a low-carbon economy and aligning with European Union climate standards (csb.gov.tr, 2024).

Green taxonomy enables investors to make informed decisions about sustainable investments through technical criteria and therefore greenwashing (Ministry of Environment, Urbanization and Climate Change, 2024). Türkiye's approach in this area is particularly aimed at institutions that are obliged to report under the Turkish Sustainability Reporting Standards

(TSRS). The economic activities of these institutions are classified, reported, and verified in terms of environmental impacts (Istanbul Trade Newspaper, 2024).

According to the National Green Taxonomy, for an economic activity to be considered environmentally sustainable, it must meet the four basic conditions shown in Figure 1 below (csb.gov.tr, 2024).

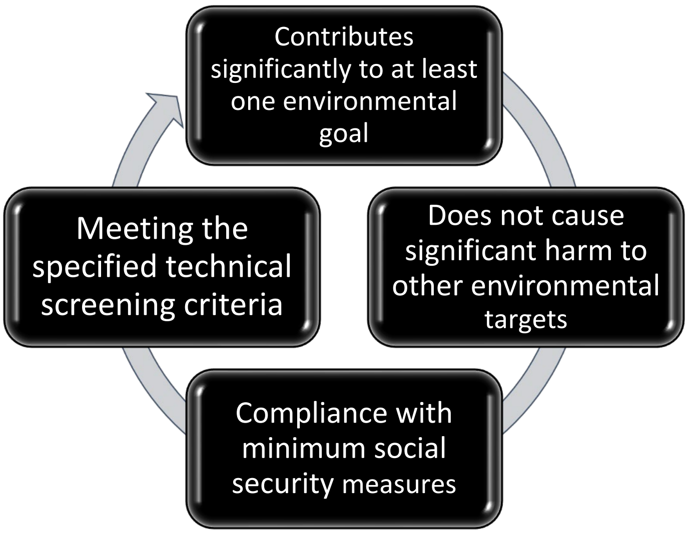

Figure 1: Criteria for eligible economic activities according to the Green Taxonomy (csb.gov.tr, 2024).

The criteria shown in Figure 1 have a structure parallel to the EU Green Taxonomy. Türkiye has also established six environmental targets, which are used as the basis for assessing sustainable activities, as shown in Figure 2 below:

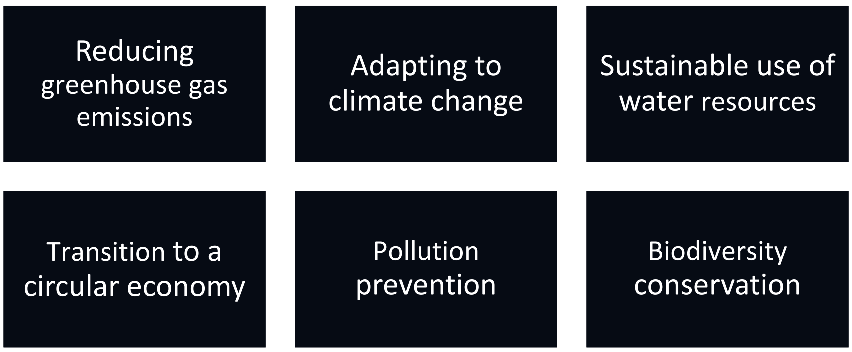

Figure 2: Environmental targets set in the Green Taxonomy
Source: (csb.gov.tr, 2024).

The Turkish Green Taxonomy plays a critical role in the country's sustainable growth strategy. Thanks to this system (csb.gov.tr, 2024) and (yesilbuyume.org, 2024):

- Contribution is made to the Paris Climate Agreement targets,
- Harmonization with the EU is being facilitated,
- Green financing instruments are encouraged,
- Transparency and investor confidence are increased,
- Greenwashing is reduced.

In Türkiye, the "Green Taxonomy Regulation" is not a directly adopted but the comprehensive Climate Law Proposal that includes the legal infrastructure to establish the Green Taxonomy system, was approved by the Turkish Grand National Assembly and became law on July 2, 2025. This law elevates the Climate Change Presidency's authority to officially establish and implement the Green Taxonomy to the legal level. Thus, it grants the Climate Change Presidency the authority to establish and implement the "Türkiye Green Taxonomy" system.

5.3. Capital Markets Board (CMB-SPK)

The legal regulations introduced by the Capital Markets Board within the scope of combating green make-up are listed below:

- Sustainability Principles Compliance Framework in Turkish capital markets (2020)
- Communiqué on Amendments to the Corporate Governance Communiqué (II-17.1) (II-17.1.a) (2020)
- Sustainability-Linked Capital Market Instruments Guide (2024)
- Draft Guide to Green, Sustainable and Social Capital Market Instruments

5.3.1. Sustainability Principles Compliance Framework

CMB published the Sustainability Principles Compliance Framework in Türkiye's capital markets in 2020. The KAP Sustainability Reporting Template, based on this framework, broadly covers environmental, social, and corporate governance principles. This framework recommends that sustainability performance measurements be verified by an independent third party and publicly disclosed. While implementation of the principles within the framework is voluntary, reporting on whether they are implemented is mandatory using the "Compliance or Explain" principle. This declaration is required to clearly state the reasons for non-compliance with the principles and the impact of this on environmental and social risk management. The functions of this framework within the scope of combating greenwashing can be listed below (CMB, 2020):

- Based on the "comply or explain" principle, businesses are encouraged to provide explanations based on concrete reasons rather than empty environmental rhetoric. Therefore, if a company fails to comply with the principle, they are required to publicly disclose the reasons for non-compliance, the consequences, and the measures they have taken. They cannot engage in greenwashing.
- On the other hand, it imposes an obligation on companies to express their sustainability activities with concrete data rather than ambitious and abstract statements and to prove this when necessary.
- The framework encourages companies to have their sustainability reports verified by independent third parties. Verified information is crucial for corporate transparency, and external auditing builds investor confidence. Therefore, it aims to increase investor and stakeholder confidence by encouraging businesses to avoid manipulative rhetoric like greenwashing.

5.3.2 Communication on Amendments to the Corporate Governance Communication (II-17.1) (II-17.1. a)

Corporate governance principles were incorporated into legislation by the Capital Markets Board (CMB) in 2003 and their scope expanded. Some corporate governance principles have become mandatory for publicly held companies. CMB legislation mandates the establishment of specific board committees (such as the Corporate Governance Committee). Transparency and good governance, among the corporate governance principles, are the main factors preventing greenwashing in general. In October 2020, the Capital Markets Board made a significant amendment to the Corporate Governance Communiqué (II-17.1) to align capital markets in Türkiye with sustainability principles. This amendment aims to increase the transparency of publicly held companies regarding environmental, social, and corporate governance (ESG) issues (CMB, 2020). This amendment added articles 1 and 8 of the

Communiqué and integrated the Sustainability Principles Compliance Framework into the Communiqué. Sustainability principles are now applicable to all publicly held companies, barring certain exemptions. Except for some companies whose shares are only traded on limited markets and platforms, all publicly held companies listed on the stock exchange are required to report on these principles. Partnerships are required to disclose the following elements in their annual activity reports (Resmi Gazete, No. 31262, 2020):

- Whether sustainability principles are implemented,
- If not implemented, reasons,
- The effects of non-implementation of the principles on environmental and social risk management.

These provisions aim to strengthen investor confidence by emphasizing transparency and accountability. By requiring businesses to disclose their activities with reports based on concrete data and justification, they function as a shield against greenwashing and enable businesses to monitor the accuracy of their social impact disclosures, in addition to their environmental impacts.

5.3.3. Sustainability-Related Capital Market Instruments Guide

CMB published the "Draft Guide for Sustainability-Linked Capital Market Instruments" to the public on September 6, 2024, for public comment. The Guide sets out the principles and guidelines for domestic and international issuances of sustainability-linked capital market instruments. The purpose of the Guide is to ensure that such issuances comply with international standards, to ensure compliance, increase transparency and comparability, and strengthen the role of sustainability in company financing. The guide includes the selection of key performance indicators, determination of sustainability performance targets, reporting and verification as well as the rules to be followed by organizations details important components such as verification and includes the rules that organizations providing external evaluation services. (CMB, 2024a)

The Guide plays a critical role in preventing greenwashing practices. They explicitly state that sustainability-related and equivalent terms cannot be used for capital market instruments not issued within the scope of the Guidelines, thus preventing greenwashing.

The Guide mandate independent verification opinions, one of the most critical mechanisms for preventing greenwashing. Issuers are required to obtain and publicly disclose independent verification opinions regarding performance evaluation reports and the achievement of Sustainable Performance Goals. This verification examines whether performance on each Key Performance Indicator aligns with the Guidelines after the issuance. Therefore, external assessment providers must be independent of the issuer's advisory body. Compliance with internationally recognized professional standards is particularly mandatory for verification providers. These requirements ensure independent and professional oversight of greenwashing claims, ensuring the quality and reliability of assessments (CMB, 2024a).

Ultimately, when all these components come together, the Guidelines aim to significantly reduce the risk of greenwashing in the market by requiring companies to make genuine commitments when providing sustainability-related financing, to ensure that these commitments are measurable and verifiable, and to be reported transparently to the public.

5.3.4. Green, Sustainable and Social Capital Market Instruments Guide Draft

This guide details the principles and fundamentals regarding the issuance of green, sustainable and social capital market instruments in Türkiye and determines the objectives, scope and basis of financial instruments, as well as the use of funds, project evaluation and selection processes, fund management and financing. It also explains the basic components such as management and reporting (CMB 2024 b). This draft guideline explains that financing provided through capital market instruments:

- Environmental (green),
- Social or
- It is designed to ensure that it is directed towards both environmental and social (sustainable) projects.

CMB ensures that investors investing in these instruments are correctly informed and green- faced. It aims to reduce risk. Four basic principles must be followed in the issuance and use of these capital market instruments (CMB 2024 b):

Identification of Suitable Projects: Proceeds from capital market instruments should be directed only to eligible projects of an environmental, social, or sustainable nature. These projects should be identified in advance and clearly communicated to investors.

Thus, by clearly defining the project types, uncertain or questionable projects are excluded from the scope and thus greenwashing activities of the enterprises are prevented.

Revenue Management: Proceeds from issuance should be transparently monitored, and any unused revenue should be invested in short-term environmentally/socially compatible instruments. Records of the timing and amount of revenue/expenditures can be tracked to ensure that funds are actually allocated to the announced projects. This allows investors to verify that their money is truly going to sustainable projects.

Reporting: It should include how the revenues are used, which projects they are allocated to and the impacts achieved, and the impact assessment methodology should be explained (for example: carbon footprint reduction, number of beneficiaries).In this way, sustainable activities, not just in appearance but in reality, are evaluated transparently, thus preventing greenwashing.

External Evaluation (Second Party (Opinion): It is recommended that the suitability of the submitted projects be verified by an independent organization. These organizations assess the environmental/social impact and suitability of the project. This way, the existence of a green project is proven based on an independent report.

The Capital Markets Board (CMB) published the Responsible Management Principles for funds managed by portfolio management companies in 2024. These principles aim to ensure that the assets of securities investment funds are invested, managed, and overseen responsibly, a step toward preventing the greenwashing of financial products.

5.4. Banking Regulation and Supervision Agency

There is a need for a strong financial sector that can accurately analyze the risks and opportunities associated with climate change and provide cost-effective financing for sustainable projects. In this regard, the financial sector, especially the banking system, plays a critical role. The BRSA participates in sustainability action plans implemented in collaboration with various institutions.

Within the scope of the "Green Deal Action Plan" published in July 2021, the BRSA was tasked with preparing a "Sustainable Banking Strategy Document." The primary objective of this document is to determine the general strategies and policies required for the Turkish banking sector to establish a sustainable banking infrastructure in the coming period. The document outlines approach to the procedures and principles banks will use in their sustainability activities, within the framework of international standards and practices. The document also outlines general approaches to managing sustainability risks. In this context, the fundamental principles are established for the quantification, measurement, and analysis of the Turkish banking sector's "climate-related financial risks," which are categorized as physical, transition, and reputational risks. The policies outlined in the Strategy Document aim to develop sustainable banking activities while also preserving the sector's financial soundness.

The important objectives in the field of sustainability in the Turkish banking sector can be summarized as follows (www.bddk.org.tr , 2025).

- Effective Management of Financial Risks Encountered in the Climate Change Process
- Developing Sustainable Finance
- It aims to increase cooperation with relevant parties in the field of sustainable finance.

With this strategy and action plan, the BRSA is in the process of establishing a regulatory infrastructure aimed at building institutional capacity, strengthening the banking sector's risk management, promoting sustainable finance, and ensuring compliance with international norms. Within the scope of the Sustainability Action Plan, action plans have been developed to facilitate access to international funds for sustainability purposes to facilitate access to sustainable finance. One of these action plans, "Action 2.2.2," includes working to ensure uniform implementation of second-party review services to provide verification of sustainable activities, with the aim of preventing greenwashing activities. This demonstrates that the BRSA is also participating in concrete action aimed directly at combating greenwashing (www.bddk.org.tr , 2025).

Meanwhile, the "Circular on the Calculation of Banks' Green Asset Ratio-(GAR)" was published in the Official Gazette prepared by the BRSA on April 11, 2025. The Circular's purpose is to establish the procedures and principles for calculating and reporting the green asset ratio and other key performance indicators established to measure banks' contribution to the financing of environmentally sustainable economic activities. Accordingly, it has become obliged to report the Green Asset Ratio, which measures the share of assets in the total balance sheet (Resmi Gazete, No: 32867, 11/04/2025). GAR covers only activities that make a significant contribution to environmental goals, do not cause harm and meet minimum social standards.

The Circular on the Calculation of Banks' Green Asset Ratio establishes a binding framework aimed at reducing greenwashing risks in the financial sector and mandating that banks measure their actual contributions to environmental sustainability. According to the Circular, each bank is required to calculate and disclose to the public its "Green Asset Ratio," which shows how much of the assets on its balance sheet are truly environmentally sustainable.

The Circular makes a distinction between **"eligible assets"** and **"aligned assets"** which are in the calculation of banks' Green Asset Ratio (GAR):

Eligible Assets are the sum of on-balance sheet financial assets (measured at amortised cost) and related to all economic activities that fall under the technical screening criteria.

Among the eligible assets, the total of on-balance sheet financial assets related to activities that simultaneously meet the following three conditions are the aligned assets. GAR is calculated only by considering certain assets as "aligned," and the three conditions are:

- the assets must contribute significantly to at least one environmental objective, such as mitigating climate change, adapting to climate change, circular economy, preventing pollution, or protecting biodiversity,

- it must not cause significant harm to other environmental objectives, and
- it must fully comply with minimum social security standards covering human, worker, and consumer rights.

Banks must prove that these criteria are met with documents such as emissions or energy efficiency reports, feasibility analyses, internationally recognized green certificates, and reports approved by accredited independent verifiers, and keep these documents ready for audit. In addition, banks are required to establish databases to collect the data underlying the GAR calculation, set up classification, monitoring, and control processes, and report regularly to the BRSA starting June 30, 2025; the Board may vary the reporting frequency according to the size and type of the bank. The BRSA may set minimum thresholds and targets for GAR and other performance indicators and may impose sanctions, including additional capital requirements, on banks that fail to meet these targets. This regulation goes beyond voluntary "green" labeling by combining quantitative reporting, independent verification, and potential audit sanctions, effectively limiting greenwashing by encouraging banks to truly finance sustainable economic activities.

In addition, the Board is authorized to define new key performance indicators other than the green asset ratio based on different data and to create reporting obligations regarding them.

The BRSA is also involved in actions such as requiring banks to obtain sustainability compliance reports and carbon emission data from their credit customers and strengthening the regulatory infrastructure to align the banking sector's ESG practices with internationally accepted standards. These steps aim to accelerate the banking sector's sustainability transformation within the real sector while also helping to manage the risks of greenwashing that may arise during this process.

5.5. Regulation of the General Directorate of Consumer Protection and Market Surveillance under the Ministry of Trade

The Advertising Board, operating under the Ministry of Trade, issued the Guidelines on Advertisements Containing Environmental Declarations ("Guidelines"), which entered into force on December 13, 2022, as a guide to combating greenwashing.

The primary purpose of the Guide is to ensure that advertisements containing environmental claims are accurate, clear, and scientifically based, and to prevent misleading, exaggerated, or ambiguous “green” claims. To this end, it establishes criteria to limit businesses' attempts to portray their products or services as more environmentally friendly than they are (greenwashing).

The Environmental Claims Guide is a comprehensive tool that transforms not only advertising control but also the understanding of sustainability in the market. The Guide:

•Prevents unfair competition through unmeasurable or exaggerated “green” claims by ensuring Market Discipline,

•Creates Consumer Confidence by promoting verifiable environmental claims and conscious product choices,

•Guides companies towards real environmental investments in production and supply chains by improving Corporate Responsibility and reporting processes,

•Increases export and investment attractiveness by establishing parallelism with EU and ISO standards through International Compliance,

•Strengthens the questionability of environmental claims and the culture of demanding proof by creating Social Awareness.

This multi-layered approach creates a preventive, deterrent, and transformative impact in combating greenwashing in Türkiye.

6. COMPARISON OF TÜRKİYE'S REGULATIONS WITH OTHER INTERNATIONAL REGULATIONS

The comparison of regulations developed in Türkiye to combat greenwashing with international regulations can be addressed in two dimensions. The first is the Comparison of the EU Green Taxonomy and the Turkish National Green Taxonomy, shown in Table 3. The second is the Comparison of IFRS S1–S2 Standards and TSRS 1–2 Standards shown in Table 4.

Table 3. Comparison of the EU Green Taxonomy and the Türkiye National Green Taxonomy

Dimension	EU Green Taxonomy	Türkiye National Green Taxonomy	
Legal Status	Entered into force in 2020; legally binding for EU member states.	Legal basis completed with the 2025 Climate Law; implementation phase ongoing (draft guidance documents published).	
Core Principles	"Significant Contribution," "Do No Significant Harm," "Minimum Safeguards."	Adopts the same three core principles; four basic conditions and six environmental objectives parallel to the EU model	
Environmental Objectives	Six objectives (climate change mitigation, climate change adaptation, sustainable use of water and marine resources, circular economy, pollution prevention, biodiversity protection).	The same six objectives are defined in the Turkish framework	
Technical Criteria	Sector-specific technical screening criteria developed by the European Commission.	Sector-specific criteria are under development; entities subject to TSRS reporting are the initial priority	
Reporting Obligation	Mandatory for companies under CSRD/SFDR.	Mandatory for companies exceeding TSRS thresholds; coverage not yet as broad as in the EU.	
Purpose	Direct sustainable investments and prevent greenwashing in financial products	Provide transparent information to investors, facilitate EU alignment, and improve access to green finance.	

Table 4. Comparison of IFRS S1–S2 Standards and Türkiye TSRS 1–2 Standards

Element	IFRS S1 / S2 (ISSB)	TSRS 1 / 2 (Türkiye)
Objective	S1: General sustainability disclosures; S2: Climate-related financial risks and opportunities	TSRS 1 and 2 pursue the same objectives and are based on IFRS S1 and S2
Scope of Application	Global application to listed companies and voluntary adopters	Mandatory for Public Interest Entities and companies that, for two consecutive years, meet at least two of the asset, revenue, or employee thresholds
Disclosure Structure	Four pillars: governance, strategy, risk management, metrics & targets	Adopts the same four-pillar framework
Sector Guidance	Technical guidance derived from SASB's 77 sub-sector standards	TSRS guidance adapts ISSB sector-based guidance to the Turkish context.

Assurance Requirement	ISSB encourages third-party assurance; implementation depends on national law	Independent limited assurance mandatory from September 2024 (GDS 3000/3410 standards).
Language & Reporting Format	IFRS reporting language and global disclosure formats	Reports prepared in Turkish but fully aligned with IFRS indicators.

As can be seen from the two tables above Türkiye's developing sustainability regulations are compliant with global standards. The National Green Taxonomy, while adopting the principles of "significant contribution–no significant harm–minimum protection" and six environmental objectives from the European Union Green Taxonomy, is still in draft form and awaits full legal guarantees under the 2025 Climate Law. Similarly, the Turkish Sustainability Reporting Standards (TSRS 1–2) are almost fully aligned with the ISSB's IFRS S1 and S2 standards in terms of content and terminology; however, the implementation start date and threshold for obligations in Türkiye are determined based on asset–sales–employee criteria. Furthermore, the CMB's Sustainability-Linked Capital Market Instruments Guide demonstrates a commitment to aligning with the best international practices in financial markets, paralleling the ICMA Green Bond Principles. This comparison places the Turkish example within the context of global sustainable finance discussions, illustrating how developing countries adapt global norms to their local institutional structures.

The transition process from greenwashing to green trust, along with the results of the application, can be schematized as shown Figure 3 below.

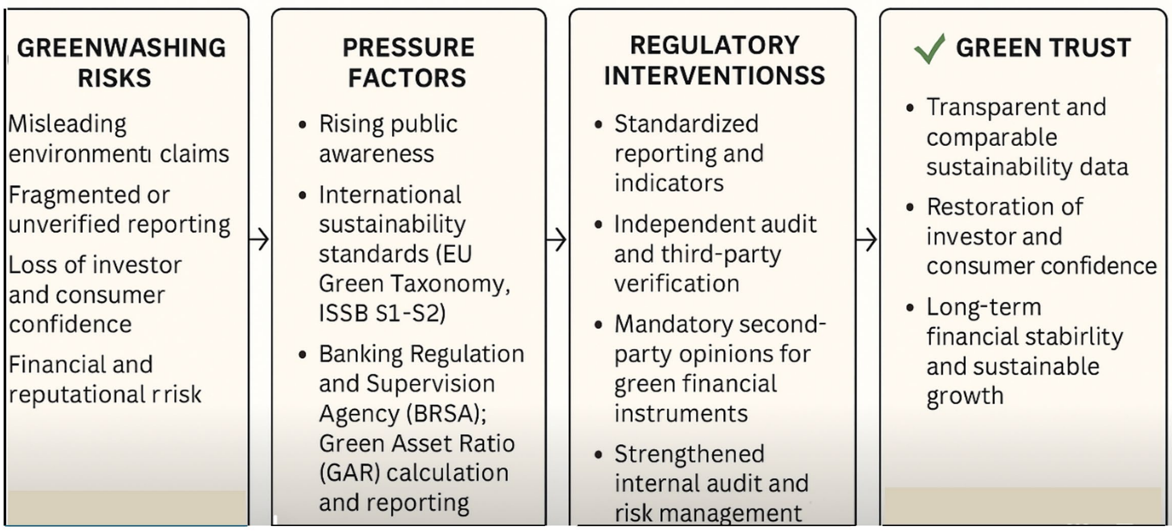

Figure 3: The transition process from greenwashing to green trust

As a result, Figure 3 shows the roadmap for the transition from greenwashing to green trust. The loss of trust caused by misleading environmental claims triggers regulatory interventions due to increased public awareness and pressure from international standards, forcing companies to implement standardized reporting, independent auditing, and risk management measures. Once this process is complete, transparent and comparable sustainability data is provided, supporting both investor and consumer confidence as well as long-term financial stability.

7. CONCLUSION

Today greenwashing is more than a marketing tactic; it damages long-term financial performance, weakens investor confidence, erodes public environmental awareness, and undermines corporate trust. Greenwashing involves not only misleading environmental claims but also related social, ethical, and governance issues. Therefore, it must be addressed simultaneously.

The strengthening of sustainability legislation in Türkiye in recent years marks a significant milestone in the fight against greenwashing. The TSRS 1 and TSRS 2 standards published by the POA standardization of sustainability reporting and its inclusion in assurance audits meet the need for transparency in this area. The strengthening of the Sustainability-Related Capital Market Instruments Guide and the Green Taxonomy studies published by the CMB at the regulatory level increases the verifiability of environmental claims and prevents misleading practices. Furthermore, BRSA regulations, such as sustainability indicators and green asset ratio calculations for the banking sector, make the financial system's contribution to environmental goals measurable. These ongoing regulations are taking significant steps to increase the verifiability of sustainability claims at both the financial system and the real sector level.

Türkiye has taken important steps in combating greenwashing. However, for this framework to be effective:

- enforcement must be strengthened,
- implementation and oversight capacity must be enhanced,

- sanctions must be made more deterrent,
- and public awareness must be supported.

Otherwise, even if the regulations appear strong on paper, they will not be able to fully prevent greenwashing in practice.

In conclusion, the transition from greenwashing to green trust should not be considered solely a process achieved by technical standards or an ethical choice; it should also be supported by legal compliance, strong auditing capacity, and corporate ethics. In this regard, transparent, legally complaint, independently audited sustainability reports that minimize the gap between company rhetoric and action will be a crucial tool in building investor confidence, fostering social and environmental awareness, and achieving sustainable development goals.

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