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Original Article

Greenwashing in the IPO Process: The Urgency of Protecting Capital Market Investors

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Abstract

The practice of greenwashing in initial public offerings (IPOs) poses a challenge to the Indonesian capital market, in line with the growing trend and demand for sustainable investment. Greenwashing involves the manipulation of a company's environmental claims or performance to enhance its value and appeal to investors. The disclosure of misleading sustainability information has the potential to create information asymmetry and harm investors, whilst the regulations currently in force in the Indonesian capital market still contain legal loopholes that allow such practices to occur. The disclosure of misleading sustainability information may create information asymmetry and harm investors, while current Indonesian capital market regulations still contain legal loopholes that permit such practices. This normative legal study aims to analyse the urgency of protecting capital market investors against information asymmetry caused by pseudo-green claims during the IPO process. The findings indicate that neither the Law nor the Financial Services Authority Regulations explicitly regulate greenwashing practices in the IPO process; consequently, legal protection for investors against such practices remains inadequate. Therefore, this study recommends the reformulation of Financial Services Authority Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance to include provisions covering the IPO stage, strengthening standards and transparency in the disclosure of sustainability information through stricter verification requirements, and the establishment of an independent body authorised to audit and verify sustainability reports prior to an IPO. It is hoped that these recommendations will strengthen legal certainty, enhance investor protection, and foster a more transparent, accountable and equitable Indonesian capital market.

Keywords: Greenwashing, Initial Public Offering (IPO), Sustainability.

1. Introduction

Indonesia's economic activities are grounded in Article 33 paragraph (4) of the Constitution of the Republic of Indonesia of 1945 (hereinafter referred to as the 1945 Constitution). Based on the Indonesian national constitution, the national economy is founded, among other things, on the principles of sustainability and environmental awareness. In line with this, the capital market sector serves as one of the sectors that plays an important role in national economic development.

The capital market is one of the venues through which business actors raise funds from the public to be used as capital. In relation to sustainable investment, the capital market serves as a channel for the realization of indirect sustainable investment. This is because investment schemes are broadly divided into two categories, namely direct investment and indirect investment.

Direct investment refers to investment conducted on a business-to-business (B2B) basis, where the investor as a company invests directly into another company without an intermediary. Meanwhile, indirect investment refers to investment conducted through the stock exchange, where investors may be members of the general public. Sustainable investment in the context of the capital market may therefore be categorized as indirect investment subject to capital market regulations.

The advancement of science and technology has brought sustainability practices into the economic sector, giving rise to the concept known as sustainable investment. Sustainability itself is a concept initiated out of concern and attention toward the environment. However, in its development, sustainability no longer focuses solely on the environment or climate, but encompasses other areas such as poverty, human rights, and even the economy.

The United Nations (UN), as a party that also highlights sustainability, launched the Sustainable Development Goals (hereinafter referred to as the SDGs). The SDGs contain 17 goals broadly categorized into four main pillars: the Social Development Pillar, the Economic Development Pillar, the Environmental Development Pillar, and the Law and Governance Pillar (Audit Board of the Republic of Indonesia, 2018). Indonesia, during the administration of President Joko Widodo, signed Presidential Regulation Number 59 of 2017 on the Implementation of the Achievement of Sustainable Development Goals as a form of participation in achieving those 17 SDG goals.

Pursuant to POJK No. 51/POJK.03/2017 as amended by POJK No. 60/POJK.04/2017, breaches of the obligation to submit sustainability reports are, in principle, subject to administrative sanctions, which may take the form of a written warning, an administrative fine, restrictions on business activities, suspension of business activities, or even the revocation of a business licence, in accordance with the powers of the Financial Services Authority. However, this sanctions regime is more focused on administrative compliance with reporting obligations and does not yet specifically regulate the legal consequences of making misleading environmental claims (greenwashing), such as the obligation to correct information, the cancellation of an initial public offering (IPO), or specific liability for misleading sustainability disclosures. This situation indicates that the current enforcement mechanisms are not yet fully capable of providing a deterrent effect against greenwashing practices at the initial public offering stage.

Sustainability in national economic development, which is grounded in Article 33 of the Indonesian national constitution, is realized through sustainable investment. Sustainable investment is one of the measures taken to address sustainability issues faced globally. In business practice, profit orientation serves as the primary motivation of business actors; however, this does not mean that sustainability cannot be made into a practice that generates profit. This is because sustainable investment also reflects the interest of investors in sustainability issues.

Sustainable investment practices, as described above, are not limited to the category of direct investment but also extend to indirect investment, namely in the capital market. This is realized through regulations issued by the Financial Services Authority (hereinafter referred to as OJK) as an independent institution that carries out the functions of regulating, supervising, and examining the entire financial services sector. One such regulation is Financial Services Authority Regulation No. 51/POJK.03/2017 on Sustainable Finance (hereinafter referred to as POJK No. 51/2017).

POJK No. 51/2017 regulates the obligation for public companies already listed on the stock exchange to periodically report their sustainability reports. Through this regulation, the capital market has progressively become a venue for the realization of sustainable investment. However, as the principle of disclosure is the primary principle in capital market activities, sustainable investment must be grounded in the principle of disclosure.

The principle of disclosure in the implementation of sustainable investment in the capital market is realized through sustainability disclosure by means of sustainability reports. However, in practice, OJK through POJK No. 51/2017 only regulates the secondary market segment of the capital market. The capital market, based on its primary activities, is divided into two segments: the primary market and the secondary market.

Briefly stated, the primary market is the segment of the capital market whose main activity is the public offering process, known as the Initial Public Offering (hereinafter referred to as IPO). The IPO process is the process whereby a private company sells its shares to the public for the first time, thereby causing the company to cease being a private company and to become a publicly listed company or public company. The secondary market, on the other hand, has as one of its main activities the buying and selling of issuers' shares by investors on the stock exchange. Although the primary activity of the capital market lies in the secondary market, the primary market cannot be separated from it, given that the primary market serves as the gateway to the main activities on the stock exchange.

Activities in the capital market are carried out based on fairness for all parties in the capital market, known as fairness in the market. Such fairness is realized through the principle of disclosure. The principle of disclosure is the primary principle governing capital market activities, and accordingly, information holds high value in the capital market. This is because the information disclosed can affect stock prices, which, when drawn to a logical conclusion, influences stock price fluctuations and thereby impacts investors or even other stakeholders. For this reason, the capital market recognizes the concept of material information, referring to all information deemed material or capable of affecting the value of a company.

Sustainable investment in the capital market's secondary market has at least been regulated through POJK No. 51/2017; however, there remains a regulatory void concerning sustainable investment in the capital market's primary market. It is therefore important for OJK, as the institution that regulates and supervises the capital market, to clearly regulate sustainable investment in the primary market.

Sustainable investment indeed originates from good intentions; however, its implementation is inevitably confronted with various challenges. One of the problems arising from the implementation of sustainable investment in the capital market sector is greenwashing. Greenwashing refers to the practice of providing information that does not correspond to the facts regarding a company's sustainability actions. Yet such information turns out to be nothing more than statements on paper that do not reflect actual conditions.

Research into greenwashing and ESG disclosure has grown rapidly, yet there remains a significant gap in the context of Initial Public Offerings (IPOs). Most studies focus on the impact of ESG/sustainability disclosure on IPO underpricing, withdrawal risk and litigation risk, on the assumption that the sustainability information disclosed by companies serves as a credible signal to investors (Arenas-Parra & Alvarez-Otero, 2020; Baker et al., 2021; Boulton, 2024; Ferri et al., 2023; Jamaani & Alidarous, 2025; Kang & Lam, 2023). On the other hand, the literature on greenwashing focuses more on the conceptualisation, measurement and detection of greenwashing practices among listed companies through their post-listing sustainability reports or ESG disclosures (Bernini & La Rosa, 2023; Krueger et al., 2024). Consequently, there is still very little research examining greenwashing as a legal risk at the pre-listing stage, particularly in IPO prospectuses, even though at this stage investors do not yet have a public track record against which to verify the accuracy of the sustainability claims made by issuers. Furthermore, research into legal protection for investors against greenwashing in the IPO process, particularly in the context of emerging capital markets such as Indonesia, remains limited and has not yet integrated the perspectives of greenwashing, IPO disclosure, capital market regulation and investor protection within a single comprehensive analytical framework (Wulandari & Hadi, 2025). This research therefore aims to bridge this gap by analysing greenwashing in the IPO process as an issue of investor protection and capital market regulation, rather than merely as a matter of sustainability reporting or corporate communication strategy.

The challenge of greenwashing has become a real threat to the implementation of sustainable investment in the capital markets sector, given the still limited legal framework specifically governing sustainable investment practices in the capital markets. This regulatory vacuum creates opportunities for greenwashing practices to occur during the initial public offering (IPO) process, which has the potential to mislead investors through the provision of inaccurate or misleading sustainability information. Therefore, this research is entitled "Greenwashing in the IPO Process: The Urgency of Protecting Capital Market Investors." Based on this background, the research questions are: (1) How does greenwashing emerge as a legal issue in the Initial Public Offering (IPO) process in the Indonesian capital market? and (2) To what extent have capital market laws and regulations, including those of the Financial Services Authority (OJK), addressed greenwashing practices in the IPO process, and what regulatory reforms are required to provide optimal legal protection for investors?

2. Literature Review

2.1. Greenwashing from a Corporate Governance Perspective

The concept of greenwashing refers to the practice of companies making claims about their environmental performance that do not correspond to the actual situation. Greenwashing does not necessarily mean that a company is making no sustainability efforts at all, but rather that there is a discrepancy between the information communicated to the public and the actual implementation on the ground (Delmas & Burbano, 2011). This practice has grown alongside increasing investor focus on Environmental, Social, and Governance (ESG) aspects, meaning companies have an incentive to cultivate an environmentally friendly image to enhance their investment appeal, even though the substance of their sustainability efforts may be inadequate (Torelli et al., 2020).

In the literature, greenwashing is viewed as a form of information manipulation that distorts market mechanisms. This phenomenon makes it impossible for investors to distinguish between companies that genuinely implement sustainable practices and those that merely use sustainability claims as a marketing strategy (Seele & Gatti, 2017). Consequently, greenwashing is not merely a matter of business ethics but has also evolved into an issue of corporate governance and investor protection.

2.2. Greenwashing and Information Asymmetry in the Capital Market

The theory of information asymmetry explains that capital markets can only function efficiently if all market participants receive accurate, material information that is disclosed in a balanced manner. When companies disclose misleading sustainability information, investors face difficulties in objectively assessing a company's risks and prospects. Consequently, investment decisions become inefficient and have the potential to cause economic losses (Akerlof, 1978).

In the context of modern capital markets, sustainability information has become a key factor considered by both institutional and retail investors. Sustainability reports, ESG disclosures and decarbonisation targets are frequently used as indicators of a company's quality. Consequently, greenwashing can undermine the credibility of the non-financial information published by companies whilst also eroding confidence in the capital markets as a whole.

2.3. Greenwashing in Initial Public Offerings (IPOs)

An IPO marks a company's initial entry into the capital markets, making the prospectus the primary source of information for investors. All information contained in the prospectus is material in nature, as it forms the basis for investors' assessment of the company's prospects. Consequently, if a company includes sustainability claims that are not supported by adequate evidence, greenwashing may occur as early as the IPO stage, before the company is officially listed on the stock exchange.

Siano et al. (2017) demonstrate that rising demand for sustainable investment is driving companies to strengthen their ESG narratives in public offering documents. However, in the absence of independent verification mechanisms, such claims risk serving merely as a means of boosting the company's valuation (the 'green premium') without reflecting actual conditions (Ziolo et al., 2024). This situation heightens the risk of share mispricing and increases the potential for legal disputes should the information provided prove to be misleading.

3. Methods

This study is a piece of normative legal research focusing on the analysis of legal norms governing investor protection in the capital market, particularly in relation to greenwashing practices during the Initial Public Offering (IPO) process. Normative legal research is used to identify legal gaps and inconsistencies in legal norms, as well as to provide prescriptive recommendations for the development of regulations concerning the disclosure of sustainability information in the Indonesian capital market.

This study employs several approaches, namely the statutory approach, the conceptual approach, and the comparative approach. The statutory approach involves examining various legal provisions governing the capital market, information disclosure, and sustainable finance in Indonesia, including Law No. 8 of 1995 on the Capital Market, as amended by Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (P2SK), Law No. 21 of 2011 on the Financial Services Authority, Financial Services Authority Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies, as well as various OJK regulations governing the conduct of public offerings and issuers' disclosure obligations.

A conceptual approach is employed to analyse the concepts of greenwashing, the disclosure principle, investor protection, sustainability, Environmental, Social, and Governance (ESG), and the theory of information asymmetry as a foundation for evaluating the adequacy of Indonesia's capital market regulations. This approach is carried out through an examination of legal doctrine, capital market law theory, and academic literature discussing developments in sustainability regulation and greenwashing practices.

Furthermore, this study employs a comparative approach by comparing regulations in Indonesia with several international instruments that govern the disclosure of sustainability information and the prevention of greenwashing, including the European Union Sustainable Finance Disclosure Regulation (EU SFDR), the Corporate Sustainability Reporting Directive (CSRD), and the United States Securities and Exchange Commission (SEC) Climate-Related Disclosure Rules. This comparative approach aims to identify regulatory practices that can serve as a reference in the development of national regulations to strengthen investor protection against misleading sustainability information.

The legal materials used in this study consist of primary and secondary legal sources. Primary legal materials include the 1945 Constitution of the Republic of Indonesia, Law No. 8 of 1995 on the Capital Market, as amended by Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector, Law No. 21 of 2011 on the Financial Services Authority, Financial Services Authority Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance, as well as various implementing regulations and OJK circulars relating to the conduct of IPOs, disclosure of information, and sustainability reporting. Meanwhile, secondary legal sources include legal texts, national and international academic articles, previous research findings, expert doctrines, as well as various international standards and frameworks concerning ESG, sustainability reporting and greenwashing, such as the Global Reporting Initiative (GRI) guidelines, the IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2), and publications by the Organisation for Economic Co-operation and Development (OECD) and the International Organisation of Securities Commissions (IOSCO).

The legal materials were collected through library research by cataloguing, identifying, classifying and reviewing all legislation and literature relevant to the research topic. Subsequently, all legal materials were analysed using prescriptive legal analysis through methods of interpreting legislation, including grammatical, systematic and teleological interpretation. The analysis was carried out by comparing the interrelationships between regulations, identifying any gaps or weaknesses in legal norms, and evaluating their alignment with the principles of investor protection, transparency of information, and sustainable capital market governance. The results of the analysis were then used as the basis for formulating recommendations to strengthen regulations aimed at preventing greenwashing practices in the IPO process in Indonesia.

4. Results and Discussion

4.1. The Nature of Greenwashing and Its Development

The term greenwashing was first coined in 1986 by an environmental activist named Jay Westerveld, who criticized the towel reuse program of hotels. In his critique, Westerveld stated that the program was more a matter of cost savings than an activity with a genuine impact on the environment. The use of the term "greenwashing" gained broader public recognition in the following decade through the publication by Greer and Bruno on environmental marketing. Meanwhile, Greenpeace defines greenwashing as the misleading of consumers regarding a company's environmental practices or the environmental benefits of a product or service (Zioło et al., 2024).

Greenwashing can essentially be understood as a marketing message aimed at creating a positive and environmentally friendly image of a company in relation to the products and/or services it produces, while no actual actions are taken to substantiate such claims (Siano et al., 2017). Beyond failing to carry out such claims, a company may still perform "green actions" that do not correspond to the statements disclosed or marketed to the public. At the corporate level, the phenomenon of greenwashing entails providing false or misleading information regarding environmental issues affecting that company. Furthermore, Torelli classifies the levels at which greenwashing is carried out, namely at the corporate level, strategic level, dark level, and product level (Torelli et al., 2020).

The classifications proposed by Torelli et al. (2020) and Zioło et al. (2024) have different analytical focuses and therefore do not overlap. Torelli et al. categorise greenwashing according to the level within the organisation at which the practice occurs, namely the corporate level, strategic level, dark level and product level. Meanwhile, Zioło et al. categorise greenwashing according to the form of the practice or the manner in which it is carried out, such as selective disclosure, decoupling, attention deflection, deceptive manipulation, dubious authorisations and labels, and inefficient public voluntary programmes. Consequently, these two classifications are complementary as they explain greenwashing from two distinct perspectives: based on where the practice occurs and based on how it is implemented.

The first level in this classification is the corporate level, where, as already mentioned, greenwashing refers to the transmission of false information about environmental issues that affects the image and reputation of a company (Torelli et al., 2020). Torelli et al. (2020) identifies fixed dimensions of greenwashing at the corporate level, namely the company's name and logo, compliance with standards, and company certifications. Greenwashing at the strategic level, meanwhile, refers to incomplete or false statements in green communications in relation to the company's strategy, as exemplified in medium-term goals, strategic plans for improvement or implementation of company technology, and the company's public communication strategy (Torelli et al., 2020).

The next two levels are the dark level and the product level. Greenwashing at the dark level is associated with the concealment of a company's illegal activities, such as money laundering, fraud, corruption, and the like (Torelli et al., 2020). Finally, greenwashing at the product level pertains to the communication of false environmental information regarding the company's products, as exemplified by greenwashing in the presentation of information on product packaging or in product certifications. Beyond the levels classified by Torelli, it is important to understand in practice that greenwashing has several types that can be categorized as follows: selective disclosure, decoupling, attention deflection, deceptive manipulation, dubious authorizations and labels, and inefficient public voluntary programs (Zioło et al., 2024).

Selective disclosure is a type of greenwashing carried out with the aim of fulfilling the expectations of stakeholders and the requirements set by local authorities in social and economic aspects (Zhang et al., 2018). Decoupling is a greenwashing practice that results from calculations based on the self-interest of the organization's key stakeholders and is grounded in the stakeholders' perceptions of the personal benefits they derive from the company's activities and communications (Seele & Gatti, 2017). The third type is attention deflection, where greenwashing is carried out through selective and inaccurate disclosures containing vague, false, or unrealistic statements regarding sustainability.

Subsequently, deceptive manipulation is a greenwashing practice deliberately and intentionally carried out by a company by crafting messages specifically designed to project an environmentally friendly corporate image. Another type of greenwashing in practice is dubious authorizations and labels, where the source of greenwashing lies in authorizations from external companies that provide standards or labels in the field of ecology and sustainability of products or services. An example is the affixing of an energy efficiency environmental label on LG-brand refrigerators (Zioło et al., 2024).

The final type of greenwashing based on its practice is inefficient public voluntary programs, which takes the form of a company participating in government-funded voluntary activities while the actual activities carried out by the company do not meet the standards or conditions required by such programs. There are many more types of greenwashing in practice given the advancement of information and technology; however, the six types of greenwashing described above represent common practices carried out by companies in relation to sustainability in order to elevate their green image.

Based on the concept and classification of greenwashing outlined above, it can be understood that companies engaging in greenwashing simultaneously exhibit two behaviors: poor environmental performance and positive communication regarding their environmental performance. A company's environmental performance may fall anywhere along a spectrum. As a simple example, a company may be categorized as a "brown firm" if it has poor environmental performance, and as a "green firm" if it has good environmental performance.

A company with poor environmental performance categorized as a "brown firm" would find it counterproductive to communicate negatively about its poor environmental performance. Instead, such a company would choose either to remain silent or to represent its poor environmental performance in a positive "packaging." The company may therefore be seen as failing along the entire spectrum of communication, from the absence of communication at one end to increasing levels of positive communication at the other. Greenwashing is broadly carried out by corporations, so that in the context of this research, greenwashing may also occur in the capital market sector, whether by companies already listed or by companies seeking to go public through the IPO process.

4.2. Greenwashing Practices in IPO Prospectuses in Indonesia

A public offering, known as the Initial Public Offering (IPO), is the activity of offering share securities conducted by an issuer or a company intending to go public in order to sell securities to the public in accordance with the procedures stipulated in the capital market law and its implementing regulations. Black's Law Dictionary defines an IPO as a company's first public sale of stock; a first offering of an issuer's equity securities to the public through a registration statement (Garner et al., 1999). It can therefore be understood that an IPO is the first time a company sells its securities to the public through the public offering mechanism of the capital market.

Indonesia regulates the capital market through Law No. 8 of 1995 on the Capital Market (hereinafter referred to as UUPM), as amended by Law Number 4 of 2023 on the Development and Strengthening of the Financial Sector (hereinafter referred to as UUP2SK). Public offerings under UUPM are regulated in Article 1 number 15, which states that a public offering is the activity of offering securities conducted by an issuer to sell securities to the public in accordance with the procedures stipulated in capital market regulations. In this regard, OJK is the capital market institution that carries out regulatory and supervisory functions as stipulated in Article 8, Chapter IV of UUP2SK.

Greenwashing, as described in the preceding section, is carried out by companies. The IPO itself is the process whereby a private company becomes a public company. A consequence of the IPO is that the company becomes a public company, allowing the public to observe the activities and performance of that company. From a legal logic standpoint, greenwashing by a public company naturally has a broader impact than greenwashing carried out by a private company.

Greenwashing by a public company is fundamentally aimed at projecting a pseudo-green image to the public, thereby increasing the company's value (Chen & Dagestani, 2023; Xu et al., 2025). An increase in the company's value can affect the value of the company's securities. This certainly warrants attention in the capital market, given that the impact of greenwashing carried out by a public company extends not only to shareholders but also to stakeholders (Yu et al., 2020).

A company seeking to go public must undergo the IPO process, during which the company for the first time discloses the inner workings of the company by disclosing information about the company to the public. Such information disclosure is contained in the company's prospectus, beginning from OJK's approval to submit the registration statement.

OJK in this regard carries out a supervisory function over the contents of such reports. This supervisory function of OJK is supported by capital market supporting professions, namely public accountants, legal consultants, appraisers, and notaries (Article 80, Paragraph (2) of the Capital Market Law (UUPM)).

The forms of greenwashing identified by the author at the public offering stage of the capital market include vague claims regarding the use of proceeds, manipulation of sustainability reports, and green labeling without certification by an independent verifier (Rotman et al., 2020; Spillette et al., 2022). In line with the continuously growing sustainability trend, the demand for sustainability has also increased. As a result, the potential for greenwashing in the form of sustainability report manipulation has grown as well. There is therefore an urgency in regulating greenwashing, particularly in the IPO process of the capital market sector, given the growing trend of investor demand for corporate sustainability.

The forms of greenwashing identified suggest that sustainability-related information disclosed during the IPO process is not merely a matter of corporate communication, but also constitutes material information that has the potential to influence investors' decisions. In practice, vague environmental claims, selective sustainability disclosures, and eco-labels unsupported by evidence create information asymmetry between issuers and prospective investors. Consequently, investors may assess a company's sustainability performance based on incomplete or misleading information, thereby increasing legal and financial risks in the primary capital market.

Viewed through the framework of Torelli et al. (2020), these practices primarily occur at the corporate and strategic levels as they involve sustainability narratives communicated via the IPO prospectus, rather than claims regarding specific products. Meanwhile, based on the taxonomy of Zioło et al. (2024), the practices identified in this study are primarily categorised as selective disclosure and misleading manipulation, whereby issuers highlight favourable sustainability information whilst failing to disclose material environmental risks. These findings suggest that both conceptual frameworks can be applied to explain potential greenwashing practices in the IPO process in Indonesia.

4.3. The Urgency of Regulating Greenwashing in the IPO Process in the Capital Market Sector

Regulation of greenwashing, particularly in Indonesia's capital market sector, has yet to produce a law specifically addressing greenwashing practices. However, greenwashing is closely related to sustainability, and regulation of greenwashing in this context can therefore be linked to sustainability regulation. Sustainability issues in Indonesia are currently an evolving matter, and related regulations remain scarce. Regulations in the financial and capital market sector through UUP2SK and UUPM, in connection with sustainability and particularly in the context of greenwashing, can be categorized as misleading information, as regulated in Article 93 of UUPM.(Prisandani, 2025; Solikhah et al., 2026)

Both UUPM and UUP2SK stipulate that every party is prohibited from disseminating statements or information that are materially false or misleading. The meaning of "material" refers to influencing the price of securities and/or the decisions of investors and/or prospective investors (Law No. 8 of 1995 on Capital Markets). Greenwashing, as described in its primary practices above, involves false or inaccurate information regarding a company's environmental performance and/or its green image. Given that activities in the financial sector, particularly the capital market, are driven by profit orientation, the primary motivation behind greenwashing can be said to be profit, in the form of an increase in the company's value as reflected in the value of the company's securities.

Furthermore, in the capital market, sustainability regulation by OJK has been implemented through the issuance of OJK Regulation No. 51/POJK.03/2017 on the Implementation of Sustainable Finance (POJK No. 51/2017). This regulation essentially governs the reporting of sustainability reports by Financial Services Institutions, Issuers, and Public Companies in Indonesia. Based on the scope of its subject matter, POJK 51/2017 regulates the obligation to report sustainability reports in the secondary market. Meanwhile, as it is understood that the capital market consists of two main activities, namely in the primary market and the secondary market, this division becomes significant (Mutia, 2025).

Regulation through POJK 51/2017 represents a response to the growing trend and demand for sustainability among investors. However, in practice, with respect to the implementation of a sustainable capital market, this regulation is considered to have not adequately accommodated sustainability practices in the capital market sector. This creates a legal loophole through which greenwashing practices may be carried out.

The loophole in the regulation through POJK 51/2017 lies in its scope of application, which only governs sustainable finance for issuers already listed on the stock exchange. Meanwhile, the IPO process, which constitutes the main activity of the capital market's primary market, serves as the gateway for companies seeking to go public and trade their securities on the stock exchange. As a result of this legal loophole, the potential for greenwashing practices in the IPO process can be said to be greater. This will naturally have an impact not only on shareholders but also on stakeholders.

This regulatory gap indicates that Indonesia's current legal framework primarily governs sustainability reporting after a company goes public, whilst providing only limited protection against misleading sustainability disclosures during the initial public offering (IPO) stage. Consequently, issuers may exploit this regulatory gap by presenting an overly optimistic environmental narrative without adequate verification, which has the potential to undermine investor protection and market integrity.

The sanctions provided for under POJK 51/2017 are also still administrative in nature and have not addressed the aspect of IPO cancellation as a consequence of false green claims. Furthermore, the implementation of this regulation has not yet established standardized norms regarding the standards to be used in reporting sustainability reports or methods for verifying such reports, thereby creating an even greater opportunity for greenwashing to occur in the capital market sector.

The principle of disclosure is the primary principle governing capital market activities, aimed at ensuring fairness in the market, so that capital market activities can deliver fairness to all capital market participants. Greenwashing represents a potential challenge that will impact activities in the capital market as interest in sustainability continues to grow, and therefore the legal loophole regarding greenwashing practices must become a central concern in capital market regulation. There is accordingly an urgency in establishing regulations that prevent greenwashing practices in the IPO process of the capital market sector.

The urgency of such regulations becomes even more apparent when compared with regulatory developments in various jurisdictions. In the European Union, the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR) expand sustainability disclosure obligations with more detailed reporting standards and require that such information be verifiable, thereby reducing the scope for greenwashing practices. Meanwhile, in the United States, the Securities and Exchange Commission (SEC) has stepped up its oversight of the disclosure of Environmental, Social, and Governance (ESG) claims through various enforcement actions against misleading sustainability statements, including in securities offering documents. These developments indicate a global trend towards strengthening transparency, verification and accountability regarding sustainability information provided to investors. Compared to these regimes, regulations in Indonesia remain focused on post-listing reporting obligations and do not yet explicitly regulate the disclosure and verification of sustainability claims at the Initial Public Offering (IPO) stage. Consequently, the establishment of regulations specifically designed to prevent greenwashing from the public offering stage onwards is becoming increasingly urgent in order to enhance investor protection, safeguard the integrity of the capital markets, and align the national legal framework with developments in international standards.

5. Conclusion

Based on the background and discussion outlined above, this study concludes that greenwashing is a practice that has emerged alongside the growing focus on sustainable economics and the market's attention to sustainability issues, particularly in the capital markets sector. In the context of the capital market, greenwashing is characterised by a company's poor environmental performance, accompanied by positive communication regarding that performance to build a pseudo-green image and enhance the company's value in the eyes of investors. This practice involves the dissemination of misleading information regarding a company's environmental performance. This study also found that the practice of greenwashing is not yet explicitly regulated in the Capital Markets Act or the Financial Services Authority Regulations (POJK), although it can be classified as a form of misleading information. POJK No. 51/POJK.03/2017 only regulates the obligation to submit sustainability reports in the secondary market, whilst in the primary market, particularly during the Initial Public Offering (IPO) process, there are currently no regulations concerning sustainability disclosure obligations or prohibitions on greenwashing. This situation creates a legal vacuum and increases the potential for information asymmetry and greenwashing practices during the IPO process.

This study employs a normative legal approach and therefore focuses on the analysis of legislation, legal doctrine and legal concepts, without empirically testing IPO prospectuses or sustainability reports published by issuers in Indonesia. Hence, the findings of this study place greater emphasis on identifying regulatory issues and the need for legal reform rather than on measuring the extent of greenwashing practices in the Indonesian capital market.

Based on these findings, this study recommends reforming OJK Regulation No. 51/POJK.03/2017 by incorporating provisions that explicitly define, prohibit and impose sanctions on greenwashing practices in the IPO process. Furthermore, the OJK needs to strengthen transparency standards by developing standardised sustainability disclosure guidelines and tightening the requirements for environmental claims made by issuers at the time of an IPO, in order to minimise information asymmetry. The OJK also needs to establish or accredit independent verification mechanisms for sustainability reports, for example through the 'accredited third-party verifier' model as applied to green bond certification, so that sustainability claims made by issuers have undergone an audit and verification process before being offered to the public. Further research is recommended using an empirical approach, such as content analysis of sustainability claims in the IPO prospectuses of issuers in Indonesia, to evaluate their alignment with companies' environmental performance and assess the effectiveness of regulatory reforms in preventing greenwashing practices.

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