

# Research on Investor Protection under the Development of Green Bonds

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## Abstract

At present, China's financial market is developing rapidly, but the pursuit of economic profits often overlooks the sustainability of development. This has led to the rise of green finance. Among them, green bonds, as an important part, interpret ecological protection and economic development from various aspects such as issuance and use. The relationship between the quality of citizens, the improvement of the quality of citizens, and the requirements for living environment and quality have prompted more and more investors to participate in the green bond market. The development of the green bond market has indeed played a role in maintaining investor confidence and maintaining investor confidence. The stability of the investment market has played a role in promoting the reform and development of the capital market. However, China's green bond market still lacks a complete system, which makes investors' legal rights and The green bond evaluation system is symmetrical and lacks the same standard. At the same time, the relevant legislative system and regulatory system are not perfect. Therefore, suggestions can be made from multiple levels such as the state, society, the main body of the issuance market, and the special investor protection system. Bond investors can effectively protect their legitimate rights and interests through legislative, judicial, administrative and even public opinion.

## Keywords

Green Bonds; Investors; Risk Challenges; Relief and Protection.

## 1. The Development Background of Green Bonds and the Objectives of the Investor Protection System

### 1.1. Definition and Development Background of Green Bonds

With the rapid development of the financial market in recent years, the sustainability of my country's financial development, that is, green finance, has become a key issue in the current financial market.

As an important part of my country's current green finance, green bonds have played an important role in leading my country's green development. Green bonds refer to bond issuers who raise funds from the society specifically to support or refinance green industry projects. And a kind of creditor's right and debt certificate that repays the principal and interest according to the agreement. As a financing tool, green bonds have different classification standards. At this stage, my country uses issuers and supervisors as the main classification methods. That is, green bonds can be divided into green financial bonds, green corporate bonds and green corporate bonds. This classification is conducive to the stability of the green bond market to a certain extent. As an emerging financing tool, green bonds do promote the development of the investment market, but they also pose challenges to the legitimate rights and interests of investors. Therefore, strengthening the protection of investors has become the key to the sustainable development of green bonds.

## 1.2. Definition of Green Bond Investors

To balance the relationship between green bond development and investor protection, the logical starting point is to define green bond investors [1]. Green bond investors refer to institutions or individuals that purchase green bonds. The bonds held by it are used as evidence for the exercise of its creditor's rights. In addition to the rights of general creditors, investors as creditors also enjoy special legal rights, namely the right to investment income, the right to know, the right to safety, and the right to claim.

## 1.3. The Goal of Establishing the Investor Protection System

The development of the green bond market and the investor protection system are complementary, Only the legitimate rights and interests of investors are effectively protected. In order to attract them to invest money, and thus promote the prosperity of the green bond market. From this analysis, the objectives of establishing the investor protection system are: first, to maintain investor confidence [2], and to use practical safeguards to let investors see the development prospects of various green ecological industries under my country's green bond issuance; second, to realize the green bond market Finally, balance the safety and profitability of the capital market to meet the needs of green bond financing while avoiding speculation by investors blindly following the trend.

## 2. The Reform and Development of the Financial Investment Market in the Context of Green Bonds

The development of the green bond market has promoted the reform and development of my country's financial investment market to a certain extent, as follows:

### 2.1. The Raised Funds are Used in Emerging Green Industries to Attract Investors to Invest

First, the quality of our citizens has been improved, people have begun to pursue sustainable development, and green industries have become an emerging industry in our country. Second, people are paying more and more attention to their own health and life safety, and the demand for green consumption has increased, coupled with the market for green products. Insufficient supply, and the funds raised from the issuance of green bonds are used for the production of green products in emerging green industries, which has attracted more and more investors to invest.

### 2.2. Government Subsidies and Preferential Policies have Maintained Investors' Investment Confidence

Green bonds have been developed under the guidance and support of the government. On the one hand, the government guides the funds raised from green bond issuance to invest in renewable resources and other green environmental protection projects or grants certain subsidies to these projects. With government financial support as a guarantee, it reduces the investment risk of investors and attracts investors to invest at the same time. Maintaining investors' confidence in green bond investment; on the other hand, in order to promote the development of the green bond market, the government has introduced some targeted preferential policies (Preferential policies such as lowering the investment threshold, giving investors tax incentives, government subsidies and other financial support), which shows that the government attaches great importance to the development of the green bond market. The government's attention is like "reassurance" and maintains investors' investment confidence.

### **2.3. Encouraging Special Funds for Special Funds and Medium- and Long-term Financing to Maintain the Stability of the Investment Market**

Green bonds are different from traditional bonds. The funds raised by their issuance are used exclusively for green industries, which to a certain extent can prevent financiers from misusing the funds to change the use of funds, ensuring the relative balance of investor input and output ratios, and reducing investment risk. At the same time, we should also encourage Medium and Long-term financing, because the green industry is in the budding stage, and its investment will take some time to form a return. Medium- and Long-term financing not only meets the financing needs of green industry financiers, but also focuses on the safety and security of the capital market. The feature of profitability is that it protects investors' legitimate rights and interests while satisfying investors' income, which is in line with the development goals of our green bond market, thus maintaining the stability of the investment market.

## **3. Risks and Challenges Faced by Investors in the Context of the Development of Green Bonds**

The immature and incomplete green bond market system has brought certain risks and challenges to investors. The details are as follows:

### **3.1. Damage to Investors' Right to Know as a Result of Information Asymmetry in the Green Bond Market**

As financial consumers, bond investors should have the right to know, which can be defined as the right of investors to know the content, risks, issuer's situation and other relevant information of the bonds they invest in. The right to know is the basic right of bond investors, and the realization of the right to know is the guarantee and basis for investors to exercise other rights [3]. In the green bond market, issuers often have all the information about bonds to be issued. Emerging financial products of green bonds coupled with strong professionalism in the financial field, It is difficult for ordinary bond investors to obtain and understand many specific information about green bonds, which results in the asymmetry of information in the green bond market. Therefore, it is difficult for investors to correctly judge their investment behaviors based on their known information.

### **3.2. The Lack of a Unified Standard Green Bond Evaluation System Damages Investors' Right to Know**

my country's current definition of green bonds is still relatively vague, especially the lack of unified standards for green benefits and green bond evaluation systems, and the lack of information exchange and mutual sharing between various evaluation agencies in my country [4] makes bond investors unable to Obtaining complete and effective information to judge the value and invest ability of the bond is also a kind of damage to bond investors' right to know.

### **3.3. Damages to Investors' Intellectual Rights and Compensation Rights Caused by Incomplete Relevant Legislative Systems**

The intellectual right of investors refers to their right to obtain knowledge about green bond investment and rights protection. The right of compensation refers to the right of bond investors to request compensation when their legal rights are infringed during the investment process. As China's legislation on green bonds is incomplete, this makes investors' intellectual rights and the right of compensation not well protected. The performance is as follows: First, the legislation on the issuance of green bonds is relatively loose, mainly including: The Securities Law, the Corporate Bond Regulations, and the Corporate Bond Issuance Business Guidelines [5] lack a unified and targeted legislative system to regulate them. Therefore, when investors face problems that are not covered by certain relevant legislation in practice

Therefore, it is difficult to fully protect its intellectual rights and claim rights; secondly, most of the green bond legislation in China is policies, regulations and regulations with lower levels of effectiveness than the law, so there is no certain compulsory regulation, that is, the regulation of the green bond market. Due to the lack of authority, most of them cannot form a strong binding force on the issuer, making it difficult for investors to obtain a strong guarantee for their right of compensation when their legitimate rights and interests are infringed.

### **3.4. Damage to Investors' Property Safety Rights Caused by Imperfect Regulatory Systems**

The investor's right to property security refers to his right to inviolate property security in the process of purchasing green bonds, that is, the green bond issuer shall ensure that the bonds issued meet the requirements for property security. This requires a complete regulatory system, and my country's regulatory system still has shortcomings, which are mainly reflected in the following: First, poor coordination between regulatory bodies, and diversified regulatory agencies have different regulatory standards for green bonds, which can easily lead to cross-regulation or even regulatory gaps. , Which puts investors in risk and is not conducive to protecting the safety of investors' property; second, the legal system for green bond supervision is imperfect, and there is a lack of unified liability regulations for the issuer, my country is mainly regulated in accordance with the regulations of various departments, and its binding force on the issuer is relatively weak [6], which will cause damage to the property security rights of investors.

## **4. The Basic Idea of Perfecting the Investor Protection System in the Context of the Development of Green Bonds**

### **4.1. At the National Level, We Must Strengthen the Legislative, Administrative, and Judicial Protection of Investors**

#### **① Improving the legislative system related to green bonds**

**a.** The state must formulate special green bond laws and regulations, and evaluate green bonds in accordance with uniform standards, so that issuers can have laws to follow when issuing green bonds or requesting compensation for infringements of investors' rights and interests, so as to more effectively protect All legal rights and interests of investors to reduce investment risks;

**b.** Formulate a comprehensive legal system for green bonds from the central to the local level, and manage vertically from top to bottom to more effectively protect the legitimate rights and interests of investors.

#### **② Improving the regulatory system for green bonds**

**a.** Improve the multi-subject coordination green bond supervision system under the separate supervision model. The People's Bank of China, the China Securities Regulatory Commission and the National Development and Reform Commission, as the main supervisory bodies at this stage in my country, respectively supervise green financial bonds and green corporate bonds [7]. This kind of multi-head supervision has its rationality but is not conducive to the exchange of information in the green bond market. Therefore, when necessary, the regulatory functions of various institutions should be integrated or their information exchanges should be strengthened, so that investors can obtain effective information and protect the legitimate rights and interests of investors.

**b.** Combination of unified supervision and industry self-regulation. First, the National Securities Regulatory Agency, the China Securities Regulatory Commission, conducts unified supervision, which is consistent with the provisions of the Securities Law (The first paragraph of Article 7 of the "Securities Law" stipulates: "The securities regulatory agency of the State Council shall

implement centralized and unified supervision and management of the national securities market in accordance with the law.") and provides strong protection for investors; Only when unified supervision and industry self-discipline supervision complement each other can they effectively fill up regulatory loopholes, maintain the order of the green bond market, and protect the legitimate rights and interests of investors.

③ Improving the judicial relief system when the rights and interests of green bond investors are damaged

Our country still uses administrative remedies as the main protection for investors, which will curb the initiative of investors to protect their rights to a certain extent. Therefore, we should improve investors' self-relief channels, and most importantly, strengthen judicial remedies. The personal strength of investors is weak, and the introduction of class actions into the green bond market has become a top priority, and it is in line with the "Securities Law". In view of the lack of comprehensive regulations in this area in my country, it is necessary to improve class litigation (A class action is when one party has a large number of parties, one of them or several people who represent all of the same rights and interests are involved in the litigation.) and protect the rights and interests of investors.

#### **4.2. All Entities in the Bond Issuance Market Must Comply with Relevant Investor Protection Systems**

① The issuer complies with the green bond issuance rules

Green bond issuers should strictly follow the bond issuance rules, that is, the principles of openness, fairness, and justice, and publicly require the issuer to improve the information disclosure system, disclose its basic environmental governance information in a timely, complete and accurate manner, and improve the initial disclosure and continuous Make it public, reduce the degree of information asymmetry between issuers and investors, and protect investors' right to know; fairness requires balancing the inequality between issuers and investors, which means that investors should be inclined to protect investors, achieve substantial fairness, and safeguard investors' rights and interests ; Fairness requires the issuer to assume a relatively large number of obligations in order to protect the legitimate rights and interests of investors.

② Intermediary service agencies supervise and take responsibility for the issuance of green bonds

Intermediary service agencies should review and supervise the projects invested in my country's green bond funds and issue reports, and the information they provide must be true and not false. If they cause investor losses due to their deliberate or negligence, they shall bear joint and several liability with the issuer , To protect the investor's right of compensation.

③ Investors strengthen their own education

As the main body of the green bond market, investors should strengthen their own education. The first is to invest rationally, to do what is possible with a full understanding of the green bond market, not to blindly follow the trend, and to cut off the risks that may be faced by legitimate rights and interests from the source; second, to actively acquire and apply knowledge about rights protection, and learn to use legal means Safeguard legitimate rights and interests.

#### **4.3. The Social Level Must Strengthen the Supervision of the Green Bond Investment Market**

It is mainly the news media, the Internet, and other public opinion supervision. For example, green bonds that do not disclose information in accordance with regulations can be exposed through public opinion. When the reputation is threatened, they will be forced to disclose information to protect the basic rights and interests of investors.

#### 4.4. Improving the Special Investor Protection System-investor Protection Fund and Advance Payment

The investment protection fund is a supplement to my country's multi-level regulatory system. It is clearly stipulated by law and is directly supervised by securities regulatory agencies [8]. The development history of green bonds is relatively short, and the national policy does not clearly stipulate the use of green bond investment protection funds. , The scope of its use should be expanded as much as possible on the basis of complying with national policies. In addition, Article 93 of my country's "Securities Law" (Article 93 of the Securities Law stipulates: "If an issuer causes losses to investors due to fraudulent issuance, misrepresentation or other major illegal acts, the issuer's controlling shareholder, actual controller, and relevant securities company may entrust investors Protection agencies, with regard to compensation matters and losses) Stipulates that investor protection agencies can be entrusted to pay in advance,As a unique investor protection system in our country, the advance payment system should be continuously improved in practice, strengthen its effectiveness, and strengthen the protection of investors.

### 5. Conclusion

To sum up, in my country, where the green bond market is developing rapidly, while further attracting investors to invest, it is necessary to balance the relationship between financiers and investors. Based on acknowledging that green bonds promote the development of the investment market, it is also necessary to make it clear Various risks faced by investors, through the improvement of my country's green bond legislative system and regulatory system, protect the legal rights and interests of bond investors, and maintain the prosperity and stability of my country.

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