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The renewed promise of disclosure: an EU approach to sustainable finance

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Abstract

At the intertwinement of materialising a ‘Capital Markets Union’ and implementing its ‘Green Deal’ financing transition rhetoric aspirations, the European Union had made of transparency in corporate disclosure a central aim in its policy objectives under the umbrella of sustainable finance. In formulating its position, the European Commission was supported to a great extent by its expertise-seeking actions, mandating a strengthening of a voluntary disclosure to a non-financial information disclosure and even more recently to a sustainability reporting regime, with comprehensive requirements especially touching upon the financial sector. By strongly holding onto the ‘reins’ of ambitious Action Plans, as well as prioritising the importance of the financial sector in the fight against climate change mainstreamed by international organisations in the financial world, the Commission had given a spotlight to a better integration of climate-related disclosure while supported by the European Supervisory Authorities to deal with the technicalities of disclosure requirements for its financial sector actors with ‘the utmost care’.

In this thesis, I question why accountability and transparency in the financial market of the European Union is important for climate change and sustainability. Arguments I bring, supported by the theoretical insights and research design, show that (1) ensuring the public accountability of financial market actors in the European Union on climate change and sustainability is a stepping stone in the broader agenda of the ‘sustainable capital market’ not leaving the agenda of the Commission. Adding to this, another important point I bring is that as (2) transparency is a pre-requisite for public accountability, the framing of regulatory provisions covering climate-related disclosure, in the implementation of the sustainable finance framework, is essential to demonstrate the integration of sustainability at the level of European Commission and the three European supervisory authorities for financial market actors. To provide evidence to these two hypotheses, I employ the use of three research pillars involving expert interviews and document analysis on a variety of sources ranging from positions taken by financial market actors’ business associations to legal texts at the basis of the disclosure regime. At the end, several practical implications targeting the Commission’s regulatory approach to the topic and future research directions are derived.

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Glossary

CMU = Capital Markets Union

COP = Conference of the Parties

CSR = corporate social responsibility

CSRD = Corporate Social Responsibility Directive

DG = Directorate General

DG FISMA = Directorate-General for Financial Stability, Financial Services and Capital Markets Union

EBA = European Banking Authority

EIOPA = European Insurance and Occupational Pensions Authority

EFRAG = European Financial Reporting Advisory Group

EU = European Union

ESAs = European Supervisory Authorities

ESG = environmental, social, governance

ESMA = European Securities and Markets Authority

ESRC = European Systemic Risk Council

ESRS = European Sustainability Reporting Standards

FSB = Financial Stability Board

GDP = gross-domestic product

GHG = greenhouse gases

GRI = Global Reporting Initiatives

HLEG = High Level Expert Group

IFRS = International Financial Reporting Standards

IOSCO = International Organization of Securities Commissions

IPCC = Intergovernmental Panel on Climate Change

ISSB = International Sustainability Standards Board

NFDR = Non-Financial Disclosure Regulation

NGFS = Network for Greening the Financial System

NGOs = non-governmental organisations

PRB = Principles for Responsible Banking

PRI = Principles for Responsible Investment

PSI = Principles for Sustainable Insurance

RTS = regulatory technical standards

SASB = Sustainability Accounting Standards Board

SEA = Single European Act

SFDR = Sustainable Finance Disclosure Regulation

SFSG = Sustainable Finance Study Group

SFWG = Sustainable Finance Working Group

STF = Sustainable Finance Taskforce

TCFD = Task Force on Climate-related Disclosures

TEG = Technical Expert Group

TFEU = Treaty on the Functioning of the European Union

UN = United Nations

UNEP-FI = United Nations Environmental Programme Financial Initiative

UNFCCC = United Nations Framework Convention on Climate Change

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Chapter 1. Introduction

'Sustainable finance' had become a well-known catchy phrase in the discourse of a large number of international organisations in the financial markets after the most significant global financial crisis of this century so far. It is presented as a broad topic on the verge of an increased interest in 'ESG', power of corporations relative to regulators, concern with planetary boundaries and the search for an ethical foundation in environmental protection (Bose *et al.*, 2019, pp. 13-15). The consequences of the financial crisis had become a clear explanation for the importance that the financial sector always had to the economy, but one has to underline that the aforementioned sector is also essential to achieving the sustainability of the environmental and social sphere. This is based on roles such as those assumed in resource allocation, risk transfer as well as in decentralized signalling (Bose *et al.*, 2019, pp. 3-5). The well-reputed definition of sustainable development in 1987 of the Brundtland Commission that finds its way in any discussion on this topic can also be translated by emphasizing the role of finance in achieving sustainability: it suggests that the '*magnitude of current flows of goods and services cannot impair the stock of wealth from whence future flows of goods and services will come*'[1] (Bose *et al.*, 2019, p. 7).

Global governance involves an oscillation between politics-technocracy, decision-makers-experts often situated within the same institution and subject to a system of checks and balances (Klabbers, 2014, p. 85). Involving experts also brings about forms of political control, resulting in an endless list of bodies in the decision-making process, with multiple accountability arrangements (Klabbers, 2014, pp. 85-86). In order to avoid reaching the state of a 'global audit society', characterised by a complete lack of trust, certain 'final' levels of scrutiny need to be imposed as specific bodies need to be empowered in having a final say on certain matters (Klabbers, 2014, p. 88). When it comes to the European Union governance, expert-based policy-making faces scrutiny by political bodies, while excessive politicisation is kept in 'control' through the involvement of expert bodies (Klabbers, 2014, p. 84). The von der Leyen Commission integrates a sustainable finance framework under the auspices of its 'EU Green Deal', promoting legislative measures promising to finance the transition to a low-carbon economy. As the financial sector is important in the fight 'against climate change', the

[1] A stock represents an asset or liability that takes upon the value of what accumulated from past flows or the estimative value of a future flow. Whereas flows are a periodic value, as the name suggests, streams of services/money (Bose *et al.*, 2019, p. 7).

hypothesis of climate change risks for financial stability gathers political roots extending beyond the academic discourse in the European Union. Among legislative measures in the sustainable finance framework of the EU, several focus on renewing the benefits of the disclosure regime for financial market actors and not only. Disclosure leads to transparency, but transparency is only the pre-requisite to the public accountability that needs to be demonstrated by financial market actors for their non-financial information to increase the trust of investors and the public in the market.

In such context, I begin by questioning, at the basis of this research, *why is accountability and transparency in the financial market of the European Union important for climate change and sustainability.* To answer this, I bring arguments to support the hypothesis according to which ensuring the public accountability of financial market actors in the European Union on climate change and sustainability through transparency is a stepping stone in the broader agenda of the single and sustainable capital market that the European Union tries to materialise. To be more specific, the more concrete version of a secondary-supported hypothesis shows that as transparency is a pre-requisite for public accountability, the framing of regulatory provisions covering climate-related disclosure, in the implementation of the sustainable finance framework, is essential to demonstrate the integration of sustainability at the level of European Commission and the three European supervisory authorities for financial market actors[2]. To support these, significant theoretical observations are combined with insights of five experts, the qualitative analysis of positions taken by financial business associations in public consultations held by the Commission or expert groups on sustainable finance legislative measures, as well as the screening of the best practices of disclosing non-financial information/sustainability reporting of a selected sample of financial market actors in three pillars of research.

Concretely, the paper dives into the extent to which the sustainable finance framework of the EU integrates the regulation and implementation of transparency and public accountability of financial market actors. Nonetheless, the relationship between the Commission and European supervisory authorities is also used to show the integration of the topic of sustainability in the institutional financial architecture of the EU after the Paris Agreement. Exposing policy options and technical advice in the policy-making process or so-called cycle involves several takeaways from the exposure to stakeholder constellations in the

[2] Through financial market actors, for the purpose of this paper, I refer to both financial market participants, financial market advisers, financial market institutions and others. When otherwise meant than this general term, this is clearly marked so in the content of the paper.

theoretical approach of the bureaucratic lens approach. To tackle the preciously mentioned points, also the motives of the secondary questions of the paper, a certain structure is required. In the second chapter, I review the most significant academic directions that set the ground for laying down a consolidated theoretical framework. This involves both literature touching upon the staging of risk and climate change in policy, as well as scholar directions providing arguments of climate change risk as a threat for financial stability and how these fit into the block of literature on 'sustainable finance'. The third chapter focusing on the theoretical framework brings insights from how the research question and supported hypotheses fit into the EU regulatory approach and what the how expertise on the topic is used by the European Commission to enable its position formation.

The fourth chapter explains the third research pillar design used in collecting the data for the paper, as well as explains relevant insights from the methodological-focused literature that guided the scientific approach and raised awareness of eventual limits, where these could be mitigated and when this is not the case. Also, this section further showcases how the transparency of gathering the data and presenting the findings resulted from collected evidence was ensured. Justifications behind the decision to design three pillars of research, combing expert interviews with document analysis, in a qualitative manner, are also included in the respective chapter. In the fifth chapter, I combine and discuss the findings of these three pillars of research by observing the elements supporting the two hypotheses and by using a chronological approach to the evolution of these regulatory developments. Finally, in the chapter concluding this thesis, I revisit the reasoning of several arguments and bring up several recommendations resulting from the three pillars of research.

Chapter 2. Literature review

This current section reviews the state of research and arguments around the chosen research spectrum from several strands of literature focusing on the sociology of risks, corporate governance, climate change, sustainability as well as the European financial institutional architecture. As a result of this, the foundation for diving into the theoretical concepts that the arguments in the paper are using is prepared. Following this, the theoretical framework builds on existing findings of the above-mentioned strands of literature, to which an European Union-centred focus is brought, by zooming in on the regulatory approach as well as developments around the current sustainable finance framework.

2.1. From the risk society, world risk society to climate change as a systemic risk for finance

The academic vision regarding the interpretation of 'risk' has had a variety of narratives. On a spectrum of theories of risks, a place for both realist and constructivist perspectives can be identified, whether they represent the view according to which calculating the probabilities of risks is possible for the latter, or whether the source and nature of risks is determined by the context for the latter (Centeno *et al.*, 2015, p. 69). The image of a society close to hazard, facing countless globalized and different in scale risks has been the main message of the work that the famous social theorist Ulrich Beck put forward in the sociology of risk, although largely also subject to academic critique. To a certain extent, academic researchers also underline that Anthony Giddens, another important name for the sociology of risks, had also been inspired by the ideas of Beck in his writings. Risk[3] as a notion did not exist during the Middle Age nor in what Giddens considers as 'traditional cultures', but rather the word came into English through one of the Hispanic languages, where it was associated with navigation into unknown waters (2002, p. 21). However, when it was attributed the connection to time, the term started to be used in banking and investment to refer to calculation of consequences.

[3] For Giddens (2002, pp. 26-27), there is a distinction between external risk (such as famine, plagues, flood etc.) that is coming from the outside and the manufactured one which is the result of human actions – such as global warming and other environmental risks. The instances that involve manufactured risks are associated with the uncertainty of the level of risk eventually until it is too late (Giddens, 2002, p. 28).

Much of the debate around risk, trust and individualisation in Europe has been influenced by the work of Ulrich Beck (Hanlon, 2010, pp. 211-212). Introduced as concepts by the work of Beck starting with 1986, the risk society and reflexive modernization along with the themes discussed by Beck continued to penetrate popular, academic and management discourses in what could comfortably be called as a 'modern classic' of social theory (Hanlon, 2010, p. 211; Rasborg, 2012, p. 4). A first and second modernity distinction lies at the basis of the work of Ulrich Beck around the concept of (world) risk society. In the understanding of Rasborg (2012, pp. 4-5), the simple idea behind the theory of Beck is that traditional concerns of welfare distribution are replaced by those relating to the distribution of risks, which tend to go beyond the nature-originated ones to those relating to ourselves as a source of generation.

In the following paragraphs, observations regarding the conceptualisation of the notion of risk in the theory of Beck and relevant points of criticism available in literature are going to be made. The sociologist defines risks as representing *'the perceptual and cognitive schema in accordance with which a society mobilizes itself when it is confronted with the openness, uncertainties and obstructions of a self-created future and is no longer defined by religion, tradition or the superior power of nature but has even lost its faith in the redemptive powers of utopias'* (Beck, 2009, p. 4). Beck and Giddens agree on the fact that new forms of risk in the late modernity are not calculable, especially due to change in risk profiles noted by Rasborg as characteristic for the theory of Giddens (Rasborg, 2012, pp. 8-9). Beck himself noted the pervasiveness and plurality of definitions of risks that can be found, while also closely observing that the social effect of risk definitions is not dependent on their scientific validity (1992, pp. 30-31). As such, the sociologist mentions in his later work five theses around the notion of risks, by underlining that (1) risks are open to social definition and construction, (2) social risk positions spring up, (3) the diffusion and commercialisation of risks creates winners and losers of risk definitions, (4) consciousness of risks determines being and the visualisation of the (5) risk society as a catastrophic society (1992, pp. 22-23). However, Rasborg (2012, pp. 10-14) manages to capture the way that the perception of risk matured along the theory of Beck. When originally conceptualised, the notion of risk faced an epistemological and ontological weakness[4], navigating in between a perception of risk in a realist sense[5] and as

[4] Rasborg notes several questions in this sense that are failed to be answered by the work of Beck in his famous initial theses on the *Risk Society*.

[5] Here, Rasborg (2012, p. 10) refers to the so-called realist idea that the there is a separation between historical stages where risks could be calculable and one in which this is no longer an option – incalculable so to say. The dependency of the notion of risk on knowledge in the work of Beck is characterised by the author as too simple, by bringing forward the arguments of Dean (1998; 1999), who suggests a much more complex genealogy of risks than the theory of Beck allows to be understood.

social construction[6]. In his later versions of the theory, Beck decided for the position that risk is both real and socially constructed, not consigning himself to one of the two while further coining the terms 'constructivism realism' and 'institutional constructivism' that reinforce the critique-generated argument of a reinforced unclarity on the epistemological and ontological status of risk in the work of Beck (Rasborg, 2012, pp. 13-14). In his typology of global risks, Beck underlines that despite differences among ecological crises and economic dangers resulting out of global financial flows, one common aspect among the two is that both are to be perceived in the dialectic of 'goods' and 'bads' – side effects of decisions taken in the process of modernization (Beck, 2009, pp. 13-14).

A (world) risk society as envisioned by Beck is one in which, risks are not only limited to being interpreted as bringing about the dark side of opportunities, but rather present market opportunities themselves leading to tensions[7] between business and those aiming for the elimination of the respective risks (1992, p. 46). To add to this, one of the major themes mediating the relationship between risk and knowledge is expertise, as Beck sees a division of the world between experts, non-experts and the public sphere, where experts are gatekeeping the risks (Beck, 1992, p. 57; Hanlon, 2010, p. 214). As a second feature, Hanlon (2010, p. 214) reminds of the apparent rupture between scientific and social rationality which Beck also expresses in his thoughts on the 'demonopolization of science'. There are mishaps met in the attribution of causes by experts which lead to little action and devoid allocation of responsibility for the discussed risks, while lay population recognizes them by using social rationality (2010, pp. 214-215; Beck, 1992, pp. 163-164). The assumption according to which experts were 'trusted more' in the past, different for reflexive modernity in the sense that faith in science is weakened, is one of the points criticised in the observations of Hanlon when it comes to the understanding of risk, expertise and knowledge in theory of Beck (2010, pp. 215-216). Especially due to the fact that the aforementioned researchers motivate by examples[8] of what Beck would attribute to the first modernity, that lay knowledge also influenced expertise, which in turn was responsible for legitimising risks.

Ekberg (2007) considers the parameters of the risk society resulting from the work of social theorists such as U. Beck and A. Giddens, one category here being risk and trust.

[6] In this sense, radical constructivism relies on the understanding of risk as being socially and culturally determined by processes of selection and definition (Rasborg, 2012, p. 12).
[7] To put it in the words of Beck, tensions arise due to the fact that there is a variation between the consumption and production of risk definitions that 'range across all areas of social action' (1992, p. 46).
[8] In other words, 'the sub-politics of expertise pre-exists reflexive modernity and, importantly, has shaped the expertise that has infused this reflexive modernity.' (Hanlon, 2010, p. 216).

Precisely, risk and trust are in an inverse relationship, where if one is low, the other has a high-level correspondent. Ekberg (2007, p. 356) insists on the relationship between two types of trust conceptualised by Giddens as facework and faceless commitment. The latter, characteristic for reflexive modernity suggests trust in abstract systems, such as trust in expert systems. In managing risk, the strong accent on trust in expert systems led to an opposite effect in the work of Giddens. Most precisely pictured by the science-society relationship, science is no longer considered the only path to trust and credibility (Ekberg, 2007, p. 357). Radaelli (1999, p. 22) affirmed that expertise is operating in a politicised environment. By promoting the sociology of risk as connected to the politics of risk, risk issues exercise the possibility of the constitution of local and global interest groups around issues together with the formulation of policies targeting risk issues (Ekberg, 2007, pp. 357-358). In his call for a democratization of science, Beck considers that social transformation is one of the responses that could be given to the ethos of risk (Ekberg, 2007, p. 358). The experts involved in European decision-making processes are characterised as individuals in possession of extensive knowledge in a particular field, that is part of an even wider similar group functioning under a common base of knowledge and values, using accepted methods to present their findings (Ambrus *et al.*, 2014, p. 12) Nonetheless, they are also mediating between knowledge being produces and applied, hence actors in the politics of expertise (Ambrus *et al.*, 2014, p. 12) .

The reference to the risk society, institutions and expert systems made here is not coincidental. Beck himself insists on the further institutionalization of the role of experts (Ambrus *et al.*, 2014, p. 13). Burgess *et al.* (2017, pp. 1-2) explains that beyond the lingua-franca sounding expression, the main idea in the work of Beck is based on the fact that threats are a consequence of modernization itself and that in some cases institutions and instruments meant to cope with these risks are part of problem. As institutions themselves are overtaken by the global nature of risks, Beck notices a shift to a mistrust environment of corporations, scientific institutions and governments (Burgess et. Al., 2017, pp. 1-2). In the risk society of Beck, expert systems cannot simply ignore the public perception of risk. Yet, the understanding of risk in the work of Beck is only one of the tree strands of literature of the understanding of risk approaches together with the cultural approach and governmentality strand of Foucault (Burgess *et al.*, 2017, pp. 1-2). As such, the distribution of bads is a characteristic of the risk society, where risks cannot be abolished, rather managed, with trade-offs and unintended consequences along the way (Burgess et. Al., 2018, p. 3). Bulkeley (2001, p. 41, 432) also insists on two points in discussing the politics of risk in the Australian climate change policy context – the novelty of contemporary risk in the work of Beck, as well as the progression of

reflexive modernization. Regarding the former, the author underlines that the work of Beck on contemporary risks prompts them as inescapable over space and time and highly dependent on scientific knowledge. On the latter, one can notice the following characteristics in the progression of reflexive modernization pointed out by Bulkeley (2001): a shift from the politics of goods to the politics of bads, the politics - subpolitics division, on the top of which there is a 'politicization of science' and 'scientization of politics'. As expertise becomes demonopolized, the public deliberation of risk consequences eventually is accompanied by an institutional crisis of modernity (Bulkeley, 2001, p. 432). Managing risk also means recognizing how it is shaped by blame avoidance of the political spectrum. The tendency to amplify the negative aspects rather than give credits to institutional actors was given a theoretical perspective starting with the institutional scholar Kent Weaver (2009, p. 1). Hood (2009, p. 4) writes on the blame avoidance perspective in political science and mentions that blame avoidance strategies come in three varieties identified in literature, ranging from agency, to presentational and policy strategies managed by political actors.

Essential to note, the risks on which Beck builds most of his theory related to the world risk society, are largely related to ecological crises and global financial crises (Hanseth, 2010, p. 75). In order to be able to visualise the world as ecologically endangered, it is necessary to view it in natural scientific terms – abstractness is overcome when political awareness of climate change as apocalyptic is raised (Beck, 2009, p. 84). As an instance of the staging of the invisible, Beck mentions the report prepared by former World Bank economist Nicholas Stern for the British Government in 2006[9], in which climate change is presented as the greatest impeding market failure while advancing the economic argumentation that the costs of its prevention might seem large, but are a good long-term investment (Beck, 2009, p. 85). The sociologist also points out further observations on the realism-constructivism debate[10], as also observed in his earlier research of 1996 mentioned above, but this time more applied to the climate change context and the world risk society. Within the two approaches, Beck underlines that both agree on in terms of the language of the world risk society[11], with realists emphasizing

[9] The report itself was subject to criticism after its release especially on the errors in the model for the cost-benefit analysis, with some critics eventually coming back and mentioning that Stern might be right, but that for the wrong reasons. For a summary and discussion of critiques brought to the Stern report, see Cole (2008).

[10] When it comes to climate change in the terms of the world risk society theory, world risk society is to be perceived as 'a global socialization (…) enforced by man-made threats' (Beck, 2009, p. 144). For constructivism, transnational discourse coalitions emerged in the 70s and 80s reshaped the global discourse around 'planetary issues' within the Rio Summit and 'at the beginning of the twenty-first century, are reaching a new acme with the green turn of the New Labour government, the EU and perhaps the United States.' (Beck, 2009, pp. 144-145).

[11] Without going into too many details which fall outside the aim of this section, it is important to mention that one of the main developments in the theory of Beck from Risk Society to World Risk Society is the fact that in

world risk and constructivist debate placing a greater focus on the society (2009, pp. 85-87). In the adaptation of epistemological positions, Beck names the 'weak constructivism' as 'constructivist realism' where himself and Giddens are allocated within the reflexive modernization theoretical spectrum. Along the lines of institutional constructivism, the organized irresponsibility refers to the fact that the rule itself normalizes certain risks, for which state actors, political officials and industry set the criteria which are considered admissible (Beck, 2009, p. 91). Hence, in the discourse of the world risk theory, the debate on climate change is one of the examples in which institutional 'yardsticks' can neither calculate nor control the threats involved (Beck, 2009, p. 92). From here, opportunities of global challenges leading to new patterns of cooperation, conflict, regulation and consensus (Beck, 2009, p. 92). As another characteristic of the world risk society, in light of the fact that globalization can emerge both from above and below, Beck was questioning whether the time, during which climate change will be interpreted as 'serious' politics by nation-states while being legitimised by a global alliance of climate change, will materialise (2009, pp. 93-94). As global subpolitics[12] alliances emerge, the discourse on climate change can be perceived from the subpolitics of above spectrum. As such, Beck names the directors of several international organizations such as the International Monetary Fund (IMF), the World Bank (WB), World Trade Organization (WTO) and the Organisation for Economic Co-operation and Development (OECD) as an example of the interdependence at a global level, as well as an instance of discourse coalitions (Beck, 2009, p. 101). The global economy interprets climate change as an eventual source of opportunities, with the potential to create new markets (Beck 2009, p. 102). Protection of climate at a global level has the potential to rewrite state politics in terms of a shared responsibility in alliance with civic groups (Beck, 2009, p. 103). This way, the scope of the state extends to the practical capacity it possesses to get involved in action and the governance of transnational networks of which a variety of actors are part of, whether other states, nongovernmental organisations, supranational organizations or even transnational corporations (Beck, 2009, p. 103).

The connection between climate change and the risk society is conceptually debated by Beck (2015) from the self-proposed lens of the 'metamorphosis of the world' (*Verwandlung*) in both his research article and unfinished book. Of essence is the idea according to which

the latter, global risk is the 'staging of the reality of global risk' (Beck, 2009, p. 27). To put it more simply, staging world risk is essential to ensure that the catastrophe (as future event) becomes present and measures to tackle it are given ground (Beck, 2009, p. 27)

[12] Beck defines this term by referring to the 'decoupling of politics from government' (2009, p. 157).

climate change has changed the way in which politics and the world is conceptualised (Beck, 2015, p. 76). Global climate risk translates into power structure within the concept itself as it makes a reference to decision-makers, distinguishing between those who produce and those who are affected by risks (Beck, 2015, p. 76). In contrast to social change, the metamorphosis enlightens the understanding of how change is taking place, involving the power of side effects (Beck, 2015, p. 77). Using old concepts to refer to the future, as an example, industries are neither friends nor foes, but they have a mixed identity (Beck, 2015, p. 77). One of the four theses backing the view of Beck is that there are 'hidden' emancipatory side effects of global risk (Beck, 2015, pp. 78-79). In other words, the positive side effects of the 'bads' are the ones establishing normative horizons for common goods (Beck, 2015, p. 79). Global climate risk brings a reformation to the patterns of thought in a variety of areas and can be interpreted as an 'emancipatory catastrophe'. In the end, global climate risk becomes a compass for the 21st century, for being able to '*create new ways of being, looking, hearing and acting in the world – highly conflictual and ambivalent, open-ended, without any foreseeable outcome*' (Beck, 2015, p. 83). This image of the role of global climate risk is clearly in contrast to what Giddens was writing in 2011 on the politics of climate change on what the researcher himself coined as the Giddens's paradox[13].

Such a discussion on the topics outlined in previous paragraphs with large influence from the literature on the sociology of risks is relevant in the context in which certain academic strands of literature (Borne, 2006; 2010; 2013) advocate a certain symbiotic relationship between the discourse of the sustainable development literature and reflexivity in the work of Beck. Through the empirical evidence and analysis gathered by Borne along years of research, it can be assumed that scientific processes are connected to political and social processes, to the extent that reflexivity 'is now on operation on a global scale' (Borne, 2010, pp. 45-46). As a more concrete observation, sustainable development itself is embodying a language of uncertainty created by global risks, whose scale leads to the negotiation between policy and scientific processes reflecting a reflexive uncertainty (Borne, 2010, pp. 45-46).

Another way to conceptually refer to risks is by distinguishing systemic and emerging risks[14], for which relevant in the context of this topic are the former. By following Centeno *et al.* (2015, p. 68), one can define the interpretation of systemic risks as threats to the system

[13] Precisely, Giddens states that due to the fact that the dangers posed by global warming are not visible, many will do nothing about them and wait until it would be too late to address them (Giddens, 2011, p. 2). Yet, his interpretation in the respective book has been subject to strong criticism, see Castree (2010).

[14] Emerging risks refer to danger that did occur yet, most likely connected to new technologies or interdependencies (*Cetano et al.*, 2015, p. 68).

with a tendency to the process of contagion instigated by events such as accidents, disruptions or failures. By drawing a parallel to economics and finance in the context of climate change, other researchers such as Aglietta & Espagne (2016, pp. 8-11) describe systemic events as containing three elements – the eventuality of a broad shock at the root of several institutions or a limited shock with domino effect, contagion through interdependencies as well as an endogenous nature. Similarly, Choudhury (2021, p. 57) considers that systemic risk contains a shock, whether exo-/endogenous that within the economic system is responsible for impairing the capital flow and endangers the stability of the economy. By using evidence from the Intergovernmental Panel on Climate Change (IPCC) assessment reports over time, the authors argue that all the characteristics of systemic risks in the financial word are identified in the context of climate change (Aglietta & Espagne, 2016, pp. 8-11). Additionally, several reasons for which a positive feedback loop between climate and financial fragilities are provided. One of them is that climate systemic risk increases financial fragility, in the sense that the financial sector needs to prevent such events (Aglietta & Espagne, 2016, p. 14). In this sense, new types of risks to an already fragile financial system are brought, later described in this paper. Another argument is related to the fact that the financial sector itself might also be a driver of climate systemic risk through the means of financial misallocation through the effects of events such as the 2008 financial crisis on the worsening of the environment and other aspects that generated costs for the society (Aglietta & Espagne, 2016, pp. 15-16). Other arguments are connected to the irrationality of financing short-sighted profits as a result of financial transactions due to the primacy of shareholder value emphasis on equity return targets society (Aglietta & Espagne, 2016, p. 16). Last two points are justified by a political economy and institutional nature argument. More precisely, with some exceptions, the financial crisis agenda drives the political one in trying to build European resilient financial institutions, but the two researchers doubt that avoiding systemic events could lead to this objective (Aglietta & Espagne, 2016, p. 16). The institutional argument is built on a strand of literature affirming that there is a continuation of financialization of projects and activities of carbon-intensive activities, and that moving away from such institutional tendencies is usually slow, unless a long-term loss is identified (Aglietta & Espagne, 2016, p. 17).

In analysing climate change as a systemic risk, Choudhury (2021, pp. 59-60) revisits the range of losses caused by the previous systemic crisis – the 2008/2009 financial crisis. Despite largely focusing on the context of the United States, the researcher concludes that that the economic consequences of climate change would be at least as serious if not even graver than the previous financial crisis especially due to the further type of risks that the former can

lead to – physical risks, transition risks and other authors also insist on liability and other types of risks (Carney, 2015, p. 4; Alvarez *et al.*, 2020, pp. 3-4, Grünewald, 2021, pp. 229-230). Regulators, supervisors as well as the business sector recognize that climate related risks are should not only be seen as a type of financial risk, but rather one that can influence the stability of the financial system (International Organization of Securities Commissions, 2020, p. 3).

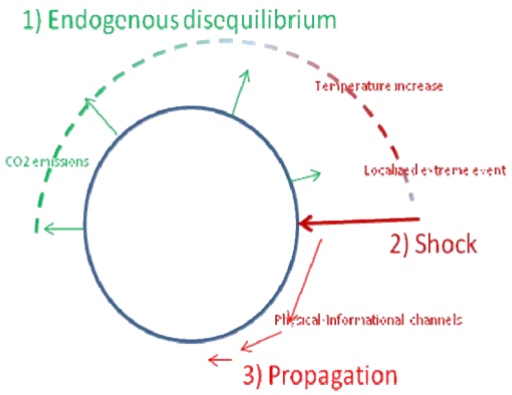

Figure 1. The climate systemic risk hypothesis. Source: Aglietta & Espagne, 2016, p. 8

Much of the political discourse had absorbed lines of the aforementioned line of arguments. Part of the social constructionist spectrum as one of its many approaches, discourse represents a 'particular' way of 'talking about and understanding the world (or an aspect of the world)' (Jørgensen & Phillips, 2002, p. 1; 4). Discourse analysis represents the analysis of such patterns, with a variety of approaches in terms of how discourse can be analysed – among which the theory introduced by Laclau and Chantal, the critical discourse analysis frequently associated with Norman Fairclough, as well as discursive psychology (Jørgensen & Phillips, 2002, p. 1). All three approaches have similar starting points, that discourse influences and contribute to how social identities, relations and the rest of the world is built (Jørgensen & Phillips, 2002, p. 1). But they differ through aspects tied to the role of discourse in the construction of the world as well as their analytical focus (Jørgensen & Phillips, 2002, pp. 18-24). Other authors have specifically focused on the characteristics of a climate change discourse in the context of actors at the international level. Following Reusswig (2010, p. 40), a climate change discourse has allotted the definition according to which it represents a thematically focused '*coupled* sequence of *publicly visible arguments* in various *contexts* (or *framings*) that different social actors are engaged in, in order to *influence* (a) *one another*, (b) specific *boundary conditions* of social action, (c) *the general public* so, that the resource endowments, interests and worldviews of the speaking actors have a higher *chance* to *prevail*

in the social interpretation and individual or collective *decision making processes*.' (*emphasis* in original). When researching the climate change discourse shift in Germany and the United States, Reusswig (2010, pp. 40 - 50) also makes valuable observations for this shift at the international level. As a result, it is possible to approximatively distinguish between an old and new climate change discourse with several characteristics. As such, a significant consolidation of the old climate change discourse took place in the late 1970s - 1980s and was significantly shaped by the formation of the Intergovernmental Panel on Climate Change (IPCC) under the umbrella of the United Nations Environmental Programme, as well as the World Meteorological Organization (Reusswig, 2010, p. 41). One of the fundamental questions for which the old discourse was searching an answer for, was whether and to what extent human activities did cause harm in climate change (Reusswig, 2010, p. 42). Several events such as the Stern Review, former United States Vice-President Al Gore winning the Nobel Prize for his climate science documentary and the Fourth Assessment Report released by IPCC announcing the end of the discussion about human impact causes climate change represent structural changes announcing the mainstreaming of a 'new' climate change discourse (Reusswig, 2010, pp. 43-44). The main framing of this new discourse is concerned with decision making under uncertainty, climate risks becoming embedded in various policy areas at several levels and transforms into social conflicts regarding bearers of climate policy costs, as well as winners and losers (Reusswig, 2010, p. 48).

Looking at the discourse of several actors within the policy arena, Haigh (2011, p. 1368) considers that texts produced by the World Bank and the United Nations Framework Convention on Climate Change (UNFCCC) share a discourse of climate management that resembles terms employed for consumption as well as business growth. More precisely, the World Bank's preferred approach used to include within its managerialist perspective a sustainability vocabulary, progress through financial instruments combined with a language of economic growth (Haigh, 2011, p. 1373). Analysed material of the UNFCCC revealed a similar tendency (Haigh, 2011, p. 1375). When it comes to the climate discourse in the business sector, the researcher provides examples of business events in 2009 which show that climate policies were not correctly understood by the investments sector, proving to be considered legitimate only to the extent that it leads to profitability (Haigh, 2011, p. 1375).

Most likely as part of what would fall under the new discourse of climate change, one important acknowledgement of the threat posed by climate change to financial stability was the speech of Mark Carney, the then-Chairman of the Financial Stability Board and Governor of the Bank of England known as '*Breaking the tragedy of the horizon – climate change and*

financial stability'. For the Financial Stability Board, this speech held before British insurers marks the conclusion that '*Climate Change is the tragedy of the Horizon*' (Carney, 2015, p. 3)[15]. Most of the ideas remitted in the content of the speech focus on insights regarding the tackling of climate change by insurers, but more general financial policy implications are also mentioned. Of central interest for the financial market is that the transition to a low-carbon economy can be smoothly ensured, as well as that the financing of this transition is efficient (Carney, 2015, p. 8). Addressing climate change risks through better information in the market can be done through working on comparable disclosure frameworks, for which a large number of initiatives are already available (the speech anticipates a climate disclosure task force) (Carney, 2015, pp. 8-10). In order for disclosure[16] to be effective, it must comply with several characteristics, among which, consistency, comparability, reliability, clearness and efficiency (Carney, 2015, pp. 8-10). It is important to also note that this speech took place before the 2015 Conference of the Parties (COP) 21 in Paris. On November 9, 2015, the Financial Stability Board (FSB) proposed a disclosure task force on climate-related risks to the G20 leaders, as an outcome of a public-private sector meeting held as an outcome of the interest of G20 leaders in the impact of climate change issues on financial stability. Part of the proposal, the role of disclosure is being described as envisioned by the participants in the respective meetings. The main idea on which the FSB document insists upon is that an information base supporting the analysis of risks in a 'smooth' transition towards a low-carbon economy can be built by improving corporate disclosure (FSB, 2015, p. 2). Two main advantages are being outlined, one of them focusing on company disclosures which would provide material for financial institutions to assess the extent to which transition plans and climate risks being considered by companies (FSB, 2015, p. 2). On the other hand, disclosure by financial institutions themselves regarding their exposure and management climate risks would potentially build market discipline and potentially provide data on which systemic risks and their propagation channels could be analysed (FSB, 2015, p. 2). Before discussing the strand of literature tackling sustainable finance in Europe, several insights regarding the European Union as an actor in climate and financial policy and architecture reveal significant findings and also integrate the research problem in this paper.

[15] Here, the meaning of tragedy is used in the metaphorical sense allocated by ancient Greek literature, representing the flaws of human nature that lead to catastrophe (Nicholson, 2022).

[16] By disclosure, one can understand the variety of information sources issued by the firm among which annual reports are also included (Akuffo, 2020, section 4.4.1).

2.2. Insights regarding the European Union as an actor in climate change negotiations and policy

The financial aspects of climate change have always been part of international climate change negotiations and its outcomes. Before mentioning several difficulties signalled in the identified strands of literature on this topic, several aspects regarding the European Union as an actor in climate change negotiations have to be mentioned. As such, it is essential to mention that the area of competence surrounding international negotiations/policy on climate change is shared between the EU institutions and its Member States, in line with Article 4[17] in the Treaty on the Functioning of the European Union (TFEU) (Pavese & Torney, 2012, p. 130; Lütz *et al.*, 2021, p. 179). While the European Union is listed as a full member of the UNFCCC under the regional economic integration organization flag, EU Member States also qualify for the full membership status, hence voting rights are shared on joint agreement, especially visible during COPs (Lütz *et al.*, 2021, p. 179). Research around the internal developments of EU climate policy is extensive[18], while actorness-focused[19] studies also tackle the external dimension[20]. Other authors choose to assess elements of the EU's quest for international climate leadership (Oberthür & Dupont, 2021). An extensive description of such developments has prior art in research, hence is beyond the scope of this paper. Still, since actorness studies usually have a strong focus on goal attainment, it might be suggestive to underline that the European Union was mostly able to reach its negotiating goals in terms of the Kyoto Protocol in 1997 and in Paris of 2015 but was marginalised and failed in terms of its mandate for the Copenhagen

[17] Basically, the Member States are entitled to exercise their rights independently on this topic or delegate the power and be represented by the Commission or EU Council Presidency (Lütz *et al.*, 2021, p. 179). Moreover, the European Parliament is also involved through co-decision.

[18] For such an account, see for example Boasson & Wettestad (2016, pp. 33-52) who distinguish three phases of such developments: '*pre-1997 (up to and including the Kyoto Protocol); 1998 to 2004 (gearing up to the new drive); and 2005–2010 (the new drive and beyond)*'.

[19] The concept of actorness was introduced by Sjöstedt (1977), only to develop both an internal conditions and external conditions strand of literature, as well as researchers that combine both. Such debate lies within the constructivist spectrum and develops variables such as presence, opportunity, coherence and capability to refer to the varying degree of actorness of the European Union. An overview of the debate is offered by Lütz *et al.*(2021, pp. 3-6), while a survey of academic literature on the topic of actorness is also presented by Cmakalová & Rolemnc (2012) and Brether & Vogler (2013). The relationship between internal cohesiveness and external effectiveness is theorized by Conceição-Heldt & Meunier (2014). A step forward is also made more recently by Klose (2018), who brings an interactionist role theory dimension to the concept of actorness, while also theoretically developing a framework and presenting an empirical case in which it is applied. Overall, the intergovernmental nature of EU participation in international climate politics demonstrates that its actorness depends on its internal cohesion and external opportunity structure (Pavese & Torney, 2012, p. 140).

[20] For instance, Groen & Niemann, 2013 for Copenhagen negotiations; Pavese & Torney, 2012 for an explanation of conditions of EU actorness in the climate regime, more recently see Lütz *et al.*, 2021 observing the Kyoto Protocol, Copenhagen Accord and Paris Agreement in 2015.

Accord of 2009 (Lütz *et al.*, 2021, p. 186). It might be suggestive to affirm the trend, that so far, the European Union has had the most ambitious climate policy objectives among major economies, as demonstrated by academic literature (Oberthür & Dupont, 2021, p. 1101). Post-Kyoto world saw a division between Annex I (industrialised countries) and non-Annex I countries which were exempted from emission reductions and whose emissions continued to raise (Falkner, 2016, p. 1110). Finding a common position of sharing the burden of emission reductions pushed forward a distributional conflict (Falkner, 2016, p. 1111). However, COP 15 which ended with the Copenhagen Accord prepared the ground for what would later take place in Paris. The changing context after Copenhagen was largely influenced by the fact that world leaders sat down and agreed to a future system of voluntary pledges for climate (Falkner, 2016, p. 1111). Step-by-step, local and regional developments around the world materialised in bottom-up initiatives that led to a transnationalisation of climate initiatives, especially since the 2000s and also brought forward the embeddedness of climate policies within national agendas (Falkner, 2016, p. 1112). In more recent accounts focusing on the EU and its eventual march towards a grand climate strategy, Oberthür & Dupont (2021, pp. 1101-1108) assess the extent to which the EU mobilised in the pursuit of the aforementioned, also in light of the European Green Deal and the COVID-19 pandemic. In terms of assessing exemplary leadership, it is recognized that the EU has so achieved its domestic mitigation targets, with a 24% emissions reduction rate for 2019 compared to base year 1990, despite work that still needs to be done on the 2030 and 2050 targets. Along the strategic programme proposed by the European Green Deal at the Commission's formulation, legislation being implemented is meant to give a push forward to climate objectives across a variety of policy fields (Oberthür & Dupont, 2021, p. 1105). When looking at the diplomatic leadership exerted by the EU, increased efforts in coordination can be noted along the lines of a dedicated Working Party in the Council, enhanced acknowledgement of the European Commission as well as 'speaking with one voice' in multilateral negotiations through the rotating 6-month Council Presidency (Oberthür & Dupont, 2021, p. 1106). Taking climate change aspects in other international forums, beyond the UN climate process, as well as assuming more responsibility when the Trump administration chose to withdraw from the Paris Agreement are all part of the diplomatic leadership display (Oberthür & Dupont, 2021, pp. 1107-1108).

The Paris Agreement is a legally binding international agreement adopted under the UNFCCC tackling climate change (UNFCCC, 2022). It is the result of the agreement between 196 Parties reunited in December 2015 at COP 21 in Paris, with the agreement entering into force in November 2016 (UNFCC, 2022). In other words, the Paris Agreement represented a

signal to the market that long-term emission goals will aim towards a pathway to carbon neutrality and future climate negotiations will work on further developments to this discourse (Falkner, 2016, p. 1115). By means of the nationally determined contributions, the previously mentioned distributional conflict is brought in the shadow as states are allowed to self-determine their contribution to mitigation efforts (Falkner, 2016, p. 1115). A system of regular review and mandatory national reporting for parties under the Paris Agreement push transparency as a key regulatory tool in building trust and bringing all countries together in mitigation efforts, while still retaining a certain differentiation in its formulation (Falkner, 2016, p. 1116). As observed by research, the Paris Agreement does not push forward a new logic of international climate politics, but rather a better alignment of policy to the realities of politics in this sphere. To this extent, major emitters stepped up to the challenge of reducing emissions, but by using a language of domestic priorities in policy rather than a global normative view (Falkner, 2016, p. 1119). As such, the Paris system put in place the foundations of a hybrid system combining a top-down with bottom-up approach, especially by involving a peer pressure among states and naming and shaming strategies, both from a higher level as well as to some extent by civil society (Falkner, 2016, pp. 1120-1121). Limiting global warming to below 2 degrees, even more preferably 1.5 degrees compared to pre-industrial levels are essential objectives mentioned in Article 2 *letter a.* of the Agreement (UNFCC, 2015, p. 4). Moreover, *letter c* of the same article mentions that global financial flows should be redirected on finding a path towards low greenhouse gas (GHG) emissions as well as a climate-resilient development (UNFCC, 2015, p. 4). As an important tool of avoiding a humanitarian catastrophe to which an unmitigated climate change could lead towards, the Treaty became a benchmark in terms of environmental impact for both policy and finance, especially due to its outcome-focused format (Lovisolo, 2021, p. 260). Finance has always been one of the most contentious issues in climate change negotiations and policy.

The transition to a world below 2◦C above pre-industrial levels as proposed by the Paris Agreement highly depends on the extent to which the mobilisation of climate finance and the financial sector is achieved. Gomez – Echeverri (2013, p. 635) note the absence of a universal definition[21] of climate finance. In the Paris of 2015, the renewed promise of developed countries mobilising US$100 billion per year from 2020 and 2025, as well as higher commitments by then on forward, became clear (Roman *et al.*, 2017, p. 27). From Rio in 1992

[21] The two researchers analyse the United Nations Framework Convention on Climate Change's text of 1992 and find no narrowing down of the definition – the reference to 'agreed full costs' in one of the Annex II articles do not ensure much operationalisation (Gomez-Echeverri, 2017, p. 635).

to Paris in 2015 and even further, the shift from a problem to solution approach in tackling climate change put a strong emphasis on implementation and with it on financial issues (Gomez-Echeverri, 2017, p. 636). It is well-noted that the transition to a low-carbon economy by the means of financial systems takes on the meaning of financial markets that are able to allocate capital, assess, transfer risks as well as the facilitation of price discovery in an efficient manner (OECD, 2021, p. 11). A changing geopolitical environment leads to the diversification of stakeholders and policy actors in the climate finance web, with private climate finance gaining a significant foothold and at times even shadowing public finance (Gomez-Echeverri, 2013, pp. 640-642). Several important organisations, such as the United Nations Environmental Programme (UNEP), UNFCCC and OECD, as well as academic research insisted on the importance of private climate finance[22] for climate change (Kawabata, 2019, p. 2). Companies are dependent on the financial institutions that provide them with investments and as a result when the inclusion of sustainability and climate change risks are sought after by financial actors, the latter can bring pressure to companies (Kawabata, 2019, p. 3). Quantitative research into factors that lead to the mobilisation of climate finance builds hypotheses based on an external pressure factor (climate policy as well as membership of climate initiatives) and an internal factor (such as management responsibility, employee awareness and the type of financial services) (Kawabata, 2019, p. 5). The multiple regression analysis applied to a data sample of 102 financial institutions with publicly available information shows that membership in climate finance initiatives and institutional pressures are more effective than climate policies at the national level. Added to this, the involvement of the higher level of management in the climate change policies of the entity also play an influential role (Kawabata, 2019, pp. 11-14).

Actors within the financial sector take upon a dual responsibility in addressing climate change. On the one hand, they must prepare for the business risks that might be brought upon themselves, while on the other hand the products and services they offer must be adapted to mitigate the opportunities and risks brought by a carbon-constrained society (Labatt & White, 2007, p. 42). Financial markets play an essential role in the transition to a low-carbon future. They can lead to the assessment of net benefits while channelling capital to those entities that are truly embarking on the transformation pathway (OECD, 2021, p. 20). As an outcome of the financial crisis of 2007-2008, stakeholders within the financial sector started to lose their interest in unsustainable prospects (Bose *et al.*, 2019, p. 10). Hence, the search for sustainability

[22] Private climate finance refers to the capital that is provided by the private sector to reduce emissions and further climate change impact-reducing activities (Kawabata, 2019, p. 2).

in terms of financial valuation – repeatable sources of return should follow a holistic approach and include natural and human capital beyond the produced capital (Bose *et al.*, 2019, p. 10). Such a manner of valuation allows the financial sector to move beyond short-termism and isolate sources of return that might gained an enhanced value in the long term (Bose *et al.*, 2019, p. 10). Sawyer describes financialisation as one among many major economic and social forces at a global level (Sawyer, 2020, pp. 1-3). Such process inevitably rose many issues to environmental degradation. Hence, in order to address the gravity of the climate emergency, significant changes in the structures of the financial sector are required in a way that allows for a concentration of funds towards green investments as well as reductions of environmental damage (Sawyer, 2020, pp. 1-3). Due to the distributed nature of financial ecosystem among many policy actors and jurisdictions, Bose *et al.* notes the inefficiency of prescriptions arising from the direction of single regulators (2019, p. 42). By noting the existence of a physical and transition risk vocabulary in academic literature, OECD signals that transition risks and opportunities have begun to be priced by markets, but several impediments are yet to be overcome (2021, p. 12). These include the need to improve climate-related disclosures, interoperability of climate transition metrics as well as further tools and methodologies underpinning disclosure, valuation and stress-testing in financial markets (OECD, 2021, p. 13). However, one significant trend to be noted in that financial authorities have begun taking steps in assessing climate risks and opportunities (OECD, 2021, p. 20). Understandably, it is by no surprise that transition investment opportunities have begun, as observed within OECD studies, to be reflected in the long-term performance and market valuations (2021, p. 21). Hence, it should follow that financial market actors call for disclosure with attributes such as comparability and reliability in terms of risks and opportunities when it comes to climate change (OECD, 2021, p. 21).

The international community is still divided in terms of generating a response to climate change. The sixth assessment provided by the Intergovernmental Panel on Climate Change (IPCC) shows that recent changes that characterised the climate system and its actual status quo has been with no previous occurrence ‘over many centuries to many thousands of years’ (IPCC, 2021, p. 8). The 2015 Paris Agreement was not meant as a fix in the approach to the climate problem, but it was rather the chance for a more realistic process to climate change politics (Falkner, 2016, p. 1125). Commitments within the Paris Agreement and UN 2030 Agenda for Sustainable Development became part of EU policy objectives. Kinley et al. (2021, pp. 599-600) finds that despite the three almost universal treaties that resulted out of the climate change negotiations, there is much to be done by involved actor in terms of implementation.

Considering the relative successes of the progress up to now on the path towards climate neutrality, the failure of implementation needs to be corrected since the pace of the past 30 years cannot continue (Kinley *et al.*, 2021, pp. 599-600). Somehow responding indirectly to the calls of Kinley *et al.* (2021, p. 600) in terms of the UN Secretary-General as an advocate of the importance of making climate change a priority by business and governments, António Guterres noted in a video message on April 4, 2022 that 'we are on a fast track of disaster' and that the recently released IPCC report is full of empty pledges and broken climate promises (United Nations, 2022).

One of the ways in which policy-makers and market players choose to respond to climate change as a systemic risk within the financial system is designing regulatory approaches. This can be more generally understood as a preference for economic-oriented climate change regulation. In this field of arguments, supporters bring forward three main arguments related to the fact that market failures require intervention, the tendency of companies and industries to deny climate change, as well as the tendency to underestimate them and remain insufficiently prepared (Choudhury, 2021, p. 66). When governments justify regulation in this area, they may engage in using arguments related to an enhanced efficiency (for instance a cost-benefit analysis), the precautionary principle, as well as regulation as an option value (maintaining a certain flexibility in being able to control climate change when needed) (Choudhury, 2021, pp. 72-74). One of the mostly widespread and asked for global common regulatory approaches is disclosure (Choudhury, 2021, p. 79). Corporate disclosure of climate-change related risks brings both advantages as well as raises certain issues[23]. Following this line of thought, the integration of disclosure, with an emphasis on climate change, through different instruments by the European Union, in its broader sustainable finance framework, might serve in addressing transparency and accountability issues, as I am going to show and argue.

2.3. The relationship between disclosure and corporate governance

Before coming closure to the idea of sustainable finance, several mentions regarding the relationship between disclosure and corporate governance must be specified. Disclosure is

[23] For instance, such an approach can support financial market actors in taking sound investment decisions, by providing the information required to induce an early recognition of such risks and act upon them (Choudhury, 2021, p. 82). However, despite the diffusion of disclosure discussions, compliance is still weak, in some cases it is used selectively by entities and do not lead to market discipline (Choudhury, 2021, pp. 79-82). Hence, it should be relied upon exclusively (Choudhury, 2021, p. 82).

strongly associated to the context of corporate governance. Disclosure and corporate governance have been the subject of thousands of pieces of scientific research, ranging from legal journals to accounting journals specifically addressing the topic (Huber & DiGabriele, 2021, p. 153). Corporate governance is dictating the meaning of disclosure, since the latter is a function derived from the legal basis of the former (Huber & DiGabriele, 2021, p. 154). The legal scholarship on corporate governance is divided in two more general theories of who controls the corporation – shareowners[24] or directors' primacy[25]. Expanding this discussion is not the objective of this section, but rather this was mentioned in order to point out that there is a certain information asymmetry[26] in corporate governance discussions which disclosure is directed towards. As a consequence, disclosure becomes necessary in order to communicate information to those that provide the capital in a public company, regulators, shareowners and the more general public (Huber & DiGabriele, 2021, p. 157). Disclosure can be voluntary/discretionary, mandatory/required, as well as financial or non-financial, while being determined by the laws of each country (Huber & DiGabriele, 2021, p. 157).

When it comes to financial organisations, there is no specific definition of corporate governance being accepted universally, but rather certain good governance principles widely referred to, at an international level. However, Akuffo (2020, p. 9) mentions that it can be seen as a set of standards and principles that aim to regulate how the financial organisation bodies are designed, composed, as well as the functioning of their governance. Certain corporate governance issues[27] are specifically different for financial organisations than for non-financial firms. From this, it can be understood that a higher level of scrutiny and supervision comes from the side of regulators to financial market participants since instability and corporate failure in this area can have grave consequences for the entire economy (Akuffo, 2020, p. 10). Several drivers of the demand for an effective corporate governance of financial organisations might be noted. But the most relevant ones are certainly connected to corporate scandals around

[24] This theory considers that shareowners should be the ones controlling the corporation since they are the owners of the corporation, hence directors', their agents, should focus on maximizing their interests (Huber & DiGabriele, 2021, p. 156).

[25] As a general idea, this theory rejects the above mentioned one, since it is not shareowners that own the corporation, rather directors are mandated to control corporations by law (Huber & DiGabriele, 2021, p. 156). Hence, it is considered that directors owe a duty to the corporation, that of sustaining the corporation (Huber & DiGabriele, 2021, p. 157).

[26] The information asymmetry is connected to the separation of ownership and control in the shareowner vs director primacy debate, considering that the latter possess information that the latter do not have access to (Huber & DiGabriele, 2021, p. 157).

[27] Some of these issues are related to key stakeholders being much broader for financial organisations, as well as the speed with which risk profiles can be changed for this type of organisations Akuffo (2020, p. 9). In order to counter these, the Basel Committee is the author of a number of frameworks allowing for an effective corporate governance of these organisations (Akuffo, 2020, p. 9).

the world, as well as to how the severe crisis in the financial markets of 2007-2008 proved that corporate governance practices are essential to the stability of financial organisations (Akuffo, 2020, pp. 10-11). Mutual trust in these organisations and system can only be built through the soundness of these practices (Akuffo, 2020, p. 11).

In the European Union[28], modernisation of corporate governance regulatory efforts were triggered by the failure of the Italian firm Parmalat (Akuffo, 2020, p. 19). To a large extent, rules in this area are considered by the European Commission within the terrain of domestic politics. Hence, the preferred approach of the Commission is the one related to action plans, recommendations and directives focusing on how to guide Member States in their regulatory approach to corporate governance and disclosure (Akuffo, 2020, p. 21). Most of the European efforts since the 2000s on governance and accountability of corporations tackled the central idea of the shareholders' rights and responsibilities (Akuffo, 2020, p. 21). On this sphere, instead of an all-encompassing set of rules, the EU chose a comply-or-explain regime built by the commissioning of reports, resulting in Green Papers and ending as 'Action Plans' followed by their implementation through the legal instruments that are available (Akuffo, 2020, p. 23). Since 2003, the European Commission has been especially active in the championing of accountability and transparency of corporations through action plans, recommendations and directives. Firms should ensure a high level of transparency and disclosure in Europe, and regulatory developments such as the Directive on 'Transparency Requirements for Listed Issuers' as well as amendments brought in further years to existent legislation aim for harmonizing these requirements (Akuffo, 2020, p. 23). The global financial crisis emphasized several lessons to be learned regarding corporate governance and accountability and these materialised in several policy initiatives and Green Papers, voicing new demands to be implemented on systemic risk, board effectiveness, remuneration, risk management and other topics (Akuffo, 2020, p. 25). Generally, the aforementioned aspects show that the framework developed by the European Commission in this area of corporate governance and disclosure has been largely affected by lessons drawn from the global financial crisis and it is within the main interest of the European Commission to encourage comparability and harmonisation of such practices among Member States (Akuffo, 2020, pp. 25-26).

When it comes to accountability, it can easily be noted that there is a multitude of accountability practices that are voluntary or mandatory, for which similarities to the traditional

[28] For a detailed overview of developments in the area of corporate governance with a specific focus on financial organisations in the European Union, see *Appendix 3* presenting a chronological table of tools employed by the European Union adapted through the research of Akuffo (2020) and others.

instruments of accountability may be difficult to observe (de Boer, 2021, p. 2). Having an Anglo-American semantical etymology, the most concise way to describe accountability is as an obligation to explain and justify conduct (Bovens, 2007, p. 450). One of the most widely used conceptual frameworks defines accountability as a social relation: it is a '*a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences*'[29] (Bovens, 2007, p. 450). By posing several questions regarding accountability in his conceptual framework, Bovens also insists on the problem of 'many eyes' leading to five types of accountability, to whom account is rendered[30] (Bovens, 2007, pp. 455-457). In accounting and finance literature, most of the discussion focuses on the accountability as a cornerstone of corporate governance, seeking to clarify the margins and extent to which individuals could be held accountable in the organisation – as an instance of this, several revisions of the relationship between shareholders and corporate officers have been characteristic for different jurisdictions around the world (Akuffo, 2020, p. 80).

The concept has also been studied in relationship to global environmental governance, as well as climate change and civil society. For instance, Newell (2008) considered at the time that accountability in global environmental politics had been neglected and insisted on taking the private dimension of accountability politics into account when looking at issues from this sphere such as climate change. This author argued in favour of two dimensions of accountability, as employed by others before, namely answerability (which includes the right to accountability and to demanding a justification from those who are to be held accountable) and enforceability (the means/ways in which accountability is secured) (Newell, 2008, p. 124; Akuffo, 2020, p. 83). Nonetheless, same author noted that it is for the best to think of the discussed concept as a dynamic one, constantly deriving additional meaning beyond being

[29] Within this definition, the actor can range from an individual to an agency, while the forum may range as well from a parliament to the media, a court, audit office or others. Whereas the specific obligation may be a formal, informal or self-imposed one, the three stages of accountability referred to in the definition allow for a clear distinction to the term 'transparency' (Bovens, 2007, pp. 450-453). Therefore, transparency is not enough to qualify for the way accountability is defined by Bovens, even though it is sometimes used as a synonym. The reason behind this is the absence of scrutiny by a forum. In other words, transparency is to be interpreted as a pre-requisite of accountability, a necessary but not sufficient condition since it might only be one-directional (de Boer, 2021, p. 7; p. 9).

[30] The discussion here is about political, legal, administrative, professional and social accountability (rendering to stakeholders, interest groups, charities and to which Internet bring a new dimension) (Bovens, 2007, pp. 455-457). Also, the problem of many hands is discussed ('who is the actor') – for which four strategies are suggested (corporate/hierarchical/collective/individual accountability) (Bovens, 2007, pp. 458-459). The nature of the conduct leads to accountability at the financial, procedural or product level, whereas the nature of the obligation could be either vertical, diagonal or horizontal (Bovens, 2007, p. 459). As a rationale behind accountability, one may adopt at least three different perspectives from which this concept can be evaluated, one of them being the learning one when aiming to enhance government effectiveness (Bovens, 2007, pp. 462-464).

formulated and thought of in the borders of the distribution of power in institutional context (Newell, 2008, p. 125). In this context, one can understand that despite transnational civil society groups raising demands in this area to international bodies, most of such requests are still dealt with through the authentic channels provided by national states (Newell, 2008, p. 125). Moving the discussion into the field of public accountability, the author discusses new forms of accountability at the type such as legal activism, multilateral development bank campaigns, hybrid accountabilities, civil regulation (shareholder activism, corporate accountability movements, civil society accountability) (Newell, 2008, pp. 130-147). It can be derived that a broad meaning of accountability is assumed to be there, when within a relationship of two or more actors/bodies, one's actions or performance are subject to the oversight of the other, having to provide an informed justification on the respective actions or performance (Akuffo, 2020, pp. 81-82).

Basak & van der Werf (2019) discuss the accountability regime in international climate change financing by employing principal-agent theory and assuming climate change 'donors' as principals and climate change recipients as 'agents'. Within this meaning, the two researchers show that the need to implement formal and informal accountability mechanisms in order to shape the interests of the two parties to the same level (Basak & van der Werf, 2019, pp. 308-309). Also focused within this literature spectrum, Widerberg & Pattberg (2017, pp. 83-84) demonstrate the existence of accountability challenges in the transnational regime complex[31] for climate change, such as the difficulty of setting the borders of the respective transnational regime (who should be held accountable to whom), utility of sanctions as well as transparency, monitoring and reporting challenges. Scholars studying accountability from the field of corporate governance prefer to focus on two main mechanisms of demonstrating its presence: internal and external mechanisms[32] (Akuffo, 2020, pp. 83-84). The existence of these mechanisms is meant to ensure that the company's position and prospects are properly transmitted to internal and external stakeholders, to balance a walking line between the information that cannot be transmitted outside the business and the one that can be included in the communication of a company's strategy, risks and results (Akuffo, 2020, pp. 84-85). It is

[31] In the meaning attributed by the authors within the paper (Widerberg & Pattberg, 2017, pp. 69-70), this concept is meant to note the shifting of the monocentric international regime to climate change to a polycentric one, made of a varied network of actors at different levels and of different types.

[32] As summarised and adapted by Akuffo (2020, p. 84), internal mechanisms through which accountability is ensured at a corporate level are the boards and sub-committees, executive management & compensation tools, as well as internal controls and risk management. On the external side, there are instruments which include court decisions, laws, company acts, regulation & supervisory rules, institutional ownership next to the market for corporate controls (Akuffo, 2020, p. 84).

important to recognize that financial reporting, voluntary disclosures, accounting are part of the means of ensuring transparency by disclosure. These underwent a shift from a shareholder-centric to a stakeholder-centric model to a large extent, especially visible in research on the role of environmental, social and governance ('ESG') factors and sustainability reporting for the financial service sector (Akuffo, 2020, p. 88). In this sense, the fact that sustainability has become an essential business issue translates into an increased attention from stakeholders regarding the quality of this type of reporting. Together with the global financial crisis, the bars for disclosure have been raised to a more proactive approach rather than in a reactive manner generating a clear distinction and advantage on the market for those entities that maintain an integrated communication approach strategy and those that only react to legislative or mandatory requirements (Akuffo, 2020, p. 91).

2.4. 'Sustainable finance' *aka* 'Finance for sustainability'?

It is now necessary to show how the discussion in previous section fits under the concept of 'sustainable finance' in the policy context. This section of the paper will focus more on the heterogeneity around the concept of sustainable finance and how this term became institutionalised within the work of international organizations in the financial market, as well as the meaning attributed to the term in the framework built by the European Union. An explanation of several more general aspects around the financial market institutional architecture of the EU is to follow as well.

The heterogeneity of ways in which sustainable finance's meaning is shaped can be organised in three concentric layers of analysis, focusing on the wider policy context, the industry-originated frameworks as well as operational and labelling standards and materialising in a certain sustainable finance landscape (Migliorelli, 2021, p. 4). On the basis of this classification, it is possible to distinguish certain elements of sustainable finance when adopting a wider scope and policy-driven perspective (*Figure 2*) (Migliorelli, 2021, p. 5). When looking at this landscape, Migliorelli (2021, p. 10) argues that the concept of sustainable finance today requires answers to two questions. One of the questions an answer needs to be forged for, is what the sustainability dimensions being referred to are. Here, the Paris Agreement and Sustainable Development Goals of the UN 2030 Agenda are the two key developments. A second question takes a sector-centric perspective, focusing on how sustainability can be reached through the respective economic activity. Hence, by taking all the three dimensions of

the sustainable finance landscape and the aforementioned guiding questions, a workable definition can be put into words which explains finance for sustainability as the 'finance to support sectors or activities that contribute to the achievement of, or to the improvement in, at least one of the relevant sustainability dimensions' (Migliorelli, 2021, p. 10). In this sense, the scientific community and policy-makers share a joint responsibility of putting the working definition into practice, while financial institutions should aim for mainstreaming this process (Migliorelli, 2021, p. 11).

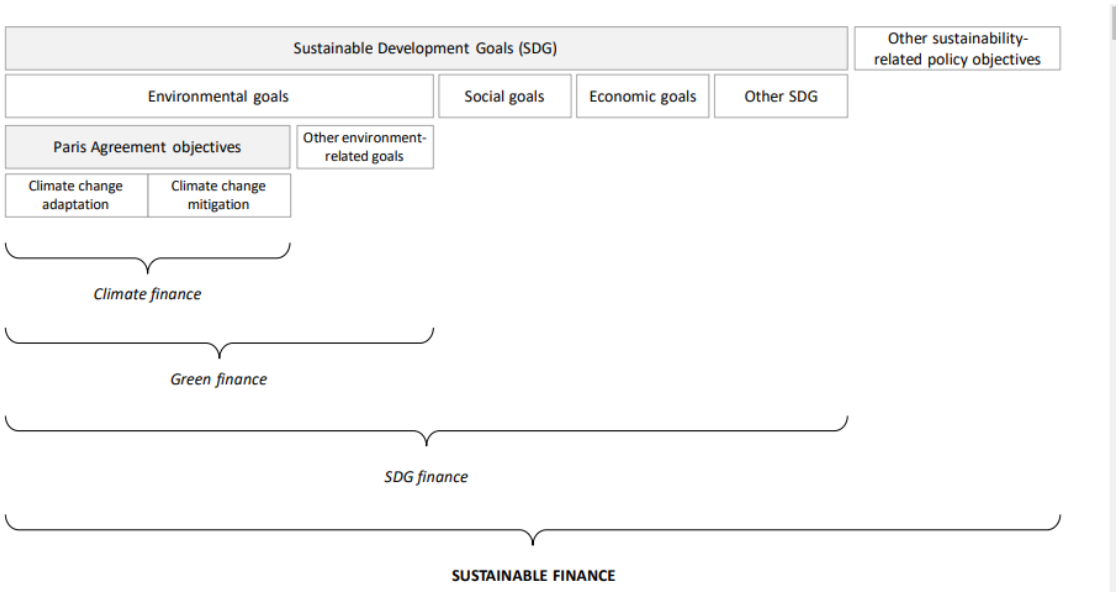

Figure 2. Conceptual map of 'sustainable finance'. Source: Migliorelli[33], 2021, p. 5.

Now, let us focus on several changes capturing the institutionalization of sustainable finance in the work of international organizations whose actions, standards or expertise are relevant for the financial market, mainly how their position on the topic has been articulated in defining sustainable finance. Experts are entrusted with the role of highlighting issues for the policy agenda, as well as the framing of these issues in such a way that they can be linked to pre-existing ones (Haas, 2014, p. 21). Regulatory policy-making makes use of experts' input in different ways, ranging from an instrumental role (identify the 'best' solution), strategically (to support an already pre-defined position) to a symbolic use (as a tool to strengthen the organisation's/agency's reputation and legitimacy) (Schrefler, 2014, p. 66). The most widely use of expertise is of an instrumental type, with symbolic and strategic role assuming a complementary role in some cases (Schrefler, 2014, p. 73). While doing this, experts also provide support in illuminating state interests, privileging certain policies and shaping the

[33] Despite small adjustments made by the author, this is also similar to how the concept is pictured by the World Bank (2017, p. 85) in its roadmap and previous United Nations Environmental Programme conceptualisation.

international bargaining space by means of their influence on states' preferences (Haas, 2014, p. 21).

Some examples of 'sustainable finance' expertise are to follow. During the Chinese Presidency of G20 in 2016, a group of experts formed the Green Finance Study Group[34] and became responsible for identifying the market barriers to green finance, while also pursuing the mission of identifying ways in which the scaling up and mobilisation of private climate finance would ensue (G20, 2016a, p. 7). While working on building consensus on such matters, the Group was rebranded during the Argentinian Presidency of G20 as the Sustainable Finance Study Group (G20, 2022). As an outcome of the Italian Presidency, the SFSG was further mandated as the G20 Sustainable Finance Working Group (G20 SFWG). This upgrade brought forward further responsibilities such as developing an evidence-based climate-focused roadmap for sustainable finance of the Group, working on the alignment of financial institutions, sustainability reporting improvements (G20, 2021, pp. 2-3). In its finance roadmap on the topic, the World Bank provides an extended explanation of the meaning of sustainable finance as a new concept one that is has its roots in three investment approaches[35]. The main idea here is that when defining sustainable finance (and also climate and green finance), the emphasis is on the use given to financial resources instead of approaches used to select the investments or the main motivations/objectives of investors (World Bank, 2017, p. 83). Moreover, climate financing and green financing are perceived as a subset of sustainable finance (World Bank, 2017, p. 84). This is in line with more recent academic research on the heterogeneity of the concept (Migliorelli, 2021).

For the International Organization of Securities Commissions[36] (IOSCO), defining sustainable finance follows academic research and is connected to the interaction between finance and economic, social and environmental issues (International Organization of Securities Commissions, 2020, p. 3). Precisely, it is about the way in which ESG factors matter

[34] Under this expert group, green finance was defined as ' "Green finance" can be understood as financing of investments that provide environmental benefits in the broader context of environmentally sustainable development.' (G20, 2016b, p. 1).

[35] Out of these three, one can be reminded of a socially responsible investment approach, associated with a niche segment of religious groups and the United States that expanded to Western Europe at the pressure of institutional investors starting with the 70s. A second approach is related to ESG investing or responsible investing and is the one that is adopted by the Principles for Responsible Investment. A third such direction is known as impact investing and is the result of institutional investors interested in achieving certain ESG outcomes instead or along financial return, being characteristic starting with the 2000s (World Bank, 2017, pp. 83-84).

[36] IOSCO is an international body involving the membership of world's securities regulators and working together on the global financial regulatory agenda with G20 and the Financial Stability Board (International Organization of Securities Commissions, 2022).

for financial decision-making[37]. In describing its role on the topic, IOSCO underlines that it is not within its remit to promote sustainability nor sustainable finance, but rather its built role arises from its more general principles related to disclosure, to the extent that it can provide a hub in which regulators can work on coordinating their approaches, observing cross-border issues and avoiding eventual conflicts due to the knowledge being shared (International Organization of Securities Commissions, 2020, pp. 4-5). Since the IOSCO Board chose to address sustainability issues around securities markets in its focus areas, the international body has undertaken several initiatives and reports in the past three years which are meant to underline the materiality of ESG matters for issuers through disclosure, as well as building recommendations around disclosure requirements and initiatives around sustainability instruments (International Organization of Securities Commissions, 2020, p. 5). Through its Sustainable Finance Taskforce (STF), the organisation continued its work[38] in 2021 and will continue to do so in 2022 for which several steps of contributing to the International Sustainability Standards Board (ISSB) of the International Financial Reporting Standards (IFRS) Foundation are being planned. The research of the Organization for Economic Cooperation and Development on the development of sustainable finance definitions from 2020 covered five jurisdictions[39] (EU, China, France, the Netherlands and Japan) and led to the classification of eventual sources of definitions of sustainable finance which can be understood through the lenses of those placed in policies, institutional definitions, market-based definitions, non-financial reporting frameworks or in-house taxonomies (OECD, 2020, pp. 26-31).

The European Commission defines sustainable finance as a process in which 'ESG' considerations are part of investment decisions of the financial sector, and which lead to '*more long-term investments in sustainable economic activities and projects*' (European Commission, 2022a). Before detailing the specifics of sustainable finance and expert groups on the topic, a few ideas have to be mentioned regarding the institutional context of the European Commission and the use of expert groups. As Hartlapp *et al.* (2014, p. 209) emphasizes, the European

[37] IOSCO notes similar issues to the aspects observed by OECD and described in the previous section. But, it is additionally also mentioned that disclosure of information regarding the risks, opportunities and strategies of individual firms on ESG-related matters becomes material in investment decisions, since it contributed to the credibility of sustainability claims as pressure of commercial, supervisory and regulatory origin to consider such factors is met by both investors and asset managers (International Organization of Securities Commissions, 2020, p. 4).

[38] The detailed vision of IOSCO regarding its role for the IFRS and its objectives is presented in one of its 2021 reports (International Organization of Securities Commissions, 2021, pp. 2-6).

[39] A detailed overview on sources, incentives, objectives and sectors in sustainable finance definitions, as the result of OECD research, is shown in *Appendix 1*.

Commission has never benefited from self-sufficiency as an institution in the EU architecture, especially in the context of its expanding responsibilities. Experts and groups of experts are appointed by the DGs of the Commission for reasons beyond the expertise it can offer. Sometimes with a strategic aim, as an anticipation to the scrutiny of the EU Parliament and Council, in scope of consensus-building or to seek legitimacy regarding a certain policy position (Hartlapp et al., 2014, p. 210). Overall, it is noted that expert groups rose both in their number and distribution across the DGs, but this indication cannot point to either a political or technocratic role that they assume, as also confirmed by the 48 case studies' insights of Hartlapp *et al.* (2014, pp. 212-216; 220). Hence, the Commission may assume a variety of roles[40] for expert groups that are involved in the legislative drafting: a problem-solving, political consensus-building or politically substantiating usage (Hartlapp *et al.*, 2014, pp. 217-220). The aforementioned instance of case studies was dominated by a problem solving and substantiating usage (Hartlapp et al., 2014, p. 223). Moreover, the authors underline that is it is possible for a multi-model usage of expert groups, such as a combination between the previously mentioned two, at the Commission level for when policy-making has both technocratic and political scope (Hartlapp *et al.*, 2014, p. 224).

Moving on to the case of such groups in the EU sustainable finance, several specifics have to be mentioned. Set up through the release of a Commission Decision on October 28, 2016, the High Level Expert Group (HLEG) on Sustainable Finance was made responsible of setting up policy recommendations regarding the composition of what a comprehensive programme on EU 'financial policy' framework as well as evaluating what the proportions of opportunities and challenges of sustainable finance are (European Commission, 2016a, p. 3). As an expert group, the group had a number of 20 members grouping and representing the interests of stakeholders such as NGOs focusing on the policy debate, financial institutions (insurance companies, pension fund, banks, asset managers, as well as other institutions or operators of financial infrastructures) (European Commission, 2016a, p. 4). Vice President Valdis Dombrovskis, then responsible for Financial Stability, Financial Services and the Capital Markets Union, strongly affirmed that the interest of the European Commission in sustainable finance is part of a desired future Capital Markets Union and that its agenda on the

[40] A problem-solving usage of expert groups is specific for the Commission when technical and scientific information is inquired about policy problems for which a lack of expertise and information is characteristic (Hartlapp *et al.*, 2014, pp. 217-218). When adopting a political consensus-building stance, the expert group is used to build consensual positions in the EU decision-making process, where the EU Commission must engage with a diversity of interests (Hartlapp *et al.*, 2014, p. 218). In the politically substantiating usage, DGs use expert groups in order to obtain arguments to be employed when pushing forward its pre-defined position. (Hartlapp *et al.*, 2014, p. 219).

topic is influenced by research results of this expert group (European Commission, 2016b, p. 1). Part of its mission was the release of two reports, one of them interim followed by a round of stakeholder feedback, as well as a final one delivered on January, 31, 2018 and representing an essential stepstone for further the next phases of sustainable finance framework development. On June 13, 2018, the European Commission updated the HLEG into the Technical Expert Group (TEG) on Sustainable Finance already announced in the May 2018-released 'Finance for Sustainable Growth Action Plan' (European Commission, 2018b, p. 1). Composed of 35 individuals through a renewed set of 185 applications, the members represent the civil society, the finance, academia and the business sector. While being mandated to inform the work of the European Commission on topics related to sustainable finance, its research led to the release of reports containing important recommendations for the sustainable finance legislative package in order to materialise several points of the Action Plans in this area of the Commission agenda (for instance, its report on the methodology involved in applying the EU Taxonomy).

Of equal importance is also to place the European Union's efforts towards a more sustainable economy in the context of a larger international agenda, which it is part of. If the importance of the Paris Agreement on climate change and United Nations' 2030 Agenda for Sustainable Development for EU policy is undeniable, it is also necessary to mention that other initiatives at an international level in the area of finance had had an even longer history (Busch *et al.*, 2021, pp. 24-25). An example of this is the United Nations Environment Programme – Finance Initiative (UNEP FI), a partnership between the financial sector and the United Nations launched in 1991 to promote sustainable finance. Its growth along the years into a collective group of insurers, banks and investors of several hundreds has the UNEP Statement of Commitment by Financial Institutions on Sustainable Development at its core (Busch *et al.*, 2021, p. 25). Under this umbrella, the development of further initiatives in the investment, insurance and banking sector was possible under the auspices of the Principles for Responsible Investment (2006), Principles for Sustainable Insurance (2012) as well as more recently (2019) in the banking area (Busch *et al.*, 2021, p. 25). To this international landscape, one also has to consider the already mentioned work of TCFD, as well as the Central Banks and Supervisors Network for Greening the Financial System (NGFS) launched in the context of the Paris Summit in December 2017 and which benefits of 83 members and 13 observers, involving entities such as central banks and financial authorities (Busch *et al.*, 2021, p. 26). The aforementioned demonstrates a global interest towards sustainable finance beyond expert

groups and that the European Union's initiatives in this sense are part of a broader global agenda.

A further discussion on the sustainable finance framework of the European Union from an actors-involved and instruments-employed perspective is to follow in the next chapter, as soon as the theoretical framework of the paper is presented and the relevant context of the institutional financial architecture of the EU is clarified.

Chapter 3. Theoretical Framework

3.1. Introduction

It is essential to start by mentioning that the European Union should be seen from the perspective of its dynamic character, as what others would name as a work-in-progress with numerous imperfections ahead of policy challenges it is confronted with (Church & Phinnemore, 2022, p. 48). Questions around the European Union studies have used different theoretical approaches' vocabularies to formulate answers to the research puzzles within. The complexity of the academic debate goes much beyond the classical debate in the integration theory around neo-functionalism and intergovernmentalism to the extent that alternative[41] theoretical approaches have been developed, as well as many academic works focusing on phases[42] of EU integration theory are already part of the debate. Taking into account that each of these theoretical approaches have their own contributions and limits in EU studies, as well as the fact that there is no single or grand theory that can answer or be applied, Diez & Wiener (2019, pp. 19-22) suggest a principle ('heuristic device') of a mosaic of integration theory by combining areas of theory (polity/policy/politics) with the functions that it is meant to fulfil (explain, analyse, criticise). By this exercise, the authors emphasize that such theoretical approaches should be seen as similar with stones being added to the mosaic that reflects the image that one has of the EU rather than being seen as mutually exclusive in some cases (Diez & Wiener, 2019, pp. 19-22).

The reason of the above observations drawn from academic literature is to underline that the EU should be perceived as a complex system in continuing development, in which lessons drawn from a variety of challenges inform policy developments and institutional actors to come up with changes framed under the rhetoric of a promise of a 'better-something'. Second, it is to also draw attention to the fact that there is no concrete, right or wrong theoretical lens or policy recipe through which challenges such as climate change and mainstreaming

[41] A revision of such approaches goes beyond the scope of this thesis, but what could be considered a solid introduction to this topic is offered by Rosamond (2022, pp. 82-98) in his comprehensive discussion on the five ways forward in the theorization of the EU after the classical debate around the integration theory. Introducing the respective pathways by means of external and internal drivers, his work offers a systematic approach on this topic (for instance, see the table on page 85).

[42] One example of such 'stocktacking' research around the integration theory proposes looking at these developments as involving at least three phases of integration theory with its own characteristics along the decades starting with the 60s (Diez & Wiener, 2019, p. 8).

‘sustainability’ in finance can be approached. In the following sub-sections, the theoretical ground which inspires the formulation of the central research question under this paper, with its hypotheses and analysis to be laid in the next chapter. As a consequence to this, the reader will also be presented with the methodological approach that has been used, especially due to the fact that the results of the employed data also have to be shared. The analysis of these results in an articulated manner rather than as separate blocks is hence, to be included.

3.2. Governance turn in EU integration: the regulatory approach

Due to the involvement of agencies such as three European Supervisory Authorities (‘ESAs’) in the European institutional architecture of the financial sector, arguments drawn from the regulatory perspective of the governance approach are present in this theoretical framework environment. A governance turn in the study of the EU includes attention to the particularities of this entity, but a few mentions regarding the conceptualization of this concept should be pointed out. Christiansen (2022, pp. 100-102) systematically draws upon the turn to governance in EU studies and delineates three approaches from the analysed literature. In his view, the governance turn’s contribution is that the EU is viewed as an independent rather than dependent variable compared to the ‘classic’ theories of integration (Christiansen, 2022, p. 100). This is especially since what the EU does is more important than the focus on its evolution (Christiansen, 2022, p. 100). By observing the multiplicity of definitions attributed to the concept, Christiansen underlines that most of the authors underline and prioritise either the role of non-hierarchical networks, regulation rather than redistributive policy, as well as instruments and procedures being used (2022, p. 101). As a consequence, a variety of directions in this literature can be narrowed down to three essential approaches in EU studies: the multilevel governance approach, the new governance approach, as well as the study of the new modes of governance (Christiansen, 2022, p. 101). In the new governance approach or agenda, the EU is referred to as a regulatory state, one that employs non-majoritarian decision-making for problem-solving. The purpose here is to provide a brief explanation regarding where the regulatory approach in EU studies can be placed. As a detailed explanation regarding the other two is not extremely relevant to this discussion, one can suffice it to say that all these three build on the importance of policy networks for EU policy-making (Christiansen, 2022, p. 102). The analytical value of these non-majoritarian networks is that of combining a variety of stakeholders ranging from European and national regulators and officials to representatives of

business and NGOs, cutting across formal lines of different levels (Christiansen, 2022, p. 102). New governance approach writers tend to visualise the EU from the regulatory state spectrum, concentrating on the decisions and instruments used to realise outcomes, this involving a concern for socio-economic regulation rather than redistributive aspects (Christiansen, 2022, p. 105).

Majone (1996, p. 47), for a part of his work, focused on explaining the rise of the regulatory state in Europe, as well as the European Commission's role as a regulator. Three factors[43] are able to summarise such a rise – disappointment, strategic choice and habitat change (Lodge, 2008, p. 283). Christiansen distinguishes several factors specific to the EU justifying its character as a regulatory state, among which one is the relative small budget of the EU compared to the combined GDP of Member States, the absence of competences related to tax-raising, the changes brought by the Single European Act (SEA) and 1992 Programme (the introduction of the qualified majority voting and recognition of technical and product standards between Member States at the national level) (2022, p. 105). Interest in specific institutional arrangement through which regulatory activity takes place is justified through the fact that in such setups, decisions are taken by non-elected technocrats in search of the best solution to the given problem (2022, p. 105). The Pareto optimal outcome, where collective gain is the highest, should be dealt with by independent European regulators in the case of activities such as supervising financial services (Christiansen, 2022, p. 106). Regulatory school scholars tend to consider that technocrats and experts are the most reliable in searching for the best solution since they have access to information, expertise and are insulated from political interference compared to majoritarian institutions (Christiansen, 2022, p. 106). The setting of standards at an EU level, re-regulation in the Single Market are both left to informal channels such as networks of national regulators at an European level or formalised ones – through agencies and committees. Delegation of powers to the Commission under which regulatory measures are adopted is also accompanied by a comitology system, materialised by Member States through advisory and regulatory committees composed of national representatives which limit the ways in which the Commission can make use of its delegated powers, while also providing a mixed cooperation opportunity (Christiansen, 2022, p. 106). While Majone

[43] Disappointment is related to the inability of the welfare state to achieve the outcomes it pushed forward (Lodge, 2008, p. 283). When it comes to strategic choices, this refers to both to the growing role of the European Commission in regulatory policy-making, as well as to the interest of Member States to avoid electoral losses and to influence other countries with their own solutions as a way to reduce that their industries would incur for adjustment (Lodge, 2008, pp. 283-284). The latter factor covers the fact that non-majoritarian regulatory institutions are far more credible than safeguards that could be provided by governments facing the end of their electoral mandate (Lodge, 2008, pp. 283-284).

perceives a strong influence of American regulatory writers on European policy-makers (1996, pp. 49-50), Lodge (2008, p. 290) insists on the literature aiming to point out that beyond 'principals and agents' perspective employed in the delegation approach applied to the European Commission and Member States, it is rather a fiduciary trusteeship function in the case of regulatory agencies at the national level and the European Commission, not exactly that of an agent.

Interactions between the European Commission as one of the central institutions of the EU and other actors in policy-making can be represented in a variety of ways. The role of the European Commission as a regulator is a topic Majone dedicates a whole chapter of his work on. For this author, the meaning of European integration is associated with newly added and improved rules on both the supranational and national level – rule 'creation' not 'diversion' from one level to another (1996, p. 59). Radaelli also notes that the EU developed with an emphasis on its regulatory nature, with the European Commission being referred to as the engine of integration, being situated at the centre of dense network interactions (1999, pp. 5-6). Several factors announcing this development are the rise in the number of tools employed by the Commission, the expansion of its agenda and that of the number of specialized Council of Ministers, as well as then - 'Community' (EU) acts having priority over domestic law together with the direct effect of some of the tools employed (Majone, 1996, pp. 56-59). One of merits of Majone is the fact that the Commission and its role in the EU, when it comes to regulation, is analysed from the spectrum of a supply and demand model. By insisting on the difference between regulatory and non-regulatory policies (distributive and redistributive), Majone criticises Haas and his neo-functionalist followers for not being able to notice it in explaining the selective expansion of Commission competences (Majone, 1996, pp. 63-64). On the supply side, the Commission stands due to its right to legislative initiative and in pursuit of maximizing its utility function (Majone, 1996, p. 64). Probing into empirical evidence, it is demonstrated that on this supply side, the Commission prefers task expansion to the growth of its budget. As such, knowledge is more of a critical resource for the Commission than the budget it has available (Radaelli, 1999, p. 6). Moving on to the demand side, business organisations such as multinationals prefer to opt for European rather than national legislation to pre-empt the costs of different national standards as well as to avoid the possibility of even stricter national legislation in Member States (Majone, 1996, p. 66). Along these lines, public interest organisations, examples being environmentalist groups, are also part of the those demanding EU legislation, accompanied by Member States (Majone, 1996, pp. 67-68). The latter group has motivations connected to the fact that Member States might be interested in

minimising their European legislation adjustment costs if they are successful enough to influence the EU policy direction towards their national approach (Majone, 1996, p. 68).

The supply and demand model of EU legislation developed by Majone observes policy credibility in a relational contracting and delegation 'problem' manner. Delegation of powers to the EU level is assumed to be a more convenient option for Member States even though it is more powerful than in the case of international agreements due to higher transaction costs (Majone, 1996, p. 69). Nonetheless, the process in itself is not as simple as it seems, since regulation opens a 'market' in which bureaucrats bargain with those affected by it for the precise formulation that should be followed (Majone, 1996, p. 70). From a 'relational contract' point of view, delegation is necessary to ensure policy credibility since by this means Member States demonstrate a regulatory strategy which might not lead to policy credibility if not subject to delegation (Majone, 1996, p. 71). Where power is delegated to the Commission, this also represents the party which has the most to lose in case of loss of reputation (Majone, 1996, p. 71). Consequent to the delegation stage and as time goes by, bureaucrats benefit of institutionalization and the development of their technical and institutional expertise and enhancing their negotiating position which probes into an altering of the relationship between politicians and their agents (Majone, 1996, p. 73). It is only when experts are part of the policy process that bureaucratic power can be claimed to exist (Radaelli, 1999, p. 9). Hence, a greater autonomy is pursued by agents. The Directorates within the Commission responsible for a particular policy represent the centre of an 'issue network' with whom extensive discussions[44] are held (Majone, 1996, p. 74). Knowledge being generated for the Commission is also accompanied by interests, and it is used in the policy process to produce change which can be generated both by an exogenous shock as well as through the interaction among actors, who may learn within the process (Radaelli, 1999, p. 18). The more uncertainty characterises a policy area, the more knowledge is required. European officials are the ones that select the proposals to be adopted from the various policy positions (Majone, 1996, p. 74). As a policy entrepreneur, the Commission aims to change the status-quo by adding new policy dimensions resulting in policy outcomes that are able to strike a preference among policy positions (Majone, 1996, p. 74).

[44] In these discussions, a variety of actors ranging from experts to academics, consumer advocates, representatives of professional, public or economic interest groups/organisations (Majone, 1996, p. 74).

By using a policy-cycle view[45] when discussing about the policy-making process, one can distinguish among several stages such as the agenda-setting, continuing with policy formulation, policy decision, implementation and feedback. Zooming in on the policy formulation aspects[46], this part of the process refers to where within the Commission, internal actors come to an agreement regarding the policy proposal for EU legislation which is to be brought in the inter-institutional negotiation process with the Council of the EU and the EU Parliament (Hartlapp *et al.*, 2014, p. 13). In the preparation of a legislative text by the Commission, there is usually a lead Directorate General (DG) where an appointed official becomes responsible for the eventual draft of the text. Nugent (2017, p. 332) mentions that the way in which the draft is reviewed in the respective DG follows a 'compartmentalised' and 'hierarchical' approach, rather than a horizontal one across DGs. In the process of building opinions on the draft, other interested DGs gain the opportunity to comment on the draft during inter-service meetings, accompanied by coming to an agreement and exchanging views with the Secretariat General and Legal Service before being brough to the cabinet pf the Commissioner (Nugent, 2017, p. 333). The Commissioner may have the responsible DG modify the draft, followed by its submission to the other Commissioners (Nugent, 2017, p. 334). When the latter are satisfied, a final version is worked upon in the College of Commissioners, who may then decide to adopt it by written procedure when uncontroversial. In the opposite situation, the Commissioners debate its content and come to the decision of adopting it, rejecting, amending or referring it back to the lead DG (Nugent, 2017, p. 334).

As Nugent (2017, p. 334) brings forward, during the aforementioned process, the officials of the Commission are subject to the attention of several directions. In this sense, Hartlapp et al. (2014, p. 28) offer a relevant overview of eventual factors enabling and constraining the position formation in the Commission within the analytical framework of their book. As a result, three institutional factors seem to impinge upon the position formation and interaction within the Commission: those tied to the legislative status-quo, internal coordination, the inter-institutional system of the EU, as well as a fourth category perceived as bringing in additional power resources, specifically for a multi-level governance system

[45] The corpus of literature focusing on this view characterises it as a means of looking at the policy process using a 'cycle' as a device that simplifies the process, while its critics prefer to underline that the visualisation itself is misleading due to several points including the fact that the policy-making process is not as simple as depicted (Young, 2015, pp. 47-48). There are multiple chains of interaction across the stages, cycles, bodies involved (Young, 2015, pp. 47-48). These cannot be captured within the respective depiction.

[46] The reason why I chose to focus on the respective part of the policy-process, is that this stage will be relevant for understanding the context of the second research pillar where stakeholders' consultation is sought on policy initiatives of the Commission.

(Hartlapp *et al.*, 2014, pp. 18-25). Here one can identify, among others, expert groups and organized interests as part of these additional power resources that may be employed by the DGs (Hartlapp *et al.*, 2014, p. 25), to which later more attention will be paid to in the specific situation of this paper. However, to underline the broader landscape, factors tied to each of the categories that may influence how the specifics of a position on policy proposals are built are reproduced in *Figure 3* below. Importance of these factors lie in the fact that based on how they can be traced back when looking at a specific legislative proposal, one can argue around the three ideal types of Commission agency found within EU literature, as a technocratic body, competence-seeking bureaucracy and/or policy-seeking actor (Hartlapp *et al.*, 2014, pp. 14-15).

Legislative status quo	**Internal coordination**
▪ Extant acquis ▪ ECJ jurisprudence ▪ Supranational competence	▪ Organisational restructuring ▪ Lead department ▪ Workload ▪ Bureaucratic legitimacy ▪ Public legitimacy ▪ Initiative's origin ▪ DG alliances
EU inter-institutional system	**Additional resources**
▪ Anticipation of/proximity to Council majority ▪ Anticipation of/proximity to EP majority ▪ National positions/member state size ▪ Partisan ideology	▪ Organized interests ▪ Experts and expert groups ▪ Meta game ▪ International policy transfer

Figure 3. Factors enabling/constraining position formation in the European Commission. Source: Hartlapp et al., 2014, p. 28

From the perspective of an alternate view, Dehousse (2008) argues in favour of EU as offering a political system without a principal that is central. By commenting on the delegation literature, the researcher builds the suggested position by mentioning that two of the most frequently used positions of explaining the delegation of power to supranational institutions. Hence, the transactional costs' explanation for the delegation of power (originating in the International Relations' theory), the comparative politics one, including its EU Commission self-advanced one, are underdeveloped for capturing the complexity of the EU system in motivating agency creation (Dehousse, 2008, pp. 791-793). Such affirmation is based on the fact that whether we look at Member States as principals delegating power to the Commission or even if maximize the Commission's self-proposed model of itself as a principal when delegating power to EU authorities or agencies, there is a failure to acknowledge the

multiplicity of actors whose interests are to be considered. It was at the heart of the construction of the European system to ensure that EU institutions are able to represent a variety of interests. And as such this justifies the fact that delegation decisions require the support of several principals representing its own interests and trying to exercise some control over the agent (Dehousse, 2008, p. 795). Insisting on the impossibility of having strong regulatory agencies of the EU, Dehousse analyses the attitude of the European Commission and European Parliament when it comes to agencies from several documents released across the years (2008, pp. 796-797). Quite clear is that for the Commission, delegation is only a secondly wanted solution when the extension of powers is highly unlikely to be granted by the Council of the EU. Similarly, part of the European Parliament's concerns also have a similar character in that the latter is interested in retaining its political monitoring. Appointing the head of a specific agency is a fragmented mission among EU institutions, and this is different from the general view of a standard control mechanism under principal-agent literature (Dehousse, 2008, p. 797). Nonetheless, the initial roles attributed to agencies of the EU were specifically oriented towards the gathering of information, being denied independent decision-making powers with exceptions (Dehousse, 2008, p. 797). An EU agency in itself is an advantage for accountability, since it is subject to an extensive number of control mechanisms[47] in the EU (Dehousse, 2008, p. 800). All these mechanisms are there to ensure that an eventual capture of the agency by one of those involved in the contest of political leadership, as characteristic for a multiple principals' system (Dehousse, 2008, p. 800). Control of the agencies by the Commission requires a broad institutional consensus, although instances where such a measure would be required is limited since the Commission and national administrations are involved in the functioning of the agencies (Dehousse, 2008, p. 801). Multi-principals' characteristics of the system push forward the importance of the three EU political institutions through their influence in the governing and functions of agencies, but it has to acknowledged that this may be subject to change (Dehousse, 2008, pp. 803-804). Despite this not being an unknown encounter, the difference lies in the degree since when EU is mentioned one cannot avoid its multi-level structure (Dehousse, 2008, pp. 803-804). Extreme dilution of powers may be challenged by external events (Dehousse, 2008, pp. 803-804).

[47] A variety of mechanisms by several actors is ensured, some of the means being the annual report of the implementation of its working programme, financial activity being subject to the general budget involving all three EU major institutions (EU Parliament, Council and Commission), as well as judicial control mechanisms (Dehousse, 2008, p. 800).

Other authors assume a model in which argumentation starts from the idea that the initially-conceived model of the EU had technocratic characteristics and its legacy is consistent with the politics of regulation (Radaelli, 1999, p. 7). For this to be observed, Radaelli builds a series of ideal types involving uncertainty, salience (or the level of visibility), politicisation, technocratic characteristics, bureaucratic politics, and epistemic communities applied to the EU policy-making process. In this conceptual framework, the extent to which logic[48] dominates the policy process is determined by the low/high level of saliency and uncertainty of the respective policy. Through the conceptual framework, it is possible to distinguish between when a specific mode, such as the technocratic one can be differentiated from the politics of expertise and politicisation (Radaelli, 1999, p. 14). By 2008, Lodge perceived three scenarios in the eventual developments around European politics and the regulatory approach – one of fading away, plodding along and rejuvenation of academic interest in the topic (2008, p. 295). While approximating the outline of these three scenarios in practice, the author still refuses to make a certain forecast in regard to which one would be applied. Current research requirements acknowledge that there is significant research in terms of the EU regulators' mandates, formal authority and relationship with principals. However, it is suggested that to a large extent, the multi-faceted and shifting constellations around EU regulators, both formal and informal, and the potential that they have in shaping the latter's power and authority represent a gap in this agenda (Busuioc & Rimkutė, 2020, p. 1257). Hence, a bureaucratic reputational lens in research might be of support in providing the relevant attention to this topic. It is suggested that such a lens can provide insights into developments around the EU regulatory state, behaviour and legitimation efforts of regulatory agents (2020, p. 1257).

Based on the idea according to which agency behaviour is also driven by reputational considerations, it is important to acknowledge that the shaping of the different regulations and acts in the sustainable finance framework was exposed to several instances of public consultations by multiple principals-agents. Exposure to stakeholder constellations and the suggested threats and expectations that they suggest can be one factor explaining regulatory behaviour (Busuioc & Rimkutė, 2020, p. 1257). As such, reputational[49] scholarship provides

[48] Radaelli illustrates four logics as ideal-types depending on the above mentioned levels: bureaucratic politics (low salience and low uncertainty), technocratic logic (low level of salience, high level of uncertainty), politicisation (high salience, low uncertainty) and epistemic communities & supra-national policy entrepreneurship (high salience, high uncertainty) (1999, p. 31). Saliency relates to the visibility of the policy, while uncertainty is characteristic for the body of literature tackling epistemic communities incepted by Haas and relates to the extent to which the policy problem is puzzling/the interest of the actors are not clear (Radaelli, 1999, p. 9; p. 12).

[49] The meaning of reputation is associated here with the meaning assumed by Busuioc & Rimkutė in their research agenda, where in the literature providing the basis for their theoretical assumptions such as Carpenter (2010), it

several considerations in applying this lens, based on which attention should be paid to the formal and informal regulatory audiences comprised of a variety of actors, starting with EU institutions, national authorities and continuing with interest groups, NGOs, media and citizens (Busuioc & Rimkutė, 2020, pp. 1258-1259). In the favour of similar findings, Arras & Braun (2018, pp. 1258-1259) also mention that EU regulatory agencies find themselves embedded in a network of stakeholders, while warning about the risk of stakeholder involvement acting as a double-edged sword[50].

Despite the fact that not all audiences matter, reputation has a multi-dimensional character, agencies expecting to deliver the expected results in terms of expertise, efficient delivery of core responsibilities and objectives (performative capacity), procedural appropriateness (fair, just procedures) and moral dimension (ethical implications) (Busuioc & Rimkutė, 2020, p. 1259). To this extent, it is not hard to observe that EU agencies require the support of institutions to ensure that the opinions they provide can become binding law or that their decisions are implemented (Busuioc & Rimkutė, 2020, p. 1260). Discussions of legitimacy in the institutional discourse of the EU regarding agencies are attributed an efficiency focus, being measured in the independent expertise for the technical dimension as a legitimacy source (Busuioc & Rimkutė, 2020, p. 1261). The performative dimension of EU agencies is then associated with the means of expertise by which risks crises are avoided, while in terms of procedural aspects, clear procedures are part of the regulatory tools that they are established through (Busuioc & Rimkutė, 2020, p. 1261). Nonetheless, it is suggested that they remain unaffected in terms of influence and political expectations.

Contrary to the standard view in the previous paragraph, the research agenda underlines that agencies are exposed to audiences with competing expectations at different levels where regulatory legitimacy is a moving target (Busuioc & Rimkutė, 2020, p. 1262). This is mainly due to the fact that agencies are not immune to the audiences they interact with, responding and trying to shape the expectations of audiences, leading to shifting coalitions[51] of relevant audiences (Busuioc & Rimkutė, 2020, p. 1262). Especially because the EU provides a multi-level system, reputation of agencies is being built within the perception of networks of formal and informal audience, in the battles of specific regulatory issues (Busuioc & Rimkutė, 2020,

bears the significance of the perception induced by the capacity of an organizations within the networks of audiences it is part of (2020, p. 1258).

[50] This refers to on the one hand, the risk of dependence on the regulated industry on the one hand and the advantages of the participation of stakeholders as an 'instrument of legislative control', improving the accountability and oversight of the agency (Arras & Braun, 2018, p. 1259).

[51] The extent to which these count as reputational threats for agencies depends on the issue area, salience and its politicisation (Busuioc & Rimkutė, 2020, p. 1262).

p. 1263). To further particularise this general framework direction, this paper will focus on the specific sustainable finance regulatory issue, within the institutional relationship between the European Commission and the three European Supervisory Authorities. More specific, the audience constellations that 'matter' in this case would be stakeholders involved in the public consultations considered at two levels: those included in the data section below performed by the EU Commission and the stakeholders around the three ESAs involved in the sustainable finance discussion. Previous research on the more general topic of the regulation of Dorn (2012, p. 210) looks into the dynamics of private-public vs. public-private financial market regulation in the period from mid-1990s to 2010. These dynamics refer to forms of leadership by either the private/market interests deciding the policy agenda for policy-makers or the latter taking the lead (Dorn, 2012, pp. 205-206). For the respective period of research, Dorn finds that in the context of the financial crisis, both market and government actors had a shared failure due to the fact that the interactions/intertwinement between do not permit a pure failure category of either type (Dorn, 2012, p. 207). One of the critiques of the literature of European integration up to the period of the study is that it that it does not take into account the market to the extent that it should, especially in terms private-public information asymmetry[52] (Dorn, 2012, p. 208; 210). To this extent, the interest in regulatory convergence is shared by large and cross-border firms, the Commission and EU Parliament (Dorn, 2012, p. 210). Compared to small players on the market, these firms possess the required resources to assist policy-makers[53] in their activity in terms of data, analysis and other regulatory prerequisites (Dorn, 2012, p. 210). In private-public regulatory discussions, the rupture of knowledge from the public sphere takes the label of its technical, specialised character, and complexity. To this extent, it is difficult for politicians to identify the issues, due to the fact that politicians cannot be expected to possess expert[54] financial engineering knowledge (Dorn, 2012, p. 210; 212). Consequently, while the public is kept in the position of an observer, the labelling of political discussions as non-political allow 'technical committees' to 'solve' these issues (Dorn, 2012, p. 212).

An attempt to determine a referee in these private-public tendencies on the EU side is recognized by means of the changes brought in 2009-2010 to the financial market regulatory and the broader context of the Lisbon Treaty (in Articles 290 and 291 concerning delegated

[52] As explained by Dorn (2012, p. 208) this refers to the fact that financial market participants are in the possession of more information than regulators, for whom the sharing of information is vital.
[53] The author offers the example of a case study around the former Committee of European Securities Regulators (now ESMA) and legislative change brought to the regulatory provisions around credit rating agencies (Dorn, 2012, pp. 213-214).
[54] An institutional form of the instance of specialised knowledge is the former Lamfalussy framework (Dorn, 2012, p. 211).

acts and implementing ones), proposed by the Commission and amended by the Parliament and Council (Dorn, 2012, p. 215). Hence, this context also shaped the Commission's position on the specific power conferred to the three committees developed into financial supervision authorities (Dorn, 2012, p. 215). As such, the research leads to the identification of three characteristics of the public *vs.* private lead for the respective period – in mid-1990s, it was the public-private lead in financial regulation in the EU, while by the turn to the new millennium dynamics of the Lamfalussy committees evolved in taking the private-public direction. By 2010 and with the lessons from the financial crisis, the private-public lead had ceded in its advancement, led by changes in the inter-institutional relationships and political priorities (Dorn, 2012, p. 217). However, the author underlines that the respective affirmation could not be interpreted as a return to the public-private dynamic of leadership in EU financial regulation (Dorn, 2012, p. 217).

3.3. The post-crisis EU financial sector: Institutional architecture of the EU in the financial sector: supervision, Commission and the three 'ESAs'

Before observing the legislative aspects of sustainable finance framework of the European Union and the methodology behind this paper, it is essential to pay some attention to the inter-institutional interplay between the major European institutions and the three agencies involved in the financial supervision system. The reason behind this is that these institutions and agencies are strongly involved in the implementation of the sustainable finance framework, especially on disclosure and climate change. Hence, it is relevant to mention that the global financial crisis in 2007 provided a major shock around the world, to which the European Union and not only had to provide a regulatory response to. The collapse of the Lehman Brothers entailed a reasonable justification for the financial institutional reform of EU architecture, both by means of new financial regulation as well as a widening of independent-expertise based regulatory structures at an EU level (Everson, 2014, p. 320). An in-depth analysis of the regulatory changes to financial regulation was previously developed in existing literature focusing on 'hard-law' measures (Quaglia, 2012; 2013) as well as institutional aspects (Schiavo & Türk, 2016). Combining several observations from existing literature with some more recent policy developments can offer a good 'radiograph'y of the institutional architecture this paper works with.

To begin with, the financial services sector has a considerable role for the EU's economy, being comprised of the banking, insurance and capital markets providing financial products to businesses and consumers (European Commission, 2022b). For the purpose of this paper, I decided to keep this tripartite division, but it is important to note the efforts of other authors (Bose *et al.*, 2019, pp. 26-36) in displaying the complexity of the financial ecosystem, such as those outlining a taxonomy of global financial players, who can be infinite and prove a continuous capacity to adapt to environmental and regulatory shocks if viewed from this ecosystem perspective[55]. Researchers tend to emphasize the role of the Commission, the role of Member States, private sector or network of supervisors as drivers of the politics of financial regulation (Quaglia, 2012, pp. 517-518). A fourth perspective puts forward the role of advocacy coalitions[56]. From an ideational perspective, the pre- and aftermath of the global financial crisis was dominated by an internal regulatory status-quo supported by market-making[57] and market-shaping coalitions[58], competing for pushing forward their ideas (Quaglia, 2012, p. 516). Following an in-depth research of the regulatory measures, Quaglia (2012, p. 523) concludes that despite pre-financial crisis period being influenced by a market-making influence, the nature of regulatory change registered in the aftermath is indeed market-shaping due to its more prescriptive and burdensome requirements for financial services' regulation. On the external dimension, the European Union and Member States tried to shape the outlook of the international regulatory debate in financial regulation. Forums to do so at an international level and the status of the EU (either Full Member, represented through its institutions, as well as membership of EU Member States) are represented in the table from *Figure 4*[59] below.

[55] This alternative view is summed up in the table and graphic found in *Appendix 4*. Seen from this alternative spectrum, one particular idea surrounds the level of concentration of derivatives (for instance, global assets that the largest financial intermediaries control) that is interpreted as a double-edged sword – on the one hand, its disruptive potential of the system as seen in the financial crisis and on the under hand, coordination challenges for implementing a sustainable finance vision are reduced since a 'handful' of decision makers can implement it (Bose *et al.*, 2019, pp. 38-41). As an example, the 2006-launched Kofi Annan and United Nations-sponsored Principles for Responsible Investment (PRI) was comprised of over 2000 investors with an estimate of $70 trillion in assets management (Bose *et al.*, 2019, p. 41).

[56] This framework was initiated by Sabatier and advanced by Quaglia when pointing at two main coalitions representing shared interests and ideas that shaped the financial regulation of the EU in the 2000s (Quaglia, 2012, p. 519).

[57] Characteristic for the market-making coalition (for instance, UK, Ireland and the Nordic countries) was a market-efficiency oriented, principles-based approach having a preference for private governance (Quaglia, 2012, pp. 519-520).

[58] On the market-shaping coalition side, a more prescriptive and rules-based view championed by public authorities is preferred, pushed forward by France, Mediterranean countries. Italy and sometimes Germany (Quaglia, 2012, pp. 519-520).

[59] This presents a summarised picture of the EU actorness in these international financial forums. A much detailed version, beyond the scope of this paper is offered by Lütz *et al.* (2021, pp. 125-141).

International body	Status
Group of Twenty (G20)	Full Member + France, Germany, Italy
International Monetary Fund (IMF)	EU27+ European Central Bank (ECB) - observer
Financial Stability Board (FSB)*	Member (represented by ECB and European Commission + EU5 (Germany, France, Italy, the Netherlands, Italy)
Basel Committee on Banking Supervision (BCBS)*	EU institutions (ECB, ECB Banking Supervision – members, European Banking Authority and European Commission – observers); EU8 (Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, and Sweden)
International Organization of Securities Commissions (IOSCO)*	EU27; EU institutions (European Securities and Markets Authority; Commission)
International Association of Insurance Supervisors (IAIS)	EU 26 (except Greece); EU institutions (European Insurance and Occupational Pensions Authority, Commission – DG FISMA)

**Informal international body*

Figure 4. The EU in international financial regulatory forums. Source: own adaption after Lütz et al. (2021, pp. 125-141)

Harmonisation on the capital markets has been mentioned since 1966 within an expert review addressing the European Community and the features that 'would seem most significant in connection with the development of a European capital market' (European Economic Community, 1966, p. 52; Schiavo & Türk, 2016, p. 90). A Financial Service Action plan by the Commission was shortly followed by the Lamfalussy process, dividing the decision-making process in four levels among actors involved – adoption of financial regulation by the European Parliament and Council was within the first level, followed by Level 2 for the drafting of the technical aspects of financial legislation, in which the European Commission collaborated with national administrations (Schiavo & Türk, 2016, p. 90). On level 3, cooperation between national authorities in the then-European Community was grouped in new committees, preceding the three European Supervisory Authorities (ESAs): Committee of European Banking Supervisors (CEBS); Committee of European Securities Regulators (CESR); Committee of European Securities Regulators (CESR) (Schiavo & Türk, 2016, p. 90). The global financial crisis was a signal and plea of institutional reform in the financial services sector of the EU, for which the 2009 Larosière Report set the building blocks (Schiavo & Türk, 2016, p. 91). After the global financial crisis, the process of agencification[60] continued to

[60] The preference of the European Commission for governing using agencies (semi-autonomous expert bodies) is connected to the 'mad cow disease' crisis, which revealed several failures in the comitology structure, as well as

dominate the EU financial markets landscape (Schiavo & Türk, 2016, p. 114). In 2009, prior to the introduction of the hard-law anticipating the reform of the supervisory institutional architecture, the Commission provided a Communication[61] providing its perspective and vision of the European financial supervision reform. The new system would focus on the collaboration of two pillars, one focusing on macro-prudential and one on micro-prudential supervision, as in *Figure 5* below.

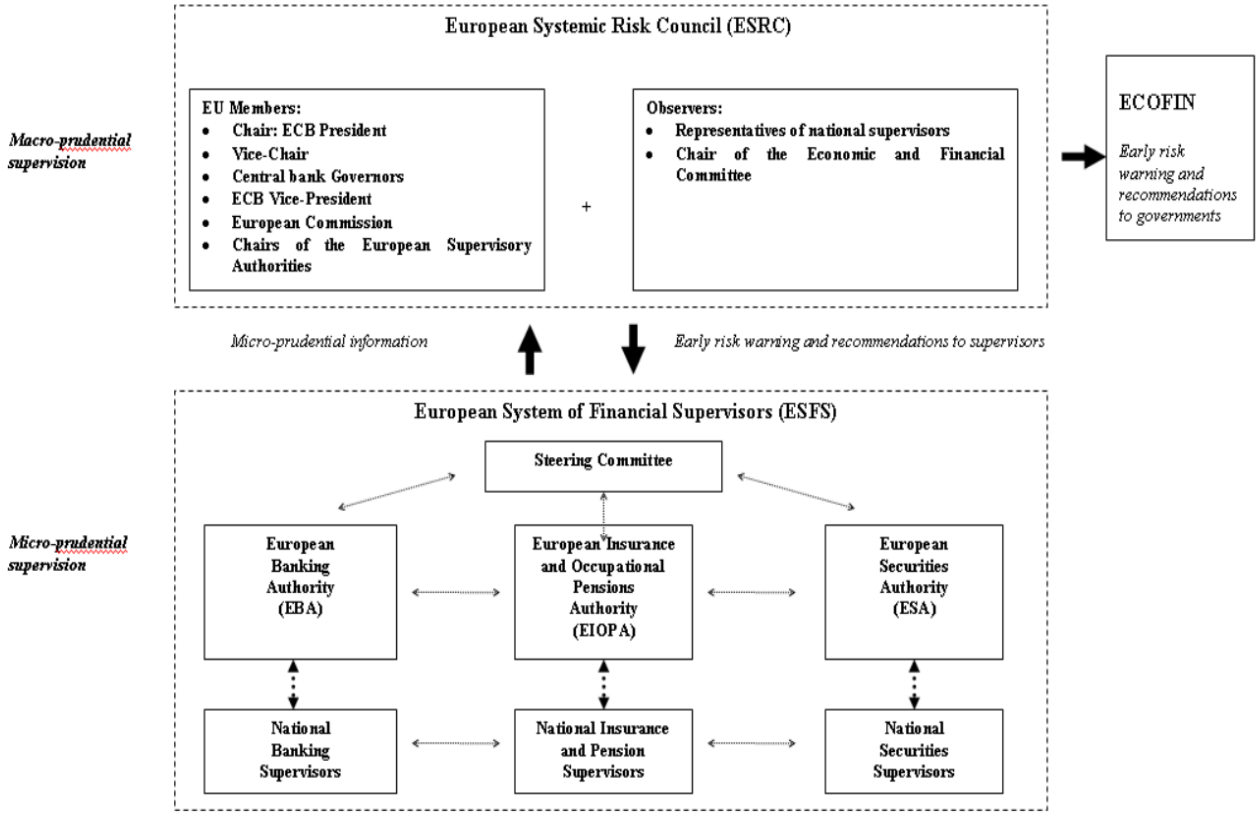

Figure 5. The EU financial supervision system. Source: European Commission, 2009, p. 17

Within macro-prudential aspects, the European Systemic Risk Council (ESRC)[62] is entrusted with the mission to observe developments on the financial system as a whole, as well as be the entity that signals early warning of risks affecting the system as a whole (European Commission, 2009, p. 3). As a second pillar, micro-prudential supervision is based on a European System of Financial Supervisors (ESFS), consisting of national financial supervisors

a need to fund long-term research into how hazards can be downgraded to manageable risks (Everson, 2014, p. 321; Vos, 2000 in Everson, 2014, p. 321).

[61] Commission of the European Communities, Communication from the Commission on the European financial supervision. {SEC(2009) 715} {SEC(2009) 716}, Brussels, 27.5.2009, COM(2009) 252 final. Available at: https://bit.ly/3R0Ivxa.

[62] The concrete mission was later formulated in Regulation (EU) No 1092/2010 establishing the ESRB, later reviewed under Regulation (EU) 2019/2176 of 18 December 2019, which amended the previous Regulation establishing the European Systemic Risk Board.

collaborating with the 'new' European Supervisory Authorities (ESAs) (European Commission, 2009, p. 3). Micro-prudential supervision combines the work of national authorities on individual firms with a centralisation of some tasks to the European level and is based on subsidiarity, flexibility and partnership (European Commission, 2009, p. 3). For the purpose of this paper, we intend to maintain a micro-prudential focus[63].

The then-new European Supervisory authorities correspond to the three relevant sectors of financial services and were therefore the European Banking Authority (EBA)[64], the European Insurance and Occupational Pensions Authority (EIOPA)[65], the European Securities Authority (ESA)[66] (European Commission, 2009, p. 8). Their establishment and functioning was the result of the ecosystem of regulations at the basis of the European supervision system. Formally established as of January 1, 2011, the three supervisory authorities were entrusted with the oversight responsibility over national authorities in this area as well as over market participants, while also being involved in the preparation of financial legislation after replacing the Lamfalussi level 3 committees (Schiavo & Türk, 2016, p. 92; p. 114). Their powers are greater than those of the previous committees and relate to functions such as ensuring a single set of harmonised rules, the consistency in applying EU law, acting as mediators in conflicts between national authorities, manifest breaches of EU law, building a common supervisory culture and practices (European Commission, 2009, pp. 9-11). Also, in some special cases, full supervisory powers of the ESAs can ensure coordination in crisis situations, take upon an international role and collect micro-prudential information (European Commission, 2009, pp. 9-11). Nonetheless, also related to the wide-ranging supervisory function is cooperation in terms of joint methodologies for national supervisory authorities, with a relevant hardening of the agencies' role when recommendations are made to national authorities or private entities or in enforcement proceedings[67] (Everson, 2014, p. 325).

Between 2013 and 2019, efforts to review the ESFS mechanism to a more integrated version were made by the European Commission through legislative proposals and public

[63] A topic such as the potential of climate change risks to lead to financial instability is a heavily debated one, as shown in the previous chapter.
[64] Initially functioning under Regulation (EU) No 1093/2010 establishing the EBA, later amended by Regulation (EU) 2019/2175.
[65] Initially functioning under Regulation (EU) No 1094/2010 establishing the EIOPA, later amended by Regulation (EU) 2019/2175.
[66] Initially functioning under Regulation (EU) No 1095/2010 establishing the ESMA, later amended by Regulation (EU) 2019/2175.
[67] For systemic threats, the three agencies act by being guided by the European Central Bank and write decisions to both authorities and other types of financial institutions, as well as threats brought to consumers by financial innovation (Everson, 2014, p. 325).

consultations, so that on March 21, 2019, the Parliament and Member States agreed to the basic elements of an eventual supervision. As the review of the supervision system became part of the capital markets union, the powers, governance and funding of ESAs was amended through a Regulation on December 18, 2019 (European Commission, 2022c). The three ESAS are also given new powers by the means of reviews brought to sectoral[68] legislation. In May 2022, The Commission released a report discussing progress in the ESFS after the 2019 legislative review, according to which ten years after the establishment of ESAs, these agencies had assumed the role of key actors in the shaping of the capital and financial services market (European Commission, 2022d, p. 1). Nonetheless, the Commission evaluates on the basis of its own assessments and stakeholders' feedback on several occasions that the European System of Financial Supervision functions well, while noticeable effects were already visible from the most recent review (European Commission, 2022d, p. 18). However, more time is needed before new amendments to ESA Regulations are envisioned (European Commission, 2022d, p. 18).

On the establishment of EU agencies, Schiavo & Türk (2016, pp. 93-96) insist upon the connection between the use of Article 114[69] TFEU and several cases[70] before the European Court of Justice. Same article provides the basis for the establishment of the three ESAs (as provided in Recital 17 of, for instance, EBA Regulation of 2010) and together with the case-law of the EU Court of Justice, the legislator is left with the basis of a broad framework allowing for both substantive measures and centralised responses to internal market obstacles (Schiavo & Türk, 2016, p. 96). The three ESAs are among the most powerful agencies at the EU level due to the duality of their role, being involved in both rule-making and financial supervision. Main obstacle in the development of EU agencies' powers is usually the *Meroni doctrine*, under which the EU Court of Justice prohibited discretionary powers being granted to agencies (Schiavo & Türk, 2016, p. 96). On this basis, EU agencies are rather semi-autonomous since their operation is structured under the EU Commission's umbrella, the one institution that also assumes accountability for agency decisions (Everson, 2014, pp. 323-324). However, the position of the Court regarding agencies could be considerably influenced by the case brought by the United Kingdom regarding ESMA before. As emphasized, the context

[68] More precisely, these new powers were granted through Directive (EU) 2019/2177, (amending Solvency II Directive), the MiFID II Directive and the 4th Anti-Money Laundering Directive.
[69] Article 114 (formerly Article 95 TEC) TFEU deals with the approximation of laws and lays down the core principles for this harmonisation to be materialised by the EU legislator.
[70] For instance, in *United Kingdom v. Council and European Parliament* (Case C-217/04), Schiavo & Türk (2016, p. 94) mention that the judgement of the European Court of Justice insisted on the proximity between the tasks of the agency and subject matter in the case of the legislation to be harmonised.

under which the delegation of power to EU agencies took place was different, due to the fact the former is still within the realms of public law (Schiavo & Türk, 2016, p. 98).

The involvement of these ESAs in the sustainable finance framework relates to the hard-law and soft-law instruments that are at their disposal. When it comes to the former, a great degree of involvement is given to the Commission, EU Parliament and Council in terms of moderating the form of the legislative instrument, but the expertise of the ESAs also undergoes exposure to stakeholders. Despite the fact that the hard-law instruments of the three ESAs require the endorsement of the Commission, as well as national regulatory authorities' composition, these agents possess a certain degree of manoeuvre in the shaping of financial regulation (Schiavo & Türk, 2016, p. 115). For instance, the authors mention that in the adoption of technical standards by the ESAs, the European Commission is the one that assumes the final adoption responsibility, but in practice, their content is influenced by the ESAs. The three ESAs are mandated to be involved in the development of regulatory technical standards (Article 10 in ESAs' Regulations) and implementing technical standards (Article 15 in ESAs' Regulations) under the means of delegated and implementing acts[71] set out in Article 290 and 291 of the TFEU. Despite the fact that the characteristics of the process set out in these articles provide clear limitations for the powers of the ESAs, authors such as Schiavo & Türk insist that there are certain de facto regulatory powers conferred to ESAs in the adoption process of such acts, where often policy choices are also part and in the case of which the number of opportunities in which the Commission can reject certain measures is limited (2016, p. 103). Despite the process of adoption of the two being quite similar (*Figure 6*), the most significant point is that to an extent, there is a need for coordination between ESA proposals and the position of the Commission, since the latter cannot 'change the content' of either draft regulatory technical standards nor the implementing ones[72]. As such, the Commission can object the draft or ESA amendments, propose amendments, agree to a certain version of a document (endorsement) or be the one drafting the standards in case the specific ESA does not submit such a draft. Hence, one can deduce from the above that the expertise of the ESAs, coordination among these institutions as well as insights from financial services market participants is relevant for both instruments of hard-power to be employed successfully. Nonetheless, specifically for the regulatory technical standards, the European Parliament and

[71] The process of the adoption of these standards is explained in the three ESA Regulations in Articles 10 and 15, which follows the same numbering.
[72] Refers to implementing technical standards of the ESAs.

Council are entitled to the revocation[73] of delegation in the case of regulatory technical standards, but also have a right to object[74] to the respective legislative document with the outcome of it not entering into force.

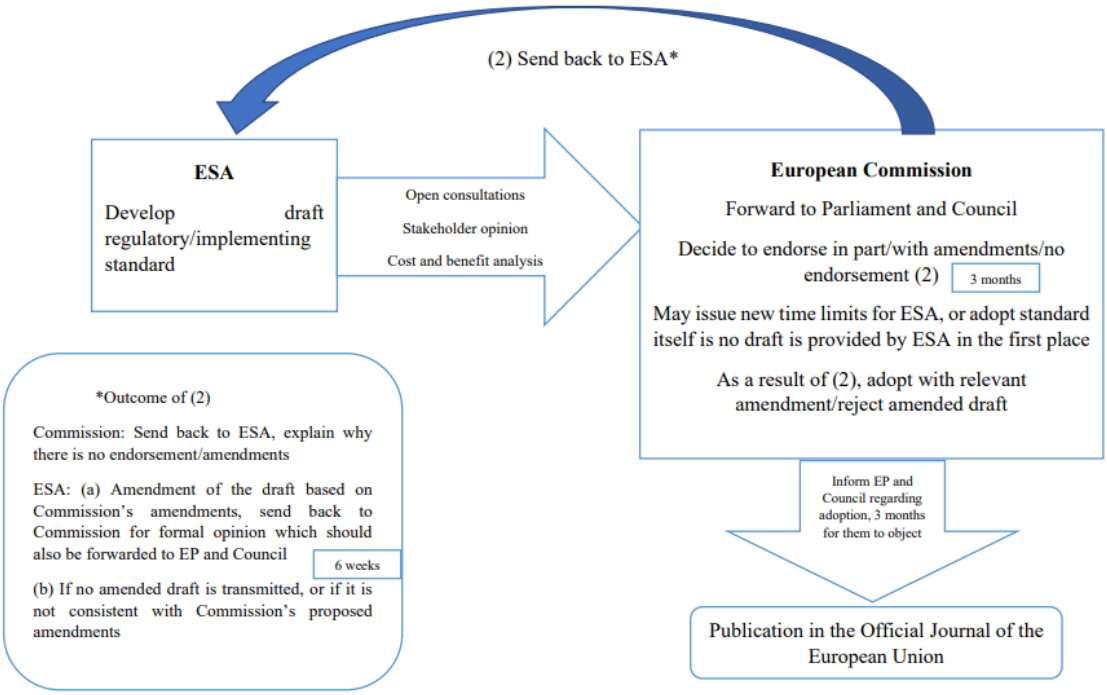

Figure 6[75]. Own depiction of the decision-making process in developing technical standards by ESAs and EU Commission.

The soft law toolbox of the ESAs, that are of non-binding force in their nature, does not disappoint in terms of the diversity of instruments[76] that can be formulated. The extent to which such are instruments are also powerful is described in Article 16, para. (3) of any of the three ESA Regulations. Therefore, authorities and institutions in this competence sphere 'shall' make every effort to take them into account and where this is not case, 'shall' inform the specific ESA regarding the made choice. The latter have the possibility to also 'publish' the non-compliance and absence of the intention to comply by the respective competent authority, with the condition that the ESAs also 'inform' them. Schiavo & Türk (2016, p. 108) consider

[73] See Article 12, in for instance, Regulation (EU) No 1094/2010.
[74] See Article 13, in for instance, Regulation (EU) No 1094/2010.
[75] This is a general outline, since there are several differences when it comes to regulatory technical standards and implanting technical standards, including the relevant TFEU provisions. Such a summary view was depicted based on Article 10-15 in the three ESA Regulations (Regulation (EU) No 1093/2010, Regulation (EU) No 1094/2010, Regulation (EU) No 1095/2010).
[76] Examples of these would be guidelines, recommendations, methodological tools, questions and answers, reporting tools, warnings and others. Some of these are mentioned in Schiavo & Türk (2016 p. 109), while others even have dedicated articles, such as guidelines and recommendations for Article 10 of the 2010 ESA Regulation, or newly introduced tools as a result of the 2019 legislation review (for instance see Article 16a on Opinions in Regulation (EU) 2019/2175.

that this naming-shaming approach provide a system of enforcement since peer pressure and disclosure of information as laid out in the above paragraph can drive the competent authorities and institutions to comply.

3.4. The European Union's sustainable finance framework

3.4.1 On the way to deliver a 'Sustainable Finance' action plan

In the delivery of its mid-term review of the Capital Markets Union Action Plan during the summer of 2017, the European Commission affirmed that there is a need for a 'deep re-engineering' of the financial system in order to ensure sustainable investments, as well as a system prioritisation of sustainable development, with the mention of 'finance' at the heart of the Paris Agreement as well (2017a, p. 9). Such affirmations of the Commission are delivered to strengthen the justification of why the European Union should have a capital markets union even more. Hence, the establishment of the 'High Level Expert Group' (HLEG) on Sustainable Finance serves as a recognition of these aspects from the Commission's side. In this sense, it was also recognized on September 20, 2017, that a capital markets union also requires a more integrated financial supervision system. This was set to be done by means of a stronger coordination across the EU, extending the direct supervisory capacities of ESMA, improving ESAs' governance and funding, while ESAs nominated as the promoters of 'sustainable finance', responsible also for ensuring the stability of the financial system (through taking in consideration the ESG factors and risks in their tasks) (European Commission, 2017b, p. 2).

Part of the HLEG activity on sustainable finance are two reports on which recommendations towards the Commission's first action plan on the topic was built upon. These were published in July 2017 and January, 31, 2018, respectively. On the initial occasion, the HLEG made interim recommendations on both processes and participants in the market and mobilising capital for a sustainable economy (European Commission, 2017c, pp. 1-3). Regarding processes such as disclosure, the HLEG considered that 'clear, comprehensive, comparable disclosure on sustainability are key to success' and this would be possible to obtain if financial institutions and firms improved their financial and ESG reporting (European Commission, 2017c, p. 1). Ideas around the development of a classification system for sustainable investments, enhancing ESAs' role in ESG risks as well as strengthening such reporting requirements were already visible as an interim recommendation reporting (European Commission, 2017c, p. 3). Nonetheless, the final report was also informed by the feedback of

stakeholders[77] following a consultation held by the HLEG upon the publishing of its interim report.

3.4.2. Envisioning the delivery of a disclosure reform – from recommendation to action in Action Plan of 2018 & 2021

The European Commission stayed close to the recommendations of the HLEG on Sustainable Finance regarding changes that should be applied to disclosure rules in the building of its more concrete actions delivered in the plans of 2018 and 2021[78]. To demonstrate this, one must pay attention to these three documents and to the emphasis on 'transparency' in the used formulations since the reasons for why this is essential to the financial sector as envisioned by both experts (HLEG representatives) and policy representatives (EU Commission) can be deduced from within. When following column A, B and C in *Figure 7* below, the way in which certain characteristics of disclosure as envisioned by the expert group responsible for the report and their translation into policy actions of the European Commission becomes quite visible. For instance, the recommendation, according to which TCFD principles should be endorsed at the EU level, was put into practice by the Commission through its interest to harmonise them with the Non-financial Reporting Directive, adopted before the Paris Agreement and TCFD principles. To balance this, the Commission released, by means of an appendix, guidelines targeting climate-related disclosures of non-binding value also introducing the double-materiality principle[79] (Lovisolo, 2021, pp. 266-267). This was also largely influenced by the report targeting climate-related disclosures of the Technical Expert Group[80] from 2019.

[77] Such stakeholder categories involved financial market participants and facilitators, financial system observers, and 20% of submissions involved other market participants (European Commission, 2018c, p. 4). The HLEG consultation had a duration of a few months, running from July 18, 2017 to September, 20, 2017 (European Commission, 2018c, p. 2).
[78] This is about the Action Plan released by the Commission in 2018, entitled 'Financing Sustainable Growth', as well as its update of 2021, 'Strategy for Financing the Transition to a Sustainable Economy'.
[79] Double materiality refers to the fact that when sustainability disclosures are concerned, both financial materiality and environmental and social materiality matter; this mainly because the European Commission had to satisfy a larger category of stakeholders rather than solely investors (Lovisolo, 2021, p. 267).
[80] As also shown within the last section of the literature review, HLEG soon was rebranded as the Technical Expert Group (TEG) on Sustainable Finance.

Characteristics of disclosure as per HLEG framing (A)	**European Commission's framing of disclosure in 2018 Action plan (B)**	**European Commission's framing of disclosure in 2021 Action plan (C)**
Long-term investment decisions and sustainability risks/opportunities	'Action 9: Strengthening sustainability disclosure and accounting rule-making' ▪ Fitness check on public corporate reporting ▪ Review non-financial information guidelines regarding climate and in line with TCFD recommendations ▪ Sharing best practices regarding sustainability reporting in a European Corporate Reporting Lab ▪ Asset managers and institutional investors' disclosure on the extent to which sustainability factors are taken into account (in strategy/investment decision-making)	Disclosure is seen as a second building block in the sustainable financial framework, as a 'mandatory' disclosure regime covering both financial and non-financial companies. This allowed for informed investment decisions on sustainability aspects in light of the double-materiality principle and by means of three instruments (CSRD proposal, Sustainable Finance Disclosure Regulation and the Taxonomy). Clarify indicators on adverse impacts of environmental and social-employee matters under SFDR's RTS review Improving disclosure of sustainability transition of financial institutions International cooperation by advancing collaboration under the International Platform on Sustainable Finance of the EC and the 17 members of the initiative
Relevant for both companies and financial institutions[81]		
Consistency in delivering SDG and Paris commitments		
Task Force on Climate-related disclosures endorsement and EU level implementation		
Shortening TCFD's recommendation on voluntary experimentation		
Better alignment between the Non-financial Reporting Directive (NFRD) and TCFD		
Using international leadership to raise reporting standards at a global level		

Figure 7. The framing of disclosure from expert group observation to concrete policy. Source: Author based on European Commission (2018d, pp. 23-26; 2018e, pp. 9-11; 2021a)

An interesting view reflecting the two Action Plans regarding Sustainable Finance of the European Commission is offered by Zetzsche & Anker-Sørensen (2022). For the two researchers, the wording and content of the Sustainable Finance Action Plan of 2018 (SFAP 2018 as abbreviated in the paper) qualify as a 'nudging' approach to sustainability rather than

[81] This point deals with the fact that disclosure regarding the sustainability performance of a company ensures debates and proper dialogue on the topic at an internal level, while financial institutions benefit from taking 'sustainability preferences' into account (European Commission, 2018d, p. 24).

sustainability as a mandatory aspect, a 'forcing' of investors to choose such products and services (Zetzsche&Anker-Sørensen, 2022, pp. 7-11). Some of the reasons behind this affirmation are relayed by the authors through an in-depth analysis of the two Action Plans released in 2018 and then in its updated format from 2021. Basically, the main purpose of the approach of the EU Commission in 2018 was to clarify the terminology around sustainable investments to the extent that this can be mainstreamed or become the 'new normal' (Zetzsche&Anker-Sørensen, 2022, p. 7). Enhancing disclosure by means of a Sustainable Finance Disclosure Regulation comes with certain costs for financial advisers and market participants regarding the extent to which sustainability risks are considered in risk and remuneration policies, as well as the impact of investment decisions on sustainability factors (Zetzsche&Anker Sørensen, 2022, p. 8). As a second observation of the content, the researchers underline that a 'going all in' approach is prevented; sanctions in case of disregarding such disclosure obligations are omitted if there is an explanation stating the reason behind it, while regulators do not review such risk assessments (Zetzsche&Anker Sørensen, 2022, p. 11). Moreover, there is no regard on how conclusions drawn from sustainability assessments in the risk modelling-dependent decisions of financial market participants (Zetzsche&Anker Sørensen, 2022, p. 11). An acceleration of the sustainability transformation agenda was possible due to the launch of the European Union Green Deal in December 2019, reflecting a migration of the topic into one of 'super-high importance' (Zetzsche&Anker Sørensen, 2022, p. 12). Following a public consultation in two rounds of the European Commission, the revision of the Sustainable Finance Strategy of 2021 introduced a much stricter approach at a time when the effects of the initial plan of 2018 are not even visible yet, for lessons to be drawn (Zetzsche&Anker-Sørensen, 2022, pp. 16-17). Concerns around the shift from a nudging to mandatory approach are shared by the three ESAs, as outlined in the arguments that they bring in amidst the consultation ran for the revision of the strategy. As part of the regulators responsible to implement the 2018-published Action Plan, within the letter addressed to the European Commission, the three ESAs choose to promote other four priorities[82] in contrast to the Commission's ambition for including sustainability factors and risks in all financial intermediaries' activities (Zetzsche&Anker-Sørensen, 2022, pp. 16-17). Busch *et al.* (2021, pp. 57-59) analyse the actions proposed by the Commission in 2021 in great detail and conclude

[82] Among these, one can underline a single data platform with both ESG and financial information that is publicly reported, a long-term oriented risk management regulatory framework within the financial sector, as well as ensuring access to sustainable financial products in a safe and transparent manner for investors and consumers. Nonetheless, alignment with other global approaches in IOSCO, BCBS, IAIS, NGFS must also be sought (European Supervisory Authorities, 2020, pp. 1-3).

that the ambitious design can be summarised in five broad strategies, around ‘public incentives’, ‘standardisation’, ‘disclosure’, ‘corporate governance’ and ‘financial regulation’. Taking into account the previously mentioned contrast between the Commission and the ESAs view, Zetzsche&Anker-Sørensen (2022, pp. 18-25) mention a state of ignorance regarding the sustainable finance approach of the European Commission in its shift from the nudging to mandatory regulatory regime, building on a lack of consensus among experts, a lack of data (linking sustainability and finance), as well as a lack of the consistent application of existing tools. Taking into account the theoretical considerations mentioned in the previous chapter, the research design of this thesis is to be presented in the following chapter.

Chapter 4. Methodology

4.1. Framing the research context

Before paying a closer attention to the framing of the research question, it is important to note that as revealed by the actorness theoretical positioning, the European Union had assumed a leadership role in climate change and sustainability policy in recent years in the international arena. As academic literature focusing on financial stability and sociology of risks shows, climate change and the absence of integrating sustainability risks into the financial market can indeed pose a threat to financial stability and not only. Building a 'sustainable finance' had become a significant topic when focusing on initiatives of the European Commission in the financial sector and in the broader agenda of a 'Capital Markets Union'.

Moving on, as described in the theoretical framework, accountability as a social relation involves at least three stages. The one in the end, the scrutiny before an accountability forum, being the main element distinguishing it from transparency. Beyond the regulatory policy-making perspective of Majone, it was shown that the European Union institutional architecture is better perceived as a system of multiple principals and weak agents, especially due to the inter-institutional competition that is sometimes present on specific policy matters. Involvement of experts in regulatory policy-making has a significant importance for the European Commission, and the expertise itself make take upon specific roles. When focusing on the financial services regulation (Dorn, 2012), one could identify that for at least three periods, it was either the private-public lead in financial regulation or the other way around, with the researcher mentioning towards the end the writing that the boundaries had become much blurrier after 2010. A reputational lens within the boundaries of Busuioc & Rimkutė (2020) is revealing that agencies in the European Union institutional architecture have reputational considerations when involved in the policy-process. Based on the above considerations and not only, I am going to focus the current thesis on the following research question:

R.Q.: 'Why is accountability and transparency in the financial market of the European Union important for climate change and sustainability?'

To answer this, the main hypothesis mentions that ensuring the public accountability of the European Union' s financial market actors on climate change and sustainability by transparency (within the sustainable finance framework umbrella) is a stepping stone in the

broader agenda of the objective of a single and sustainable capital market to which the European Commission adheres to. As transparency is a pre-requisite of accountability, in the implementation of the sustainable finance framework, the framing of climate change disclosure regulatory provisions is essential in the integration of sustainability at the level of (and by) the European Commission, ESAs for financial market actors. Demonstrating such hypotheses supplements the main research question with three secondary questions (SQs), which the thesis gradually aims to answer:

SQ (1): *To what extent is accountability and transparency of EU financial actors regulated and implemented in the EU sustainable finance framework, particularly on climate change?*
SQ (2): *How is the integration of sustainability to the institutional financial architecture of the EU mapped by the European Commission and ESAs in light of its multiple principals/weak agents system?*
SQ (3): *What are the main takeaways regarding 'disclosure' from the exposure to stakeholder constellations within the SF framework by both public consultations led on the one hand by the Commission and on the other hand by the ESAs?*

4.2. Research strategy

In this section, I am going to present the way that I chose to structure the research within the thesis. A qualitative research design combining several methods ensures that evidence supporting the research questions - working hypotheses relationship is carefully considered. Qualitative research has the characteristic of incorporating various clues from different sources for the studied aspects – leading to a heterogenous accumulation of noncomparable data, hence qualitative (Gerring, 2017, p. 19). As visible in *Figure 8*, this research is built on three pillars employing two research methods: expert qualitative interviews and document analysis. The primary data is extracted from the first research pillar, in which experts in the field of ESG and sustainability within the financial services sector are consulted. The second pillar makes use of document analysis in extracting data from consultations held by the European Commission and the three ESAs on the topic of sustainable finance. For the third pillar, I am using a specific sampling strategy to select certain financial market participants in order to analyse their stance on sustainability reporting on the criteria of interest. These three research pillars are necessary in order to be able to answer the secondary research questions building up the response for the

main research question as proposed in the previous section on the basis of the hypotheses of the thesis. Following this brief explanation of the employed strategy, one has to go further by defining the relevant characteristics of the employed research methods on the basis of academic literature and explain their relevance in the context of this research.

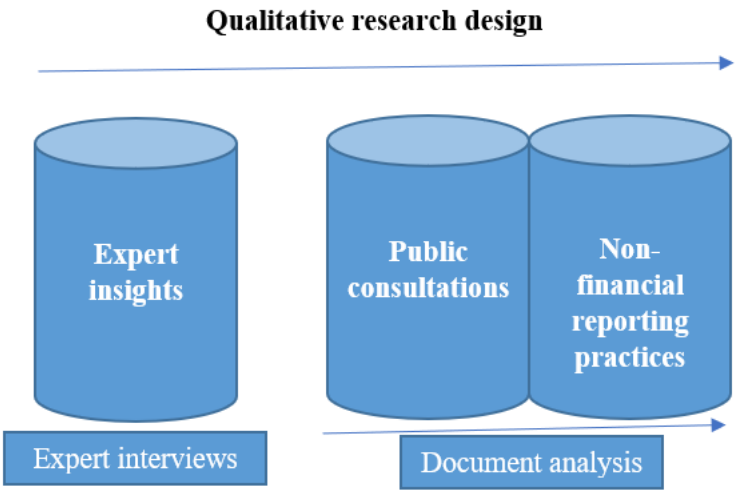

Figure 8. The research pillars of the thesis' qualitative design (noted one to three from left to the right)

4.3. Methods

For the purpose of this thesis, the first research pillar proposes expert interviews as a method of qualitative research. Before discussing expert interviews, a few characteristics of using the interview as a qualitative method have to be catalogued. Roulston & Choi (2018, p. 245) observe that using interviews as a qualitative research method is a practice adopted by researchers of multiple disciplines, who adapt the use of this method to fit the purpose of the research. A large variety of theoretical perspectives have been used to theorize interviews as research methods, among which phenomenological, hermeneutic, ethnographic, feminist, postmodern perspectives and intraviews (Roulston & Choi, 2018, pp. 234-237). Triangulation of data occurs when, for instance in this research, interview is used as one method amidst others. Specifically in interview research, triangulation is translated by the interviewing of multiple members of a social setting in order to enrich the research topic with a variety of perspectives (Roulston & Choi, 2018, pp. 243-244). Preparation for research interviews is comprised of formulating an interview guide, reflecting on the topic, recruitment of participants by email notice (in the case of this research) and conducting the interviews themselves (Roulston & Choi, 2018, pp. 237-240). What makes an interview good is connected to the quality of the preparation, flexibility, nature of questions being asked as well as intensive

listening on the side of the interviewer (Roulston & Choi, 2018, p. 242). The potential pitfalls of qualitative interviews on a stage-by-stage basis summarised by Roulston & Choi (2018, pp. 240-242) together with how one can overcome them have also been taken into consideration. New developments and perspectives around the format of interviews based on technologies are also common nowadays, an example being the Internet-mediated research of synchronous online interviews (through platforms such as Skype or Zoom) or even asynchronous interviewing via email (Roulston & Choi, 2018, p. 245).

Moving on to the expert interview, as any method of research, certain advantages and disadvantages[83] are to be recognized. One has to acknowledge that the use of experts as interviewees allows for an in-depth exploration of the object of research, with insights and patterns of thought being explored (Bogner *et al.*, 2018, p. 653). Also, experts can enlighten certain context-specific information about how decisions are made, while being developed towards four main applications in terms of research, namely serving an assessment, aggregation, anticipation and affirmation function[84] (von Soest, 2022, pp. 2-3). Defined within the borders of the literature in this paper, for this thesis, experts are assumed to represent a 'complex interdependence of both knowledge and power' (Bogner *et al.*, 2018, p. 655). Data generated following expert interviews may lead to technical, process or interpretative knowledge [85](Bogner *et al*., 2018, p. 657-658). Differentiation between the three does not follow a certain standard, but it is rather more based on the analysis and interpretation that the researcher extracts (Bogner *et al.*, 2018, p. 658). To put it in other words, von Soest (2022, p. 4; 6) also notes that the 'capturing' of evidence is done in the context of information that is most of the times subjective and 'coloured' by experts' worldviews, interests, employment status and cognitive abilities. Depending on the focus of the interview, whether an interpretative or informational one, two types[86] of interview are the one targeting systematic data collection and having an exploratory function (Bogner *et al.*, 2018, p. 659; Döringer, 2021,

[83] Certain disadvantages might be the limited availability of experts, perspectives that may be based on distorted sources, memory lapses, systematic bias, subjective interpretation, purposeful/unintentional misrepresentation (von Soest, 2022, pp. 3-5).

[84] The meanings of these functions relate to the fact that experts do share their judgement on political/social processes, contribute to the simplifying of complex aspects, expose certain pattern of future developments, as well as bring arguments to confirming/disproving certain research results (von Soest, 2022, pp. 2-3).

[85] For a complete picture of the meaning of the three types of knowledge see the indicated pages, but for the purpose of this paper a short description may suffice (Bogner *et al.*, 2018, pp. 657-658). Technical knowledge is as the name suggests, the one that contains facts and information presented by the expert in a systematic manner. Process knowledge is different from technical knowledge in the broader sense that it is based on the practical experience of the expert, very closely related to his/her field of action. Interpretative knowledge is much more related to subjective perceptions of the reality and normative judgements.

[86] For a complete overview, see *Appendix 5*.

pp. 266-267). One specific example of the adaptability of using expert interviews as one of the research methods is offered by Döringer (2021), who chooses to combine the theory-generating expert interview with the characteristics of the problem-centred interview, renaming the resulting method as a problem-centred expert interview.

The second and third research pillar use document and content analysis on data captured within the field of practices of financial market participants and by the policy-makers' circle influencing the broader picture of sustainable finance in the European Union. By public consultations, I refer to those held by the European Commission in the context of sustainable finance, as well as the stakeholder consultations at the level of the three ESAs that can help to observe the way in which the integration of sustainability in the financial supervision system of the EU. By data, one refers to any form of written or recorded spoken evidence such as the position papers, feedback, and concerns of financial market participants captured by the Commission and ESAs within this procedure. Before theorizing the relevance of public consultations by ESAs and the European Commission and contextualising the previous sentence, I find it relevant to mention that this data would fall under the category of secondary evidence as the data is captured for other purposes and re-used within the content analysis of this paper.

Both the European Commission and ESAs conduct public consultations in the policy-making process. Despite employing a variety of ways to consult stakeholders, the public consultation process shows how the interaction between the Commission and stakeholders takes place (Van Ballaert, 2017, p. 408). Results of a study focusing on the consultations held by the Commission in around 150 cases across a variety of policy domains underline that among the patterns of consultation[87] usually employed by the Commission, the most preferred design follows an online format in case of new policies (Van Ballaert, 2017, p. 408; 413). As the design of the consultation depends on policy characteristics, complex policies attract the use of online consultations, conferences or hearings to gain attention and information (Van Ballaert, 2017, pp. 420). Specific policy aspects in amended legislation call for seminars or workshops in a targeted stakeholder manner, while expert groups and stakeholder fora are useful when the scope of the policy proposals is wide (Van Ballaert, 2017, pp. 420). When it

[87] Van Ballaert (2017, pp. 408-410) identifies four patterns of Commission consultations: fixed use (open access – one-off meeting); custom use (restricted-access, one-off meeting); all-around use (restricted access, consecutive meetings) and implausible use (open access, consecutive meetings). Online consultations published on the website of the European Commission within public initiatives fall within the fixed use category. Also, this paper underlines the consensus in the academic literature regarding the fact that for the Commission, consultations are a means of capacity-building and legitimization (Van Ballaert, 2017, p. 407).

comes to the level of EU agencies, such as the ESAs in the context of this paper, stakeholder involvement is a considerable aspect of the governance[88] of the respective agencies, as Arras & Braun (2018, p. 1257) underline. Just as the Commission, agencies have certain motivations behind non-state stakeholder involvement, ranging from the need for expertise, organizational capacity to the building of their reputation among stakeholders consulted. If the aforementioned sentence summarised the 'why' involving stakeholders question, the 'how' this is done part relates to access[89]. Ensuring the diversity of information sources used by policy-makers is an attribute of using public consultations to reach out to a diversity of stakeholders (Beyers & Arras, 2020, p. 574). An empirical view into the process involving a set of 2.677 stakeholders of 358 public consultations by EU agencies reveals interesting characteristics regarding this diversity in the analysis of Beyers & Arras (2020), also covering the three ESAs. As such, the two researchers confirm that stakeholder participation in the consultations held by EU agencies are mostly business-interest dominated, participants being part of those affected by the regulation (Beyers &Arras, 2020, p. 575). This is also the case for consultations on the regulation of securities (ESMA), insurance and pensions where almost 70% of participants represent business interests[90] (Beyers & Arras, 2020, pp. 586-587). It is also noteworthy to mention that the diversity of consultation participants relates to the agency organising the consultation, in the context in which younger agencies (such as EBA, EIOPA and ESMA) are legally bound to mobilise stakeholders (Beyers & Arras, 2020, p. 593). In some of the policy fields, such as the banking area, information regarding certain risks are easily obtainable by regulated actors themselves, involved in the business, rather than by other stakeholders (Beyers & Arras, 2020, p. 594).

The third pillar of research on non-financial reporting practices is strongly connected to the findings accumulated by means of interviewing the experts in the first pillar of research. Interest here was to identify the latest deliverables in demonstrating transparency employed by

[88] Each of the ESAs have their own stakeholder body – specifically, the EBA has its Banking Stakeholder Group (regulated under Article 37 and Recital 48 of its Founding Regulation); for EIOPA, there is the Insurance and Reinsurance Stakeholder Group; while ESMA is supported by the Securities and Markets Stakeholder Group (SMSG) (European Banking Authority, 2022a; European Insurance and Occupational Pensions Authority, 2022; European Securities and Markets Authority, 2022a). The groups meet regularly, with the minutes of their meetings being published on the respective websites. Transparency also runs around the selection process of members in these groups since calls for applications and requirements can be found among the articles posted by the three ESAs.

[89] Access to stakeholders is granted by open means when it involves public online consultations, while closed means come down to EU agencies granting access to stakeholders as observers in management board meetings or stakeholder bodies (see supra note 45) (Arras & Braun, 2018, p. 1261).

[90] Where non-business interests are defined and represented by the authors as NGOs, environmental NGOs, labour unions, usually being poorly represented (Beyers & Arras, 2020, p. 587).

financial market players in the European Union for climate-related and sustainability disclosure, as well as the means for seeking public accountability in these deliverables. From the expert interviews I conducted, it was possible to deduce some of the most recent types of ways in which transparency is meant to be delivered by listed companies in the financial market. Nonetheless, the observations of experts also suggested hints to the display of practices by which accountability is sought in the context of these deliverables when it comes to sustainability/climate-related aspects. Hence, I considered it would be helpful, for the aims of this paper, to use insights gained from these interviews into conducting research on the practices of a selected sample of banks, asset managers and insurance companies in the European Union. As I will explain in the next sub-section, this pillar follows a certain number of steps in order to select the proposed sample for applying the document analysis in the further disclosure screening stage. However, one must also consider the fact that a limit in the approach of this third research pillar is the validity of statements cannot be generalised to larger populations of entities and should be considered solely in the context of this research. Corporate sustainability reports and analysis into other means of communicating sustainability approach by companies are recently often used by academic scholars as data in their research design, either when employing a qualitative (see Tarquinio & Xhindole, 2022), quantitative[91] or mixed methods research design (see Nguyen Van Linh *et al.*, 2022).

4.3. Sampling and data collection

In this sub-section, I will explain the way in which the data and its sampling for the three research pillars was planned and obtained. Previous paragraphs provided relevant characteristics of the academic debate in the methodology relevant for the research design of this thesis. The combination of the research methods in the design I chose takes into account the fact that expert interviews in the first pillar of research are rarely a stand-alone technique used in research, but rather part of a more complex research architecture, which allows for binding their analytical value with other data streams (von Soest, 2022, p. 6).

On a more practical side, deciding on the design and planning for the first pillar of research referring to expert interviews involved an early preparation before reaching out to experts. Von Soest (2022, p. 4) mentions that one of the most appropriate ways to conduct

[91] See for instance Ching et al.(2017) that analysis by means of a quantitative design the quality of such reports on a sample of Brazilian-listed entities.

expert interviews is by deciding on a semi-structured format, containing defined topics and pre-formulated questions. Hence, this translates into the design of a two-way conversation, where the researcher takes the chance to pose question by question to the expert and listen to their assessment/interpretation (von Soest, 2022, p. 5). Particularly for the interviews I conducted, relevant steps were to identify the experts eventually willing to participate in the present research, conduct research on their background, engage in a dialogue and address them the invitation to participate in the interview. With this occasion, I tried to consider the recommendation of von Soest (2022) regarding the presence of inside and outside experts for reasons of the integration, to counter advantages and disadvantages of focusing on only one category in the expert selection process[92]. Hence, as I selected six experts, the background characteristics of two of them could qualify them as 'inside' experts, whereas the rest can be considered 'outside' experts. For some of the experts, a first contact was established through a social network in order to get an idea of whether they would be interested in granting a potential anonymous interview. The 'inside' experts were directly contacted via e-mail. Following this, a personally addressed invitation was built, shortly explaining the reasons why their specific experience regarding the topic would be scientifically valuable for this research design. Together with the confidentiality agreement, the invitation to participate in the research was sent. Five of the selected experts answered positively.

Further preparatory steps in conducting the interview followed. As soon as invitations were accepted and the agreement was signed, an interview date and time was scheduled for the interview to be conducted via Zoom or Microsoft Teams. On the same occasion, experts were provided with an interview guide containing the approximate version of the semi-structured questions coming up in the interview. Questions posed to the expert are essential for the interviewing process, as they control the structure of the two-way dialogue and relevance of local and global topics (Wang & Yan, 2012, p. 236). The interview guide shared with the experts contained the same set of semi-structured questions, developed as a result of the literature review process, formulated in such a manner that it matched the expertise that could be drawn upon. It was possible to employ the same set of questions, due to the initial research that was done in the selection process of the experts, their insights offering a different light to similar topics. When a 'wh-' question was preferred, it was to offer experts a greater freedom in extending their answers, by signalling the expertise and knowledge of analytical value

[92] 'Inside' experts are those who were actors in shaping the political or social process that is observed (von Soest, 2022, p. 3). In contrast, 'outside experts' are those whose expertise is gained from the experience they gather (von Soest, 2022, p. 3).

(Wang & Yan, 2012, pp. 238-239). Each interview had an average of 30 minutes and were agreed upon to ensure the anonymous identity of the experts, in the conditions labelled by a confidentiality agreement. To this extent, experts agreed to the interviews being recorded. The list of semi-structured questions posed to the experts is available in *Appendix 8* followed by the transcripts of the five interviews[93], in order to provide transparency in the data collection process. Expert interviews were conducted in the period August – September 2022, while experts were approached starting July 2022. The 'inside' expert that agreed to the interview preferred an asynchronous E-mail-based interview. 'Outside' experts were consulted in online meetings. From what can be shared regarding the interviewees in the conditions of the agreement, one can underline that their vast experience is connected to the EU financial market in the banking and insurance sector, on topics related to sustainability (environmental, social, governance) reporting and risk management. Hence, through their careers, they had the opportunity to witness several changes in practice when it comes to the EU regulatory environment related to non-financial disclosure, seeing the topic 'grow/develop' in its importance among regulators and industry representatives. Due to the fact that interviews were conducted in different stages of the research process, during a period in which the EU regulatory environment encountered several relevant changes tackled upon, the experts' insights blended well into the 'living' topic under discussion.

For the document analysis in the second research pillar, it was first necessary to identify the public consultations relevant for the topic of sustainable finance held by the European Commission for a variety of legislative initiatives. To materialise this, I conducted a search on different keywords in the public consultation database[94] of the European Commission. While maintaining the topic of the search to 'Banking and financial services', I used, one-by-one, the keywords 'climate', 'sustainable investment', 'sustainable finance', 'reporting' and 'disclosure. The results were saved under each keyword in a Microsoft Excel file, summing up to a total of 40 entries, from which some of the consultations appeared several times in the separate keyword-based search. After refining the list of public consultations, I obtained a number of sixteen public consultations organised by the European Commission itself (or through the Technical Expert Group on Sustainable Finance), which was arranged chronologically, together with the periods and rounds it involved. As one can observe in

[93] To ensure the anonymity of their identity, experts are identified in the transcript and the content of the paper through the following system: expert 'A' (19.08.2022, 35 minutes), expert 'A1' (30.08.2022, 35 minutes), expert 'A2' (01.09.2022, asynchronous interview), expert 'A3' (12.09.2022, 28 minutes), expert 'A4' (12.09.2022, 34 minutes).
[94] This database is available at https://ec.europa.eu/info/law/better-regulation/have-your-say_en.

Appendix 6, a close-reading of the aforementioned public consultations was conducted, on which several key aspects pointed out in the previous sub-section were confirmed. All public consultations involved a dedicated page in which the objectives of the consultation were explained, together with its strategy. The responses were either published directly as a classic list on the Commission's website together with the relevant statistics of the consultation, either integrated in the 'EU Survey Tool' as a list that could also be filtered (for instance, filtering for 'business associations' among all entries). All entries were authorised by the Commission before being made public. In the list of results involved in this pillar, I observed that the majority of respondents in the instances of consultations I checked were business associations and companies with one exception[95]. This is demonstrated in *Appendix 6*, on the fourth column, where both the total number of respondents and the relevant two categories' percentages and number is included. The rest of the distribution is not included, since the point made above is demonstrated by adding up the two percentages with the exception above. Adding to this, the name of the draft act of the legislative proposal is also included as attached in the consultation. It may happen that the name of the final legislative act is slightly different than the one in the draft act as a result of Parliament and Council negotiations, but the focus here is on these initial early stages of the drafts.

Within the next stage of the sampling, I chose to select five public consultations for an in-depth analysis from this spectrum of sustainable finance consultations. The choice of these five consultations had both a chronological motivation, as well as a content-based one, as my intention was to zoom in on the evolution of concerns across the framing of climate change disclosure across legislative proposals and stakeholders in this sustainable finance discussion for the European Union. Hence, I selected the first ten business associations[96] in the financial market (representing the interests of business representatives involved in the financial market such as asset managers, investors, insurance, banking or pension funds) in each of these five consultations. Selection here was done by consulting entries in each of the consultations and

[95] The exception is regarding the consultation on Taxonomy Delegated Act (DA) on Climate Change Mitigation and Climate Change Adaptation, where the majority of respondents were citizens/campaigns organised by citizens. The consultation was, nonetheless, considered in the sample due to the importance of the legislative instrument for the topic of the thesis.

[96] I chose to focus on solely business associations in the financial market (and exclude companies) for an in-depth content analysis due to the fact that the membership of such associations consists of several firms in this market. In order to present a common standpoint, the business association goes through a complex exercise involving the scanning of the preferences of members and then bringing forward a strategy translating the respective preferences into a position accepted by all members (Gray *et al.*, 2004; Martin and Swank, 2004 in Hanegraaff & Poletti, 2021, p. 851). In other words, the positions that these business associations take in the consultations of interest represent the extent to which they can speak with one voice in the name of their members and hence I deemed these as more relevant for the aim of this research.

checking the official website of the stakeholders in the order that the entries were published. When one of the stakeholders fell within above-described conditions, it was added to the list of the ten business associations. Where the public consultation could be found in the 'EU Survey' tool, the process was simplified since business associations could be directly filtered for. Other instances required a search among all stakeholder entries on the pages of the European Commission website, to identify the 'business association' tag followed by the review of the official website of the business association in the section 'About us' or similar to identify whether the respective association could be part of the list.

Following this, I qualitatively analysed the content in the positions of the identified stakeholders following some of the steps recommended by Gibbs (2018, pp. 54-73). Results displaying the process are available under Appendix 8 in the format of three tables. The first table showcases a 'codebook'[97] defining the themes[98] resulting from the analysis, while the second one contains the summary of the identified themes. Numbering of the consultations is kept within the rest of the analysis as well to avoid repeating the name of the consultations. The third table is an interactive one[99] and presents an extended view of the process, by including the name of the stakeholder, the descriptive level of coding as well as the categories/themes on the right side. It is essential to take note of the process that the in-depth analysis involved: an initial screening of the comments of the chosen ten business associations of each public consultation was done. Then, in a second in-depth reading, the descriptive level of the analysis was included in a word processor. Basically, I chose to include the points to consider or areas of improvement of the respective legislative proposals, which were usually presented in a 'boldened' writing or introduced at the right time[100] to emphasize their importance. Consultations of the European Commission were based on questions related to the roadmaps/draft legislative proposals under discussion which were general and open, permitting the stakeholder to bring forward its matters of concern and this also enabled the possibility to

[97] According to Gibbs (2018, p. 55), the codebook should be kept separate from the analysis itself and can contain at least the complete list of codes arranged hierarchically, with definitions and notes around the written codes.
[98] Two meanings have to be clarified here – by codes, one refers to the way qualitative data is defined (Gibbs, 2018, p. 54). In practice this means that several passages are identified (in the present case, from across the positions shared by business associations in public consultations) and linked to the same idea which represents the code. Literature focusing on the analysis of qualitative data uses a range of names for the term code – alternatively it can also be found as index, category or theme (Gibbs, 2018, pp. 54-55). The term 'theme' is used here as it possible to connect the passages of the text with thematic ideas of the stakeholders' experience (Gibbs, 2018, pp. 54-55).
[99] By accessing the name of the stakeholder, one is redirected to the web source where the answers/comments were published.
[100] For instance, it could be that the formulation followed the following standard: '(…) welcomes the initiative of the Commission (…). However, (…)'. The important areas to improve would follow the respective 'however'.

derive the codes in the codebook from the prevalence of points made by the business associations in the financial market. For the themes to be derived, the codes were rephrased several times to ensure an analytically valid list. Points made in the 'feedback attitude' indicator in the third table is based upon a qualitative review visited within the two screenings of the stakeholders' comments and takes upon the value of 'positive/negative/partly positive or negative/ undetermined' deducted from the wording employed by the business association. A scale of determining this could not be directly built due to the variety of points brought in, but its reasoning can be explained. The ideal case of a 'positive' feedback attitude would mean the usage of wording such as 'welcomes', 'supports' in several passages accompanied by eventual suggestions. In the other case of a 'negative' indicator, it is usually deduced when the business association's comments mostly focus on bringing criticism and this dominates the passages of text that it provides. 'Undetermined' refers to the situation in which the wording/formulation does not allow for an allocation to any of the other attitudes that could be deduced.

For the third part, the document analysis on non-financial reporting practices with a focus on disclosure of climate risks among financial services companies involved a qualitative analysis of the material published online by financial market players in the EU. Respective entities were selected using the Orbis[101] database, under the student subscription offered by the Technical University of Munich. Orbis is a database offered by Bureau Van Dijk containing information on around 400 million companies detailing corporate ownership structures, financial information, holistic view of companies (BVD, 2022). In the case of this research, its strength is the fact that it offered a powerful tool for conducting and refining a thorough search for these financial service entities with headquarters within the European Union. Hence, I conducted the search by applying a series of three criteria when filtering – one of them being 'listed companies' criteria, the European Union when it comes to the headquarters of the ultimate owner, as well as the category of 'banks, Asset management company, Insurance companies'. Consequently, a number of 230 entities showed up in the results of the search (*Figure 9*).

[101]Available at https://orbis.bvdinfo.com/version-202283/Orbis/Companies/Login?returnUrl=%2Fversion-202283%2FOrbis%2FCompanies.

Search Strategy			
Search Step		Step result	Search result
1. Status	Active companies, Unknown situation	318,397,717	318,397,717
2. Specialisation	Banks, Asset management company, Insurance companies	156,711	122,816
3. World region/Country/Region in country	European Union [27]	79,907,394	5,209
4. Listed/Unlisted companies	Publicly listed companies	84,880	230
Boolean search	1 and 2 and 3 and 4		
TOTAL			230

Figure 9. Search strategy for the sample of the third research pillar. Source: Orbis

The next step was to decide the search strategy/conditions to further use in selecting the sample of the in-depth analysis of practices. A similar research project was conducted by the European Lab under the European Financial Reporting Advisory Group (EFRAG)[102]. The mission of the European Lab is that of identifying good reporting practices of corporations and stimulating public interest and innovation in this field. Its activity was launched at conference held in Brussels on March 5, 2019 and the first project endorsed by the EU Commission had a focus on climate-related reporting. As part of the resulting material of the research guided by the members of the European Lab Project Task Force (PTF) on Climate-related Reporting and published in February 2020, several guides on best climate-reporting practices and areas that could be improved represent a significant effort of 149 companies reviewed in a variety of domains that also involved stakeholder discussions (European Reporting Lab, 2020a, p. 1). In the methodology explaining the sample selection of this project, 100 entities were chosen for a general review of climate-related disclosure (European Reporting Lab, 2020b, p. 29). Since the spectrum of the methodology involved was broader in the respective project, I ought to select a sample of the first fifty entities of the list obtained from Orbis in the order of their operating revenue (turnover is $USD) as well as a check for membership in one of the UNEP-FI programmes (Principles for Responsible Investment, Principles for Sustainable Insurance, Principles for Responsible Banking).

1.	Searching and selecting the sample based on the Orbis database
2.	Extracting the first 50 entities by largest operating revenue (turnover)
3.	Checking the databases of signatories to the Principles for Responsible Investment (PRI), Principles for Sustainable Insurance (PSI) and Principles for Responsible Banking (PRB) for membership of the first 50 entities
4.	Applying criteria for selecting entities entering the further disclosure screening on results in previous step: largest operating revenue, membership in at least two of the initiatives

[102] The EFRAG is a private association that was established in 2001 and is formed by European stakeholders, national organisations and civil society representatives. It was established with the encouragement of the European Commission and oriented towards ensuring an European perspective in the International Accountability Standards Board's standard-setting process (European Financial Reporting Advisory Group, 2022a). Its mission was supplemented by another pillar through the Corporate Social Responsibility Directive, that of drafting the EU's Sustainability Reporting Standards (European Financial Reporting Advisory Group, 2022a).

	(possible combinations in the sample: PRI & PSB, PRI & PRB or PRI & PRB & PSI members)
5.	Selecting first four entities by largest operating revenue (for 2021) in the three possible combinations: 12 entities to be entering the further disclosure screening stage
6.	Analysing the latest deliverables in demonstrating transparency (published in 2022 for results in financial year 2021) and means of seeking accountability in respective deliverables
7.	Building the figures/tables through which design and results are presented

Figure 9a. Summary of research design steps taken in third pillar of research

In practice, the translation of this UNEP-FI screening [103] is that for each of the first 50 banking/asset management/insurance companies, I checked whether the respective ultimate owner is a signatory to one or more of these programmes, by searching in each of the respective initiatives' database of signatories for entities in the list. This serves as a validation/guarantee for the fact that only the framings of climate-related disclosures of the financial market-shaping entities are taken into account. Results[104] of this initial screening show that 44 of the aforementioned 50 entities are signatories of at least one of these initiatives. Following step was to apply the further proposed criteria to the respective sample of 44 entities: selecting the first four entities by largest operating revenue[105] (for 2021) with membership in at least two of these initiatives. For the latter, three former combinations were possible within the 44 entities: signatories of the PRI & PSI, PRI & PRB, or signatories of the PRI & PSI & PRB. Because of this, the sample was reduced to a number of twelve entities, four for each of the three groups. Lastly, the qualitative analysis focused on identifying the deliverables demonstrating transparency of the respective entities for the most recent financial year 2021 (for which materials are published in 2022), as well as screen the respective deliverables for means by which public accountability (before stakeholders) is sought. In the end, as steps summarised in *Figure 9a* show, the corresponding figures and tables were built. A number of thirty documents published by these entities in 2021 and 2022 were found to be relevant for the analysis. Results, presented in *Appendix 12*, are discussed in combination with secondary data from other reports and expert interviews' findings as part of the following section.

[103] This screening was conducted based on the July version of signatories to the three initiatives, available on their official websites and attached to *Appendix 9*.
[104] The complete list of the 50 financial service companies and their UNEP-FI membership is available in *Appendix 9*.
[105] The logic behind this is that consistent with the European Lab (2020a, p. 8), I assume that companies with a larger turnover have a more mature approach to reporting.

Chapter 5. Results and discussion

In this chapter, the main objective is to present the results materialised from the three research pillars and design applied in the context of this thesis. Rather than choosing to independently introduce the results and then bring forward the vital arguments for the research question and hypotheses, an integrated approach with the discussion will be attempted. The interview guide, characteristics of experts, tables that are relevant for the second and third research pillar are completely presented as part of the Appendix at the end of this paper. Here, we choose a chronological and phase-by-phase approach in bringing in observations from the results and integrating them with the arguments that are necessary to answer the main research question, as well as the additional ones. In the following sub-section, I attempt to present and provide arguments on the extent to which accountability and transparency of EU financial actors regulated and implemented in the EU sustainable finance framework, particularly on climate change.

5.1. Pre-sustainable finance disclosure regime period: the shift from voluntary to mandatory non-financial reporting in the EU regulatory context

Sustainability reporting and its introduction in the European Union has to placed in the context of a changing meaning of corporate social responsibility (CSR). As such, some authors such as Ahern (2016, p. 603) sum up the respective change by envisioning a transition in the practices of companies from a philanthropic reasoning to a broader horizon of corporate citizenship and the ethical conduct of business towards the sustainability reasoning. In other words, CSR has come to involve environmental and social sustainability aspects, while corporations also maintain their focus on profits among the goals on the long-term (Ferrarini, 2021, p. 87). Focusing on continental Europe, a variation[106] in terms of the importance attached

[106] By reviewing recent economic theory and policy views, Ferrarini describes two perspectives trying to revive shareholder ('shareholder value purists') or stakeholder primacy ('social value acolytes') in terms of corporate purpose, while arguing for a third way, of an enlightened shareholder value (Ferrarini, 2021, pp. 120-139). At the two poles, Ferrarini considers that the most typical example of the traditional approach to shareholder value theory is represented by the perspective of M. Friedman in his article on the topic from the 70s, while R. Freeman is the prototype of the second approach by his book on the topic from 2010. While representatives of the firstly aforementioned view place an emphasis on the fact that interests of regulators are opposed to those of shareholders and that regulation is not an appropriate response to the companies' problems, Ferrarini (2021, pp. 120-139) argues in favour of more regulation that should ensure the fact that the integrity of corporations and their

to the responsibility of the firms towards society can be noted also in academic discourse by the shareholder vs. stakeholder governance-centred theories, which push for either shareholder or stakeholder primacy (for instance, the pluralist approach in Germany where at least some of the stakeholders are considered in the corporate interest/purpose) (Ferrarini, 2021, p. 87). More observable practical implications are also visible. The extent of these developments has led to the situation in which the emphasis on CSR is now shadowed by sustainability in both policy and academic discourse of the EU, or the minimum of them being used interchangeably (Ahern, 2016, p. 604).

The non-financial reporting regime introduced in 2014 by the amendments brought to the existing Accounting Directive[107] through the Non-Financial Reporting Directive ('NFRD')[108] was part of a broader preceding CSR agenda. CSR and non-financial disclosure requirements are subject to a continuous regulatory development. In 2011, the European Commission announced 'A renewed EU strategy 2011-14 for Corporate Social Responsibility' which was meant to set the ground for new actions in this arena. The strategy was launched by the Commission in order to both answer the call of the Council and EU Parliament, as well as to keep its 'Europe 2020 Strategy' promise of a renewed CSR perspective (European Commission, 2011, p. 4). One important aspect of this strategy is that it provides a new definition of CSR, one that is supposed to promote a 'modern understanding', anticipating the shift in aspects such as sustainability reporting: 'the responsibility of enterprises for their impacts on society'[109] (European Commission, 2011, p. 6). On the dissemination of roles between stakeholders and public authorities, the latter are deemed to play a 'supporting role', encouraging 'complementary regulation' in the situation where transparency is to be encouraged, responsible business conduct and corporate accountability are to be ensured (European Commission, 2011, p. 6). The orientation towards the shift in the disclosure regime is announced by the intention of the Commission to improve the disclosure of 'social and

compliance with environmental and social principles is ensured (in the spectrum of an enlightened shareholder value, where a compromise between shareholder and stakeholder approaches is envisioned).

[107] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

[108] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

[109] This definition is further explained by the Commission regarding its aim and means of realisation, with aims coming closer to the 'enhanced shareholder value' explained by Ferrarini two footnotes above: 'maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large' (European Commission, 2011, p. 6).

environmental information' (European Commission, 2011, pp. 11-12). For the European Commission, enhancement of this type of disclosure facilitates stakeholder involvement, the assessment of materiality risks but also the eventual possibility of 'additional costs' if Member States go beyond requirements of EU legislation (European Commission, 2011, pp. 11-12). Numbers are also used regarding sustainability reporting to both show progress and emphasize that there is a lot of room for improvement, while reference to international initiatives such as the Global Reporting Initiative (GRI) is also included (European Commission, 2011, pp. 11-12).

Basically, the introduction of mandatory sustainability reporting is a clear shift from CSR as a voluntary task of companies to the realm of an obligation, framed in the context of a 'win-win' situation for all relevant stakeholders (Ahern, 2016, p. 605; 607). Evidence that transparency is at the heart of non-financial reporting in the EU is further identified through the inclusion of the respective need across Member States in Recital (1) of the NFRD. Such affirmations are also consistent with the discussions I had with the interviewed experts, albeit focusing on sustainability reporting from the spectrum of sustainable finance. One of the experts, Expert 'A', with several years of experience on the topic obtained in a financial services company, chose to approach the topic of sustainability claims made by financial market participants as three stages of evolution in sustainable finance:

'*if I look back at financial market participants starting to talk about sustainability claims, maybe, 10 years ago in the EU – back then it was about the nations, so that is the so-called* ***sustainable finance 1.0.*** *It was about the nations, about charity events, it was about sponsoring and then basically they (financial market participants) used to mention that they were sponsoring many events, that's what we've done, a couple of pictures, sustainability reports, quite basic, without any particular goal or scope, but whatever was interesting for financial market participants, they would publish it.'* (Excerpt from the interview with Expert 'A')

Then, the shift in terms of CSR business practices when it comes to reporting also gains a risk-based dimension:

'Then, the ***sustainable finance 2.0*** *kicked in, which said, that no, sponsoring and charity is not enough. We actually need to look into our portfolios, what are we doing, where do we invest, what do we insure because sustainability has a risk aspect. Then we started to think about a certain type of harm avoidance, looking for approaches to avoid harm. For example, excluding certain very polluting companies or companies that violate certain human rights standards and so on and so forth. So, basically trying to avoid harm in the portfolio because harm is risk, is stranded asset risk, reputational risk and so on.'* (Excerpt from the interview with Expert 'A')

Ultimately, the expert's experience can be much more related to the intended aim of the 'modern' meaning of CSR, as pre-announced in the 2011 Strategy:

'(…) *the* ***sustainable finance 3.0.*** *that's where we are now emerging and is basically about impact investing. It is not only about avoiding harm, it is not only about trying to exclude the worst of the world, but it is about trying to make a change, to channel the money into certain positive and transition technologies, companies and trying to make a change basically.*' (Excerpt from the interview with Expert 'A')

Going beyond the context explained above, it is safe to emphasize a few points regarding the transparency/ disclosure requirements introduced through the NFRD and their impact. As observed in the formulation of the 2011 Strategy, the primary actors in sustainability reporting would be 'enterprises' themselves, public authorities being there to mainly assume a supporting role. This is consistent with the private-public approach in regulation, explained in the theoretical framework. An alternative view suggests that the sustainability reporting regime is rather an instance of responsive regulation, a form of reflexive law which is strongly influenced by its environment, market actors and other relevant stakeholders (Ahern, 2016, pp. 613-614). Based on the idea that the NFRD itself is meant to establish a minimum of non-financial reporting and on the fact that the possibility of Member States or firms themselves going beyond such requirements is open, one can assume that many of the entities subject to this reporting regime did already have a beyond-compliant sustainability/non-financial reporting. In actual fact, Venturelli *et al.* (2019, p. 415) studied the status-quo of the non-financial disclosure prior to the introduction of the NFRD in Italy and the UK (pre-Brexit). Researchers reached the conclusion that whereas Italy is less compliant to the NFRD than the United Kingdom due to the later introduction of its legislation on the topic, the non-financial reporting regime's quality could be improve for the Member States and firms on the less compliant spectrum (Venturelli *et al.*, 2019, p. 419). Those with a proactive view of CSR would not benefit from the Directive. Earlier, Ahern (2016, p. 615) was expressing similar expectations for CSR proactive firms on the effect of the Directive in the instances in which national or international standards are being followed. While the emphasis on transparency and corporate accountability in the Directive is evident, other sources (La Torre *et al.*, 2020, p. 702) underline that increasing the quantity of mandatory information does not necessarily lead to an enhanced reporting quality nor accountability.

On the content and scope of the non-financial statement, Article 19a of the 2014 Directive provides clarifications. Paragraph (1) of the respective article mentions that only large undertakings fulfilling the conditions to qualify as a public-interest entity and which have an average number of 500 employees during the respective financial year have to enlarge their management report with a non-financial statement[110]. Reading recitals, despite unbinding, in parallel with the Articles of the Directive enlightens the reasoning and justifications beyond policy choices. As such, Recitals (13) and (14) show that small and medium enterprises

[110] This paragraph has to be read on the basis of the 2013 Directive before amendment, where conditions for firms to qualify as 'large undertakings' and 'public interest entities' are defined in Article 3(4), respectively Article 2(1).

(‘SMEs’) are not part of the scope of the Directive because there is a certain institutional pressure aiming for reducing the regulatory burden that these firms are subject to. Elements of which the non-financial statement should be comprised of are described in Article19a (1) NFRD, lines (a) to (e) mentioning that a description of the business model, policies, due diligence processes, policies’ outcome, risks related to operations, business relationships, products, services and non-financial key performance indicators should be provided.

Regarding compliance to the reporting of the described content, the Directive includes a paragraph describing the so-called ‘comply or explain’ approach, frequently discussed in academic literature, which allows for replacing elements in the content of the non-financial statement with a ‘clear and reasoned’ explanation when the respective policies are not pursued. Firms are provided with the choice of using a national, Union-based or international framework with the condition that this choice is specified[111]. Nonetheless, Member States are permitted through the wording of the Directive to make this choice more specific when necessary. More responsibility on the disclosed information resides with the leading bodies of firms in the reporting regime. As such, La Torre *et al.* (2020, p. 705) observes that the board of directors is legally responsible for compliance with disclosure obligations, while also underlining that legislative changes in non-financial reporting require a feasible timeline for practitioners to gather the necessary knowledge. Expert ‘A1’ mentioned[112] that this is particularly so in the current and upcoming disclosure requirements in the sustainable finance legislative package for financial market firms, who are usually both users and preparers of non-financial information statements and who greatly depend on the quality and presence of reporting practices of their clients. One inside expert, ‘A3’, also emphasized the double condition in which financial market players find themselves in:

‘*As well as being preparers of ESG data, insurers are large institutional investors, and sustainability data plays a particularly important role for them. ESG data from investee companies is therefore vital for insurers not only to be able to make sustainable investment decisions, but also, from a user perspective, to comply with EU disclosure requirements.*’ (Excerpt from the interview with expert ‘A3’)

[111] As a matter of fact, the Guidelines introduced in 2017 by the Commission on the non-financial aspects contain a list of examples of international frameworks to be followed considered as a best practice within Section 1 of the document (European Commission, 2017d, pp. 3-4).

[112] The relevant excerpt from the interview with expert ‘A1’ supporting the affirmation above is: ‘*Hence, it is a very well-intentioned, but the financial service market is so wide and inter-dependent on one another’s reporting that maybe this was not taken into account in the base of regulation. The regulatory burden with so many things coming up all at once at the moment that it is very challenging for companies to keep up with the pace.*’

This justification[113] is also present as one of the themes in the content analysis performed in the second research pillar of the thesis, on the positions taken by financial market business associations in Europe. However, the expert 'A1' also stresses the idea that this justification should only work to a certain point after which it only becomes an excuse for actors in the industry:

'*What I do not want to see is that companies come later and say that data quality is a problem and we cannot take this risk, so it should not be included. You can always say that and data quality can always be improved but at some point you have to cut off this excuse of the financial service market and underline that it is enough and you have to take responsibility and ownership of the problems that you are financing or insuring.*' (Excerpt from interview with expert 'A1')

Academic debates centred on transparency and accountability explained in the theoretical framework should provide a specific observation that has to be brought in when discussing data quality under the NFRD. Despite of the fact that a minimum transparency is ensured, the corporate accountability sought by the Commission in instances mentioned above is still missing its 'forum' element. Legislative text of the Directive itself requires an audit firm or statutory auditor to verify only that the non-financial statement is 'provided', without elaborating further, a simple presence/absence exercise. Such position was also diffused at some of the Member States' level when the Directive was transposed. In a comparison between the Directive's transposed laws in Bulgaria, United Kingdom, France, Belgium, Bulgaria and Romania, none of these states went further to mandate such verification at the content level (Aureli *et al.*, 2020, pp. 16-19). A small exception is Belgium which requires a certain soft verification: excluding the external auditor, only the statutory auditor has to ensure that information in the non-financial statement is consistent with the consolidated accounts (Aureli *et al.*, 2020, p. 19). However, the European Commission suggested that the approach in non-financial reporting used by firms should be 'stakeholder oriented', as one of the key principles in the non-binding guidelines it published in 2017, whose context will be discussed in the next sub-section. As such, stakeholders in this case should be seen as a 'collective group' when considering their information needs and may be comprised of a variety of actors[114] (European Commission, 2017d, p. 9). It is in this non-binding instance that 'engagement' with stakeholders is recommended to be explained in the content of the statement. In this sense, building on the work of Masiero *et al.* regarding the call on a dialogical perspective of corporate

[113] For a complete overview, see *Appendix 8, Table 2*, on the excerpts under the 'Regulatory sequencing & timing' theme.

[114] The Commission names the following instances of stakeholders: 'investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners and civil society.' (European Commission, 2017d, p. 9).

accountability, La Torre *et al.* (2020, p. 708) asks in the context of the NFRD: 'where is the dialogue that should be underpinning accountability?'. On this question, La Torre *et al.* (2020, p. 710) suggest that reporting is not enough for accountability and that it should be designed as a more communicative and dialogue-involving process. While the Directive legitimates non-financial reporting, there is (non-mandatory)/little guidance on what and how stakeholder interests are considered in the process (La Torre *et al.*, 2020, p. 716; 718). Expert interviews I conducted inquired into the ways in which financial market participants seek accountability for sustainability claims in the context of transparency as a pre-requirement for accountability (*Figure 10*[115]).

R:	Transparency is a pre-requisite for public accountability in terms of sustainability reporting. What are the most common ways in which financial market participants seek accountability for their sustainability claims? When do they fail to do so?
Expert 'A'	'*We definitely have quite a variety of ways to look for this accountability. (...) transparency is challenging because it is not a common practice to talk about company names, but it's rather common practice to say we avoid severe human rights violations, we avoid this and that and such claims can be audited. If those claims are included in a certain report, the audit can come in and check what is done internally. And then just may be to add and finish the sustainable finance 3.0. that's where we are now emerging and is basically about impact investing. It is not only about avoiding harm, it is not only about trying to exclude the worst of the world, but it is about trying to make a change, to channel the money into certain positive and transition technologies, companies and trying to make a change basically. These claims are difficult to measure, to prove, because the regulations, matrixes, methodologies still evolve. What is sustainable finance, impact investing and so on and so forth, for this we still have a variety of understandings in the market, their regulation, definition is emerging and here how to prove your accountability, to provide transparency is a bit unclear, that's why there are certain greenwashing scandals, allegations happening and so on and so forth. But, now with the time, what financial market participants are doing is that they have their own methodology, they make it transparent and clear, they use data providers, and if an auditor comes then they can check, prove and say that's our understanding. That would be the way I think, from now, but of course moving forward, as more regulations, standards evolve, we need today to use a given standard. Moving on to where do they fail to do so, here I think a bit about greenwashing scandals, for instance the recent DWS story, where DWS were thinking that each and every product they are doing in investing with a little bit of sustainability is green, but a little bit of sustainability is not green by default. You can basically say that for this product we considered sustainability risks, but this product does not mean that it is completely green and the best and the most sustainable in the world. But I think it was not the only problem that occurred but it is a very prominent case. I believe that there are some other financial market participants that are in the same situation, but they are not that prominent*.'
Expert 'A1'	*'I think companies try to – the report is to provide transparency but sometimes it is not about giving accountability. You get accountability/ Accountability is ensured by who is checking your report, but they are accountable, in my view, to their stakeholders, so the shareholders, the public. A way of trying to ensure accountability in this sense is by engaging with these sources on the material that they publish in their sustainability reports – these are not just putting it out there and not talking to people about it. But, nonetheless, companies fail to do so when they have scandals related to certain issues. For example, if you say you are reporting on something like oil spills and you say 'Ok, this is the number of oil spills I have' but it turns*

[115] Only the most relevant excerpts from the answers of the interviewed experts were selected in the table, as the rest push forward a similar point and can be consulted in the corresponding section of the interviews' transcripts included in *Appendix 6*.

	out that you've actually come down with a lot more oil spills (than reported), then you can be held accountable that way through your actions to your stakeholders.'
Expert 'A2'	*'Reporting on sustainability performance is a key way in which financial market participants seek accountability for their sustainability claims. To substantiate their claims, many insurers voluntarily seek assurance from audit firms on their sustainability disclosures.'*

Figure 10. Experts' perspective on sustainability claims' accountability

Most of the experts interviewed with a background as both users and preparers of non-financial disclosure brought up internal auditing and third-party verification as an accountability-seeking mean. Moreover, expert 'A2' preferred to emphasize that in some instances, firms themselves voluntarily engage in a more dialogical corporate accountability for sustainability claims. Hence, according to the same source, firms should not only publish sustainability reports, but rather get their relevant stakeholders to exchange on them. Accountability is also sought by stakeholders amidst 'greenwashing scandals', where firms, according to the interviewed experts tend to overemphasize on the extent to which financial products or services can be considered sustainable or find ways to present information in such a manner that the environmental impact of the entity is minimised. Binding text[116] of the Directive referred to further guidance being provided in the non-binding guidance regime presented by the Commission along the years 2017-2019.

When it comes to building its expertise for an eventual proposal of a revision of the Non-Financial Reporting Directive, the European Commission's responsible Directorate, the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) commissioned a report on the implementation of the Non-financial Reporting Directive, whose results were published in November 2020. Strategical meaning of the study is related to another instance in which the Commission seeks expertise to gather evidence for the preparedness of the legislative landscape in revising the non-financial disclosure regime and support its pre-defined position, in the sense of the role of expertise for the Commission theorised by Hartlapp *et al.* (2020). The scope of this study was mainly connected to gathering evidence on the implementation of the Directive connected to assurance, administrative costs, understanding of materiality, effect of reporting on company behaviour, as well as identify the population[117] of companies subject to its provisions (European Commission, 2020a, p. 7). On one of the points discussed with experts above, namely assurance, the study prepared for the Commission, showed that in some Member States such as Italy and Spain, all companies

[116] See Article 2 of the 2014 NFRD.

[117] The complex approach in the research design used in the study led to identifying that a total number of 1956 companies are subject to the non-financial disclosure regime, out of which 1604 are listed companies, 278 banks and 74 insurance companies (European Commission, 2020a, p. 8).

subject to NFRD are obliged by the additional requirements in national transposition laws to have assurance for their statement (European Commission, 2020a, p. 10). Also, it was observed that cost of assurance depends on the level and scope of assurance: bigger companies pay more due to their reports' complexity, as well as those that rely on international reporting frameworks than those that do not rely on a specific standard (European Commission, 2020a, pp. 10-11). Nonetheless, a substantial share of companies prefers external providers in supporting them to reach materiality decisions (European Commission, 2020a, p. 11). Overall, the NFRD in its first reporting cycle created an impact at the level of company behaviour by raising awareness on the vitality of this type of reporting, stimulated changes in internal procedures to comply with requirements and led to a more concrete consideration of non-financial risks into the strategy of entities (European Commission, 2020a, p. 11).

5.2. Steps into the 'Sustainable finance disclosure regime' period

Before moving on, a few methodological-related aspects have to be clarified. If the previous section started to partly answer and provide evidence on the first secondary question (SQ1) of this thesis by connecting it to the second hypothesis, the following part will focus on further arguing the position on the remaining ones, by providing a reference to the elements of the sustainable finance framework that were deemed to be relevant for the hypotheses I support in answering the main research question.

5.2.1. The non-binding guidance's evolution to an updated mandatory non-financial reporting regime of the EU Commission

Prior to the first reporting period under the NFRD (2018), the European Commission fulfilled its obligation and published in 2017 its 'Guidelines on non-financial reporting (methodology for reporting non-financial information)', whose main scope are to ensure that transparency is offered to stakeholders. Section 2 of the Guidelines presents in detail the justification of the Commission on the 'Purpose' for which the Guidelines were designed, while stressing in several paragraphs their non-binding character, the intention of avoiding to hamper innovation in terms of reporting, as well as the freedom of choosing an 'alternative presentation' of the non-financial information (European Commission, 2017d, pp. 4-5). One important information emphasized by the Commission in an 'Important' box is that the

Guidelines do not represent a technical document, in the sense that following it does not provide users of preparers with the benefit of claiming it was followed in the preparation of the statement (European Commission, 2017d, p. 4).

The 2017-introduced methodology includes a variety of key principles considered essential by the Commission when firms report on non-financial aspects. Therefore, information to be included in the statement should disclose material information, be fair, balanced and understandable, comprehensive and concise, strategic and forward-looking, stakeholder orientated and consistent and coherent (European Commission, 2017d, pp. 5-9). Nonetheless, all elements mentioned in Article 19a of the 2014 Directive are described in a much more detailed manner together with examples on how reporting on the respective topics could be arranged. In March 2018, following the prior release of the recommendations made by the HLEG on Sustainable Finance, the Commission endorsed and adapted such position by strategically releasing the first Sustainable Finance Action Plan entitled 'Financing Sustainable Growth' and whose standing on transparency and reporting was discussed in the previous section. As also shown in comparing HLEG recommendations on disclosure and concrete actions proposed by the Commission on the two occasions of Action Plans, it is safe to assume that usage of the HLEG on Sustainable Finance had an aggregate scope, both in a problem-solving and political consensus-building sense, as explained in the approach of Hartlapp *et al.* (2014) within the previous chapters. As supporting evidence, there is also the endorsement of the first legislative package following the Plan by the members of the HLEG to offer a 'speedy' resolution in realising the vision of the expert group (HLEG, 2018). Within a Commission Staff Working Document, released in March 2019, evaluating the progress made by the Union since the latest CSR strategy, a chapter is dedicated to providing an overview of what has been done in terms of 'Increasing transparency and promoting sustainable finance'. Two of the key actions included in the progress overview are the 2014 Non-financial Reporting Directive and the aforementioned Action plan (European Commission, 2019a, p. 26).

The first three binding legislative proposals following the Action plan were announced on May 24, 2018, when the Commission declared the importance of the financial sector in fighting against climate change. Such announcement is an essential turning point because it represents the instance in which the European Commission converges to academic literature described in the literature review claiming climate change as a great risk for financial stability. This is communicated as one of the three reasons why the respective proposals would allow the financial sector 'to throw its full weight behind the fight against climate change' (European

Commission, 2018f). As further explained[118], such actions regarding the finance sector are dedicated to the broader landscape of the goals of the Capital Markets Union (CMU), the European economy and EU plans in terms of the 2030 UN Agenda for Sustainable Development (European Commission, 2018f).

In the context of the previous two paragraphs, there is one more instrument to be mentioned within this non-binding regime before advancing to the further instruments of disclosure. The Commission Working Document insisted on the fact that the 2017-released Guidelines would face an update by mid-2019 in order to adapt climate disclosure to the latest recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (European Commission, 2019a, p. 28). A Technical Expert Group (TEG) on Sustainable Finance released, as a follow-up to the actions announced by the Commission in its Plan, a report focusing on the promised update of disclosure guidelines in the NFRD regime with a particular attention to the integration of TCFD recommendations. The January 2019 report takes on the task to explain the role of climate-related disclosure in the sustainable finance efforts of the European Union, as well as focuses on connecting the non-financial statement requirements of the NFRD with TCFD recommendations, providing the justification for a concrete endorsement of an international framework based on which the Commission can roll out arguments in its further legislative proposals.

In the 'Supplement on reporting climate-related information', seen as an update or extension of the 2017 Guidelines, the Commission itself recognizes[119] that the respective document is based on the recommendations coming from the report of the TEG. Even more relevant, benefits of climate-related disclosure on the level of listed companies[120], banks and insurance undertakings, attracting a special focus to sectoral guidance envisioned in earlier claims of the Commission explained in the previous paragraph (European Commission, 2019b, pp. 4-5). In the understanding of sustainable finance within the European Union, there is an urgent need to focus more capital to sustainable investments in order to fill in the yearly gap of around €180-billion that is still open in additional investments on 2030 climate and energy targets of the European Union, as underlined by the Vice-President responsible for Jobs,

[118] In connection to this, the then-Vice-President in charge of Financial Stability, Financial Services and Capital Markets Union mentioned the 'harnessing the vast power of capital markets in the fight against climate change and promoting sustainability'.
[119] In Section 1.2 of the document, the Commission affirms: 'The Technical Expert Group on Sustainable Finance, appointed by the Commission in June 2018, provided recommendations on climate-related disclosures and these guidelines are built on those recommendations' (2019c, p. 3).
[120] Listed companies here are defined on the basis of the NFRD and Accounting Directive discussed earlier.

Growth, Investment and Competitiveness, Jyrki Katainen (European Commission, 2018f; European Commission, 2019b, p. 4).

One has to reflect on the exchange between the Technical Expert Group on Sustainable Finance and the approach of the Commission in the revised Guidelines on several points. By firstly zooming in on the framing of disclosure, one can observe that the TEG chose to refer to the level of exposure of firms to climate change to determine a certain type of disclosure that their statements should include (European Commission, 2019b, pp. 15-16). Hence, one can distinguish between three types of disclosure distinguished in the report by the division Type 1, 2 or 3 and or the certain phrases in the second column of *Figure 11* below. From the latter approach, the Commission does employ the term 'Should' in the wording of the Supplement when introducing the specific climate information that each of the NFRD elements, but Type 2 and 3 Disclosures are omitted, some of the characteristics in the Report being brought in in the Commission document as part of the 'Further Guidance'.

Type 1 Disclosures	'Should'	All reporting companies disclose this information
Type 2 Disclosures ('Supplementary')	'Should consider / should consider disclosing'	Reporting companies with significant exposure to climate-related risks and opportunities
Type 3 Disclosures	'May consider disclosing'	Innovative/additional disclosures

Figure 11. TEG-proposed classification of disclosure based on firms' exposure to climate change. Own adaptation based on European Commission, 2019b, pp. 15-16.

However, the previous affirmation covers the main part of the Supplement. When one comes closer to the further guidance offered by the Commission to banks and insurance undertakings in the Annex of the Supplement, most of the elements use a 'Should consider' formulation, specific for Type 2 Disclosures. Recommendations in this further guidance are jointly included by referring to the five elements of the NFRD, and the Commission sometimes employs the approach of the Technical Expert Group to refer more specifically to insurance underwriting activities, lending, investment, asset management activities[121]. A vital role of the financial sector in the broader agenda of a successful transition to a 'low-carbon and climate-resilient economy' is justified in the Supplement by the special role of banks and insurance companies as both preparers and users of financial information (European Commission, 2019c,

[121] This is visible by comparing the formulation in the relevant section of the TEG Report and Annex 1 providing Further Guidance published in the Supplement of the Commission, some items being relevant for all such financial market players, while some of them being business-activity specific (European Commission, 2019b, pp. 33-38; European Commission, 2019c, pp. 21-28).

p. 21). As such, both the positive impact and negative impact that these market actors can assume in transition are spelled out in a contrasted[122] manner.

As a contribution from the findings developed in this research, I requested the support of the interviewed experts in identifying their perception about the challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting. Also, as a result of the second pillar of research, I derived themes from the positions taken by financial companies' business associations in Europe on the public consultations touching upon the revision of non-binding Guidelines in February 2019 and the feedback received by the Technical Expert Group on their 'Report on Climate-Related Disclosures'. When analysing results in both pillars of research, both an expert-view based picture on main challenges, as well as a market-based view was developed.

Before discussing the views extracted from expert interviews, one more point has to be noted. Based on Annex 1 in the Supplement prepared by the European Commission, that offers specific guidance that banks and insurance companies should take into account when disclosing beyond the general climate-related information for all companies in the document, a re-arrangement of the items was performed. In *Appendix 10*, one can identify a table offering a detailed view of the specific points preferred by the Commission on the topic arranged by a general theme when it comes to all insurance and banking companies and the more specific business activity terms. This has further purposes for this research. *Figure 12* below presents a summary view derived from *Appendix 1*0 of the instances in which the European Commission requests granular information from banking and insurance companies in general, as well as more related to lending, investment, insurance, asset management activities regarding climate-related disclosure associated with the five elements of the NFRD. From this, one can observe that some activities, such as the insurance one, is non-bindingly recommended by the Commission to develop a very detailed reporting regime on climate-related aspects. This piece of information was also shared with the experts I interviewed beforehand.

[122] The Supplement mentions an eventual negative effect on the transition assumed by banks and insurance companies: 'Banks and insurance companies may exacerbate climate-related risks if their investments and insurance underwriting policies support economic activities that contribute to climate change via GHG emissions, including from deforestation, forest degradation or land-use change' (European Commission, 2019c, p. 21). A positive effect that these actors assume is introduced afterwards: 'they can promote the transition to a low-carbon and climate resilient economy and increase awareness of the transition by integrating an evaluation of the potential impact on climate change of their prospective investments, loans, and insurance contracts into their policies and procedures' (European Commission, 2019, p. 21).

	General	Lending	Investment	Insurance	Asset management
Business model	X			X	
Policies and due diligence processes	X		X	X	X
Outcomes	X				
Risk and risk management	X	X		X	
KPIs	X	X		X	X

Figure 12. Level of granularity in the specific non-binding further guidance on non-financial climate-related disclosure for banking and insurance companies suggested by the European Commission. Source: Based on Appendix 10 and European Commission, 2019c, pp. 21-28.

Expert-interviews approached the issue of challenges in terms of climate reporting for financial companies from the perspective of a dedicated question[123] in the interview guide. Retrospectively reviewing the Zoom/Microsoft-mediated video-interviews provides a fruitful opportunity for generally understanding the experts' perception on the topic. Most frequently encountered concerns in discussions with experts were around the reliability of data included in such climate-related disclosure. One of experts simply mentioned that the most basic question that financial firms as users of non-financial information would ask is 'Can you trust all the data?' (Transcript Interview Expert 'A'). The usage of a variety of methodologies with their particularities in terms of filling in the data gaps, such as extrapolation, poses difficulties in terms of information comparability even among companies in the same sector. Similarly, another expert underlined that the way in which any financial company build its materiality analysis might lead to situations in which firms operating in the same sector, such as insurance companies, have similar material issues, but these are still not comparable due to different market interests, for example (Transcript Interview Expert 'A1').

Then, another concern around data reliability is whether the respective information was audited or not, as well as the author of the audit. Scope 3/indirect emissions reporting, despite strongly encouraged by the Commission in its Supplement, raise difficulties in terms of identifying the right standard/approach. One expert noted that companies publishing this type of information make use of extrapolations and assumptions to a large extent, and data reliability is to be questioned (Transcript Interview Expert 'A'). Another expert proved particularly

[123] The question included in the interview guide is: 'what do you think that are some of the main challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting?'.

concerned about uniformity issues around climate-related reporting. Due to the 'many people being able to publish what they want in the fashion they want', many reporting frameworks become available, and one reaches the situation in which in a situation of wide acceptance of such frameworks, trying to fix the issue in the way they think it should be done leading to even more complexity (Transcript Interview 'A1'). Hence, to comment on the issue, one inside expert mentioned that the EFRAG can work together with international standard-setters on sustainability disclosures' standardisation, and this should be of help in achieving international convergence (Transcript Interview 'A2').

Qualitative analysis[124] performed on the positions taken by business associations of financial market players also contained the public consultations organised by the TEG on Sustainable Finance in February 2019 regarding their Climate-related Disclosure Report (3). On this occasion, ten business associations' opinions were consulted out of the 21 responding ones, selected based on the sampling described in the research design. A second relevant public consultation is the 'Targeted consultation on the update of the non-binding guidelines on non-financial reporting' (4), organised by the European Commission for one month starting February 20, 2019 regarding the update of the Guidelines. In a similar manner, the first ten financial market players' business associations were included in the analysis. Defined by the borders of the codebook of the qualitative analysis in Table 1 of Appendix 8, it was possible to extract concerns around the following themes in the two public consultations on the selected sample: usability, data, clarity, interpretation, costs of implementation and a series of overlooked elements in the opinion of stakeholders. Some of the points to consider based on the opinion of stakeholders around the 'usability theme' mention that endorsing the TCFD recommendations is welcomed, but a more effective legislative instrument rather than a non-binding one is required. Also, it is argued that climate-related requirements have to be consistent with supervisory and regulation of banks, whereas a common approach to listed and non-listed companies would be appreciated.

Moving on to areas to improve about data, its availability concerned many of the stakeholders, especially in terms of Scope 3 emissions in absence of legislation facilitating the market of this data. Other stakeholders considered access to historical data difficult for SMEs that are clients of financial firms, who would have to build their sustainability report also on the data provided by them. Moreover, disclosing climate-related opportunities and risks of

[124] For the scope of this section, only the most relevant findings will be underlined. A detailed view of the descriptive level of each of the identified themes in the two public consultations' qualitative analysis is offered in Table 2 of Appendix 8. Data used for extracting the themes in this case is found under number (3) and (4).

financial companies is a sensitive topic from a management perspective, while a more step-by-step approach would be appreciated – with more focus on qualitative data around climate-related disclosure. Rest of the outlined themes stressed that the level of granularity (as also shown in Figure 10) is too high for a non-binding instrument that should be more principles-based, with more necessary clarification to avoid overlaps between legislative instruments. Nevertheless, more clarity is also needed in explaining the concept of 'double' materiality based on selected stakeholders' views, and this is also confirmed by a survey of around 200 companies prepared for the Commission (European Commission, 2020a, p. 11). Taking into account these observations, one has to advance to the framing of non-financial disclosure in binding legislation built of the sustainable finance momentum.

5.2.2. Building the EU package of sustainable finance legislative instruments: a focus on the framing of disclosure

As mentioned in one of the paragraphs of the previous sub-sections, the first three binding legislative proposals following the Action plan of 2018 were announced on May 24, 2018 (European Commission, 2018f). Further important initiatives followed as well. In this sub-section, I will emphasize the disclosure regime in legislation built as part of these plans, with a later attention being given to the role of the European Supervisory Authorities (ESAs) in the integration of sustainability risks in their working programme and their contribution in the process, as agencies/authorities providing one of the means of gathering expertise and its exchange with the Commission on the topic. An important building block[125] in communication of the European Commission on 'sustainable finance' is the announcement of the elements recognized under the 'EU sustainability disclosure regime for financial and non-financial companies' (European Commission, 2021a, p. 3). It was introduced in this manner in the 2021 Action Plan and presented based on its instruments in a table, included in *Figure 13* below.

[125] The foundations of the 'EU Sustainable Finance Framework' include three blocks represented by the Taxonomy (1), on which disclosures(2) are built and which leads to the development of tools (3) available for market participants (European Commission, 2021a, p. 2).

EU sustainability disclosure regime for financial and non-financial companies			
Instrument	Corporate Sustainability Reporting Directive (CSRD) proposal[13]	Sustainable Finance Disclosure Regulation (SFDR)[14]	Taxonomy Regulation[15]
Scope	All EU large companies and all listed companies (except listed micro enterprises)	Financial market participants offering investment products, and financial advisers	Financial market participants; all companies subject to CSRD[16]
Disclosure	Report on the basis of formal reporting standards and subject to external audit	Entity and product level disclosure on sustainability risks and principal adverse impacts	Turnover, capital and operating expenditures in the reporting year from products or activities associated with Taxonomy
Status	Under negotiation; expected to apply from 2023	Applies from 10 March 2021	Applies from January 2022

Figure 13. The second block of the EU sustainable finance framework. Source: European Commission, 2021a, p. 3)

5.2.2.1. The Sustainable Finance Disclosure Regulation (SFDR)

a. Regulatory developments and content

The Sustainable Finance Disclosure Regulation[126] was published in the Official Journal of the European Union in December 2019, coming into force on March 10, 2021, with the exception[127] of some of its articles being applied from January 1, 2022. Following this piece of legislation, financial market participants, financial market advisers, certain insurance undertakings, alternative investment fund managers (AIFMs) and others[128] are required to make certain disclosures on their integration of sustainability risks and adverse sustainability risks on their products, investment decisions, strategies at the level of their website, annual reports and pre-contractual disclosures. A first attempt to define sustainable investment, sustainability risks and factors is meant to harmonise terms that financial market actors in their reporting documents and that Member States may refer to in their national legislation. As such, an investment in an economic activity is considered sustainable, according to Article 2 (17) of the SFDR, in the event in which it contributes to environmental objectives defined by the European Union, respects the principle of not doing 'significant harm' to either of the objectives and is done in companies with good governance practices. Whereas 'sustainability

[126] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, pp. 1-16). See *References* for online source.
[127] See Article 20 (3) in Regulation (EU) 2019/2088.
[128] The categories of entities falling under the scope of the SFDR is defined in Article 2 (1) – (7) and (11) of the Regulation.

risks' are considered in Article 2 (22) of SFDR, one relates it to an environmental, social or governance event or condition leading to a negative material impact on the investment. In searching for specific 'sustainability factors', same article in point (24) of the SFDR guides one to 'environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters'. One particular characteristic[129] in dealing with disclosures of financial market participants and advisers based on the SFDR is that one should distinguish between financial products with environmental and/or social characteristics and those products which have it as an objective itself.

Content of the Regulation touches to a large extent upon the way in which financial market participants and advisers should ensure their transparency by disclosure. Driessen (2021, pp. 342-343) refers to the extent to which provisions in this piece of legislation influence the way activities are governed in the financial market. As such, in the event in which financial market participants or advisers need to demonstrate compliance with disclosure requirements under the Articles of the SFDR, it can be expected that they will ensure means to obtain such information from their clients at one point or another (Driessen, 2021, pp. 343). An example of this could be, for instance, corporate issuers having to provide certain ESG information to their lenders (Driessen, 2021, pp. 343). *Figure 14* below offers an overview of the instances of how transparency is ensured in the SFDR by obliging financial market participants and advisers to compliance with certain disclosure requirements. Disclosure of information is requested at both financial product level, website and periodic reports. In the case of the latter, the manner in which information is to be made available in periodic reports is adapted by references to sectoral legislation, depending on the actor in the scope of disclosure[130].

Transparency in:	**At what level?**	**Of what?**
Article 3	Websites	Integration of sustainability risk policies in investment decision-making process/ investment / insurance advice;
Article 4	Websites at entity level	Adverse sustainability impacts of investment decisions on sustainability factors;
Article 5	Websites	How sustainability risks are integrated in remuneration policies;
Article 6	Pre-contractual disclosures	Integration of sustainability risks into investment decisions or investment/insurance advice; likely impact of sustainability risks and resulting returns on financial products;

[129] This is underlined in Recital (21) of the SFDR.
[130] See Article 11(2), points (a) – (j).

Article 7	Website/pre-contractual disclosures at financial product level	Whether adverse sustainability impacts on sustainability factors are considered when it comes to the financial product;
Article 8	Pre-contractual disclosures	Information on environmental and social characteristics of financial product and index information when a reference benchmark is used;
Article 9	Pre-contractual disclosures	Whether the financial product has a sustainable investment as its objective and an index has been designated as reference benchmark;
Article 10	Websites	Information about the environmental/social characteristics of financial product or the sustainable investment objective: description, methodologies, impact of the investment for the financial product and details on data sources, screening criteria, sustainability indicators;
Article 11	Periodic reports	Where a financial product as defined in Articles 8/9 is made available: the extent to which environmental or social characteristics are met, respectively the overall sustainability impact by indicators and comparison between the financial product's impact and reference benchmark index when available.

Figure 14. Overview of transparency ensured through the SFDR provisions by means of disclosure requirements. Source: Adapted based on Regulation (EU) 2019/2088 (SFDR) provisions

Several points on compliance and content aspects as regarding the other requirements in the more general non-financial information disclosure regime have to be made. Beyond the aforementioned overview of disclosure in *Figure 14*, it is important to affirm that the wording of the Regulation does seem to follow the initially assumed objectives of the Commission, of providing a clear and understandable presentation of information, since this point has been mentioned several times in Articles from the overview as part of the same paragraph that specifically name the aspects to be included on the respective disclosure point. The 'comply/explain' approach adopted in the discussed non-financial disclosure regime is still visible, as financial market participants and advisers are offered alternatives[131] to include reasoned explanations when certain disclosure of concerned information seem irrelevant.

[131] For instance, in Article 6 of the SFDR, below paragraph (2), the Regulation says: 'Where financial advisers deem sustainability risks not to be relevant, the descriptions referred to in the first subparagraph shall include a clear and concise explanation of the reasons therefor.'

b. The role of the ESAs under SFDR

Switching to a more institutional perspective, one can also note the strong emphasis on the Commission – ESAs' role in development of more specific regulatory terms that would make legal provisions in SFDR concrete for those in the scope of the Regulation. As supervisory authorities of their respective sectors in the financial market, EBA, EIOPA and ESMA, as a Joint Committee, under the umbrella of the Commission were given the mission by the EU Council and Parliament to develop both regulatory technical standards (RTS) and implementing technical standards (ITS) for the SFDR. According to Recital (30) of the SFDR, the RTS were meant to define specifically what the content, methodologies of sustainability indicators would involve, as well as the way their presentation in terms of adverse impacts. Same goes for when the financial product in question has environmental or social characteristics or sustainable investment objectives, whether such information's destination is the pre-contractual disclosures, annual report or websites of firms in scope. For the case of the implementing technical standards, the Joint Committee of the ESAs are mandated to prepare the form of the information on environmental or social characteristics' promotion on financial products or sustainable investments to be used in marketing communications (Recital 31 of the SFDR). In this process[132], as laid out in the theoretical framework, the Commission is the one to adopt the final version of these Delegated Acts under the provisions empowering it to do so, in Article 290 and 291 of the Treaty on the Functioning of the EU (TFEU).

Additionally, one more role was attributed to the ESAs under the umbrella of this Regulation, namely attributions in terms of some of the reporting practices' stock-taking[133]. Consequently, ESAs were mandated to take stock of reporting practices of, on the one hand, financial market participants on their consideration the adverse sustainability impacts of their investment decisions in terms of sustainability factors, together with the due diligence policies they set in practice, as described in Article 4 (1)(a) of the SFDR. On the other hand, attention of the ESAs is also drawn to the practices of entities regarding financial products' consideration of principal adverse impacts on the sustainability factors, defined under Article 7 (1)(a) of the SFDR. Scope[134] of this reporting stock-taking role of the ESAs is to be able to generate guidance on implications arising from due diligence policies on disclosure, also providing further guidance on 'voluntary reporting'.

[132] Binding version of these formulations can be found in Article 4(6), 8(3), 9(5), 10(2), 11(4), 13(2) of the SFDR.
[133] See Article 18 of the SFDR for the precise wording.
[134] The boundaries of this scope are laid down in Article 18 of the SFDR as well.

Arising from the legal boundaries of the SFDR, the ESAs worked towards the development of the promised regulatory standards. In an attempt to concretely observe the regulatory process with a focus on the Commission and the ESAs in this regulatory context, I will also refer to the instances in which the ESAs referred to the input of stakeholders in shaping its position. The legal provisions and steps of the process were discussed in a general formulation as part of the theoretical framework. From April 23, 2020 to September, 01, 2020, the ESAs launched a joint consultation targeting 'ESG Disclosures', with the scope of gaining the insights of stakeholders on a first draft of the regulatory technical standards mandated by the SFDR, for the SFDR Articles 2a, 4(6) and (7), 8(3), 9(5), 10(2) and 11(4) (ESMA, 2020a; Joint Committee of the European Supervisory Authorities, 2020, p. 5). The document announcing the consultation also included a template version of the reporting formats that the RTS would introduce, together with a preliminary impact assessment and background analysis of the regulatory policy (Joint Committee of the European Supervisory Authorities, 2020, p. 7). Formulations used by the ESAs in the background analysis of the document expose the 'voice' of regulatory authorities in the position of a mediator between the concerns of stakeholders, the demands of the European Commission and how these two can be achieved in practice of a workable format of disclosure requirements of Level 2 regulatory policy-making, in relation to the SFDR. All the more to be observed is the fact that many of the themes discussed with the experts I consulted in the first pillar of research had been constant since the period of the ESAs' consultation, back in 2020. An extensive analysis on this document would go beyond the scope of the paper, but to support the aforementioned claims, I chose three examples reflecting three themes (data, regulatory sequencing & timing and investments/costs of implementation) in the codebook built for the concerns communicated by financial market stakeholders to the European Commission, in other previous instances of public consultations on disclosure requirements. These can be found in *Appendix 11*. Through the consultation of the ESAs, 165 stakeholders provided around 3000 pages of written material (European Commission, 2022e, p. 2). Other associated exposure to stakeholders' opinions was gained by the ESAs through a public hearing held on July 2, 2020, as well as from a survey inquiring into the feedback that could be provided on the templates of pre-contractual and periodic disclosures (European Commission, 2022e, p. 2). Similarly, under the consultation process defined in ESA Regulations, the corresponding stakeholder groups of the three ESAs issued advices as well (European Commission, 2022e, p. 3).

Several letters exchanged between ESAs and the Commission suggested a delay in the application of elements in the SDR. One letter sent by the DG for Financial Stability, Financial

Services and Capital Markets Union to the ESAs in October 2020 announced delays[135] in the public consultation on the draft RTS and hence of several elements in the Regulation, with the regulation still being overall applicable starting with 2021 (European Commission, 2020b, pp. 2-3). The significance[136] of this letter is the intention of the ESAs to provide guidance for the interim period and explain how market participants and national authorities should cope with the application of the SFDR as scheduled in the context of a RTS application delay. The ESAs published a joint statement on February 25, 2021 to clarify SFDR and RTS application timelines, as a follow-up to the delay in the application of the RTS mandated by the Commission (ESMA, 2021b). Accompanying table is structured in such a manner that all obligations introduced by the SFDR provisions are followed by the indication of whether RTS provisions apply to it and with the specification of application dates of RTS provisions. A letter dated July 8, 2021 signed by the DG for Financial Stability, Financial Services and Capital Markets Union was informing the Chair of the Committee on Economic and Monetary Affairs of the European Parliament and the President of the Ecofin Council of the Council of the EU that the ESAs initially proposed date of application of the RTS of January 1, 2022 should be delayed by six months to July 1, 2022 (European Commission, 2021b). For the other provisions of the SFDR mandating an RTS from the ESAs, a similar process was initiated by a public consultation of the ESAs dated March – May 2021, accompanied by a public hearing and advices of their official stakeholder bodies (European Commission, 2022e, p. 3). One relevant expert underlined that exchanges and consultations with stakeholders in the context of sustainable finance should be a 'key-aspect of the policy-making process' when discussing the roundtables in the topic organised by the ESAs with their relevant stakeholders (Interview Transcript with Expert 'A2').

With its final version of the draft regulatory technical standards being delivered by the ESAs to the Commission at the beginning of February 2021, the Commission decided to combine the 13 standards in a single act touching upon sustainability disclosures in the financial services' sector (ESMA, 2021; European Commission, 2022e, p. 3). The technical standards' proposal in the format of a Delegated Regulation with five annexes (containing a

[135] Initially, the Regulation was supposed to be applied from March 10, 2021, whereas the delayed RTS were envisioned to be ready by December 30, 2020 (European Commission, 2020b, pp. 2-3).

[136] Further to this, the ESAs choose to point out to market participants that in order to be able to comply with timelines, the draft RTS can be used for the interim period (March 2021 – January 2022), but consideration should be given that Commission adoption was still pending (ESMA, 2021b, p. 2). Following this, both the European Parliament and Council are allowed to object the draft within three months (and an eventual further three when requested by any of the two) following the notification of the Commission, leading to possible modifications in the final adopted version (ESMA, 2021b, p. 2).

diversity of templates to which the regulatory text makes a reference to) was adopted by the Commission on April 6, 2022 and pushed forward in the policy cycle, awaiting the scrutiny of the European Parliament and the Council of the EU (European Commission, 2022f). Industry players would have to comply with obligations in the Delegated Act starting with the first day of January 2023 (European Commission, 2022f). On July 28, 2022, the three ESAs published the report mandated by Article 18 in the SFDR (Regulation 2019/2088) on the extent of voluntary disclosure of principal adverse impact by financial market participants, as a result of a survey applied by the ESAs. Such occasion gave the opportunity to the ESAs to reflect upon the voluntarily assumed disclosure obligations under Article 4 (1) (a) in the SFDR, which led to the conclusion that definite trends could not be identified due to the variety of approaches taken by respondents (Joint Committee of the European Supervisory Authorities, 2022, p. 5). Moreover, the ESAs assumed that in those instances where principal adverse impacts were not reported, explanations for failing to do so were lacking in detail and clarity (Joint Committee of the European Supervisory Authorities, 2022, p. 3). As national competent authorities complained of a low level of disclosure in terms of disclosures on the extent of the Paris agreement's objective, the ESAs decided to recommend them to continue to observe the market and identify non-compliant financial market participants, do offsite inspections, undertake regular surveys to market participants, offer instruction on compliance and engage in the sue of IT tools simplifying the compliance process (Joint Committee of the European Supervisory Authorities, 2022, p. 3; 12).

5.2.2.2. The European Union's Taxonomy

a. Regulatory developments and content

As introduced by the press release accompanying the package, the unified EU classification system ('taxonomy') is as an instrument providing clarity on the economic activities qualifying as 'sustainable' (European Commission, 2018f). The 'Taxonomy Regulation'[137] came into force on July 12, 2020, less than one month later after it was published in the Official Journal of the European Union. To connect to the previously described SFDR, one has to note the fact

[137] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, pp. 13-43).

that the legislative text of the Taxonomy is also bringing amendments[138] to the respective Regulation, while also using several definitions[139] in the way that they were employed in the SFDR, to ensure consistency. As a tool to be used by those in its scope[140], such as Member States, the Union, financial market participants and undertakings in scope of the NFRD, the Taxonomy is set to be used for a facilitation of using the same criteria within the EU market when determining whether an investment[141] can be called environmentally sustainable. By introducing six environmental objectives[142] and laying down the way in which they should be defined, the Commission is empowered to make efforts necessary to define technical screening criteria for environmental objectives described in Articles 10-15 of the Taxonomy. Following changes[143] brought by this Regulation, the general description of transparency aspects regarding financial products and sustainable investments in the SFDR did also undergo changes in terms of certain specifications that have to be included when providing transparency of environmentally sustainable investments or of financial products promoting environmental characteristics in both pre-contractual disclosures and periodic reports (*Figure 15* below). Earlier this year, on March 24, 2022, the ESAs updated their earlier supervisory statement on the SFDR to provide more clarity[144] for the disclosure mandated under Articles 5 and 6 of the Taxonomy in light of the SFDR expectations (European Banking Authority, 2022b, pp. 2-3). Beyond this paragraph, more attention should be dedicated to the expertise development that the Taxonomy required, as well as on the delegation of powers entrusted to the Commission

[138] See Article 25 of Regulation 2020/852.
[139] One such example is the adoption of the definition of 'financial products' from the SFDR, also extending in the Taxonomy Regulation's Article 2(3).
[140] As per Article 1(2), points (a) – (c) of Regulation 2020/852.
[141] Within the meaning of Article (2), paragraph (1) of the Taxonomy, the instance of an 'environmentally sustainable investment' is to be determined by whether the economic activity under the respective investment is one that fulfils the criteria defining environmentally sustainable activities set by the Taxonomy.
[142] Article 9 of the Taxonomy Regulation mentions climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.
[143] According to Article 5 and 6 in the Taxonomy, in the case of a financial product providing investment to an activity deemed as environmentally sustainable, disclosure in pre-contractual and periodic reports would have to contain information about the respective environmental objective based on the Taxonomy's provisions, as well as quantitative information on the extent to which the financial product invests in environmentally sustainable activities. A similar situation applies to financial products promoting environmental characteristics.
[144] As such, the three ESAs demand that until the application of the SFDR comes into force, financial market actors are to quantify the extent to which their investments are taxonomy aligned when it comes to their financial products (described in points 6 and 7 of the statement) (European Banking Authority, 2022b, p. 2). Also, as estimates are not allowed, information from third party providers or investee companies can be employed by these financial actors when it is not available from the public disclosure of the investee companies (European Banking Authority, 2022c).

by the EU Parliament and Council, together with supporting institutional actors, to materialise the technical screening criteria necessary for fully applying the Taxonomy.

Article SDR	Description	Obligation
Article 9	Financial products which have sustainable investment[41] as their objective.	Must complete Taxonomy disclosures where the investment concerns activities that contribute to an environmental objective.
Article 8	Financial products which promote environmental or social characteristics of the investment, either alone or in combination with other characteristics.	Must complete Taxonomy disclosures where environmental characteristics are promoted.
Article 7	All other financial products.	Must complete Taxonomy disclosures or carry a disclaimer that "the investment(s) underlying this financial product do not take into account the EU criteria for environmentally sustainable investments".

Figure 15. Explanation of disclosure obligations in the Taxonomy – SFDR alignment. Source: European Commission, 2020c, p. 39.

The Taxonomy Regulation is the result of significant expertise brought by the Technical Expert Group (TEG) on sustainable finance since 2018. However, one also has to mention that background preparation also involved expertise of the HLEG on Sustainable Finance in terms of the preparation of a provisional timeline and the proposal of several elements of climate change mitigation (European Commission, 2019d, p. 13). As observed in the literature review when we were discussing the involvement of expert groups on the topic of sustainable finance with examples from international organisations with attributions the influence the financial markets around the world, the Technical Expert Group's mandate as defined by the Commission, extends beyond but also includes aspects of the Taxonomy. As such, materialised on three occasions, the Technical Expert Group assisted the Commission in the necessary work for preparing the technical screening criteria for the first two environmental objectives. These three occasions involve, firstly, a report released in December 2018 by the Technical Expert Group to present actions in the direction of the content of the technical screening criteria as well as address an invitation launched by the group to additional experts that could support further areas where 'additional expertise is needed' (European Commission, 2018g, pp. 2-3). Consequently, the European Commission engaged in organising workshops with the additional experts sought by the Technical Expert Group, in a problem-solving rationale of experts' usage. An additional number of around 200 experts participated in the development of the technical screening criteria recommendations (European Commission, 2018h).

In the self-proposed timeline, the TEG expected workshops run in collaboration with the Commission from December 2018 to April 2019, where work on the preparation of a Taxonomy report was supposed to begin (European Commission, 2018g, pp. 2-3). As a result

of this, a 'Taxonomy Technical Report' was published in June 2019, open to the feedback of stakeholders, content of which prompted the introduction of the list of technical screening criteria, case studies provided to support users understand its approach, methodology and next steps (European Commission, 2019d, p. 16). On a third occasion, the TEG published its final report on the Taxonomy, building recommendations to the final version of the Regulation, in March 2020. Besides this, the Report announced the end of the second extension of the TEG mandate (set for September 2020). In the remaining months to the expiration of the mandate, the TEG took on an advisory role supporting the Platform on Sustainable Finance, established by the Taxonomy Regulation (European Commission, 2020c, p. 12).

b. Bridging sustainable finance expertise and stakeholder concerns with Taxonomy regulatory aspects

Own second pillar research sample involved the qualitative analysis of ten positions taken by financial companies' business associations (out of the 50 as a whole) in stakeholder consultations of TEG in the first two aforementioned occasions. Based on evidence included in Appendix 8, Table 2, one can show that most of the concerns raised by actors in the financial market of the EU spoke to concerns around the usability of the Taxonomy (even though examples in the descriptive level were present in all themes defined in the codebook). Financial business associations were concerned about the approach chosen to classify economic activities, eventual limited effect of the taxonomy in the broader investment landscape, alignment with other disclosure requirements, open questions to the application of the Taxonomy to local contexts and a variety of asset classes. A part of the report in March 2020 recognizes concerns raised generally by all stakeholders that provided a response (and not only financial sector focused as I was interested in for the results used here) was answered by the Technical Expert Group on sustainable finance by explaining the changes that resulted out of the received feedback (European Commission, 2020c, p. 23). Nonetheless, concerns around usability led to the TEG dedicating a section in the report to demonstrate how should users of the Taxonomy use it in practice – with financial market participants having a sub-chapter themselves (European Commission, 2020c, pp. 37-50). For example, in dealing with limited data, financial actors were guided into replacing the respective data with a five-step process completed by themselves or by data providers (European Commission, 2020c, p. 44). One observation has to be made: though this paragraph emphasizes the role of the expertise

provided by TEG, their reports have no binding legal value. However, expertise provided assisted the Commission by providing a problem-solving usage, as described by Hartlapp *et al.* (2014). The work of the former TEG in supporting the financial sector on the usability aspects of Taxonomy was also continued by webinars[145] organised for investors and banks in June and July 2021 by the 2020-inaugurated Platform on Sustainable Finance, discussed in the next paragraph (European Commission, 2022g).

As we described the general outline of the delegation of authority in the inter-institutional relationship between the Commission, EU Parliament and Council in the theoretical framework, one must mention that Article 23 of the Taxonomy describes the conditions under which the exercise of this delegation is to take place in this regulatory context. Such Article describes both the substantive basis in the Regulation for which this power to adopt delegated acts is given, as well as balances[146] it with the consultation of experts gathered from Member States in an institutionalised source of expertise of a 'Member State Expert Group on Sustainable Finance'. Another source of expertise for the Commission mandated by the Regulation is the Platform on Sustainable Finance (Article 20 of the Taxonomy), of which representatives of different agencies, independent experts, experts representing civil society, industry, academia, private stakeholders, research institutions and other are entitled to take part in. The envisioned role of this Platform is a variety of tasks designated to support the Commission's work on the technical screening criteria, ensure communication with a variety of stakeholders and advise the Commission on Taxonomy-related aspects, including on the amendment of the Regulation. Representatives of the three ESAs are also part of the Platform. Launch of the permanent expert group was opened by a speech of Commissioner McGuinness from DG FISMA, announcing the strategic intention of the Commission to focus on the 'bigger picture' of sustainable finance, for which a 'complete rethink' of the rules of the game in the financial value chain is mandatory (European Commission, 2020d). To match the ambition of the Commission, the Platform has the role of 'shaping sustainable finance in the EU' by fulfilling its Taxonomy-related mandate (European Commission, 2020d). Chaired by a Principles for Responsible Investment (PRI) representative, with 57 members and 11 observers some of which selected after a public call, appointed by means of the Taxonomy or invited observers, the Platform functions under six subgroups reunited occasionally in a forum (European Commission, 2022g). Each subgroup has a different focus area: a technical focus, a

[145] The series are fully available online at https://bit.ly/3UsIapR.
[146] According to Article 23 (4) of the Taxonomy, which mandates this exchange of views. However, the Member State Expert Group on Sustainable Finance is defined in Article 24 of the Taxonomy.

regulatory review purpose, negative and low impact activities, social taxonomy, data and usability and monitoring capital flows (European Commission, 2022g). Over the course of January – July 2022, the Platform materialised its activity in several reports providing its advice to the Commission on the Complementary Climate Delegated Act, on a social taxonomy, on the remaining environmental objectives' screening criteria and on the minimum safeguards described by the Taxonomy Act among its criteria (European Commission, 2022g).

A first round of delegated acts mandated by the Taxonomy followed at the end of 2021 and in the first half of 2022. Hence, the Commission adopted a 'Climate Delegated Act' [147] on the first two environmental objectives of the Taxonomy, which was published in the Official Journal as of December 9, 2021 taking effect in January 2022. Feedback from stakeholders on its roadmap and draft version was open by the Commission in two rounds in 2020, as described in Table 1 of Appendix 8 (at number 8). In the second sustainable finance package released by the Commission on April 21, 2021, also introducing the draft of a Corporate Sustainability Reporting Directive (CSRD) meant to revise the NFRD, an accompanying Communication tackled the expectations of stakeholders expressed within the aforementioned public consultations (European Commission, 2021d). All in all, the Commission was keen to underline the fact that the Taxonomy will continuously be reviewed, by emphasizing the Taxonomy as a 'living document' (European Commission, 2021c, p. 4). Here, the research in the second pillar of this thesis allows for a much closer insight into the expectations and concerns of financial business associations in the consultations, prompted by the qualitative analysis into their position.

The Communication of the Commission does not probe into the exact origin of expressed concerns to the EU Climate Delegated Act, but the results I obtained allows for the thematic classification of the consulted sample involving financial market business associations in the EU. Hence, one can observe that financial business associations in Europe expressed concerns[148] around all the seven themes in this thesis' codebook. A further delegated act[149]

[147] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

[148] The descriptive level associated with the themes in our codebook can be consulted in Table 2, Appendix 8, by following each theme on the left side and the corresponding number (8) on the right side.

[149]Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

followed on December 10, 2021 (date of Commission adoption) with disclosure specifications on Article 8 of the Taxonomy applicable since January 2022 on what the presentation of the proportion of environmentally sustainable economic activities in business, investments and lending activities should look like. More recently, in March 2022, the Commission adopted a Complementary Climate Delegated Act[150], published in July 2022 and applicable as of January 2022 which tackles the controversial criteria establishing gas and nuclear activities as in line with the EU Taxonomy. Without probing further into the debate, one of the experts[151] I interviewed (Expert 'A4'), mentioned that when looking at such issues, one must understand that in the end, the Taxonomy's Delegated Acts are a political compromise among a variety of involved parties and the zooming in on the variety of opinions on nuclear and gas activities and whether they should be considered Taxonomy aligned or not should not diminish the overall effort made by the EU in assuming a leading role in sustainable finance at an international level.

5.2.2.3. Corporate Sustainability Reporting Directive (CSRD)

a. Regulatory developments and content

In the second press release announcing further initiatives in the sustainable finance package of April 21, 2021, the European Commission published a proposal for reviewing the non-financial disclosure regime in the format of a corporate sustainability reporting initiative (European Commission, 2021d). As promised in the European Green Deal and renewed in further action plans on sustainable finance, such a review would be in the interest of making investors more aware of the sustainability information of their investments, as companies and financial institutions increase their disclosure on sustainability factors (European Commission, 2019e, p. 17). Such commitments stand under the von der Leyen's Commission strategies on ways in which sustainability can be mainstreamed across EU policies, while pursuing green

[150] Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities.

[151] Excerpt from interview transcript with Expert 'A4' in Appendix 6: '*When it comes to the EU Taxonomy, we all have to be very aware that it is a political compromise and that there is a lot of input falling into that decision, more or less from Member States, very clear decisions on nuclear energy or natural gas where when you think what is the real driver behind that, is it really kind of a pure sustainability perspective or were there a lot of political aspects that were influencing that debate*. (…) *I see the development and I understand that it is a compromise, so I take it for what it is but in comparison to other jurisdictions, definitely the European Union has positioned itself through these sustainable finance initiatives as a leader in the discussion. I see a lot of the benefits of it and understand where the shortcomings come from*.'

finance (European Commission, 2019e, p. 15). The proposal of the Directive had come as amending the text of the previous Non-Financial Reporting Directive and other related legal texts[152] from the Commission's side, proposal on which the European Parliament and Council of the EU reached a political agreement on a final version on June, 21, 2022. In its announcement, the Council of the EU mentioned that the provisional agreement [153]is yet to receive the approval from the Permanent Representatives Committee (COREPER) in order to continue the following steps in the adoption procedures, finishing with its publication in the Official Journal of the EU (Council of the European Union, 2022a).

One has to note that the scope of this fourth step in regulatory disclosure requirements discussed in the context of this thesis is not limited to financial market actors, just as the NFDR and transparency provisions in the Taxonomy are also not. However, as explained by the Commission, they are relevant due to the fact that it is connected to the other legislative measures, by ensuring that, in the discussed regulatory context, financial market actors subject to SFDR can obtain the data they need for disclosure under the respective Regulation (European Commission, 2021e). The justification behind this legislative proposal is argued from the perspective of users and preparers of non-financial information, for whom both specific issues[154] can be encountered. As such, the Commission recognizes, that despite the NFRD requirements, users of non-financial information often identify problems in identifying relevant information their need, sources of reported information not being reliable and comparable and the fact that for some companies no such disclosure is available (European Commission, 2021f, p. 8). Nonetheless, the impact assessment of the Commission brings up the fact that preparers also have difficulty in choosing the information to be reported, difficulties of identifying relevant non-financial information in disclosures of other entities, leading to unnecessary costs (European Commission, 2021f, p 10). The roots/drivers of these problems are associated with both market and regulatory failures (European Commission,

[152] Other legal texts refer to the Accounting Directive (Directive 2013/34/EU), the Transparency Directive (Directive 2004/109/EC), the Audit Directive (Directive 2006/43/EC) and the Audit Regulation (Regulation 537/2014/EU) (European Commission, 2021g, p. 7).

[153] The provisional agreement showing the modifications convened on the proposal of the Commission is available, as of June, 30, 2022, at https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf.

[154] This also generates consequences that have impact on a broader level. Among them, investors are not able take all sustainability risks and opportunities into account, an accountability gap for the public/stakeholders interested in the answer of companies for their societal and environmental impact, as well as minimising the extent to which financial resources from investors reach sustainability-promoting entities (European Commission, 2021f, p. 9).

2021f, pp. 10-13)[155]. Shortly explained, these drivers of issues in the quality of reporting lead to an accountability gap (European Commission, 2021e).

From February 2020 to June 2020, the European Commission held one of its public consultations on the topic of revising of the Non-financial Reporting Directive. Such consultation attracted around 588 respondents, out of which, 52.14 % were companies and business associations (European Commission, 2020e). This consultation was also part of the sample in our research pillar. However, in this case, one limitation[156] was the responses were not available in the EU survey tool or as a list grouped by category as in the case of the other four consultations, so identifying financial business associations directly was not possible. However, the Commission also offered a summary of these positions, referring to statistics on each of the consultation's questions, which I analysed in depth for the more general category of 'users and prepares of non-financial information', as included in the qualitative analysis at point 5, *Table 3 of Appendix 8*. For the purpose here, one can agree that it is sufficient to say that most of the concerns of this category were trying to suggest overlooked elements, to be addressed in the revision around the scope, standardisation, assurance, digitalisation, reported information's location and administrative burden of non-financial information. However, a highlighted[157] concern of financial business associations reported in themes of the other consultations regarding the reliability/ assurance of information is addressed in the proposal by means of an audit requirement for sustainability reporting (European Commission, 2021e). As the final version of the legislative document is not available yet and only the provisional agreement between the Council and Parliament could be identified, one has to note that points raised in the next paragraph relate more to the position of the Commission, and not the final formulation of the legislative text. However, obligations arising out of the Directive will depend on their transposition by Member States, as well by the type of actor under its scope. Hence, a progressive approach in the timetable[158] was agreed by the three EU political institutions (Council of the European Union, 2022a).

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[155] This refers to the market participants not being able to supply the demand of non-financial information adequately, despite growing number of initiatives (European Commission, 2021f, pp. 10-11). The latter regulatory failures mostly concern the substance of the NFRD, containing political choices of 2014, no longer fitting current circumstances (European Commission, 2021f, pp. 11-13).

[156] The files were available only as large 'zipped' documents, also containing studies sent by 588 respondents going beyond their positions. So, it was not possible to select financial business associations as explained in the methodology of this paper. Hence, descriptive level elements from 'users and preparers of non-financial information' under this consultation fell under one single point in the overlooked elements theme in *Table 2, point 5, Appendix 8*.

[157] For example, see point (4) in the Overlooked elements theme, *Table 2, Appendix 8*.

[158] Hence, companies in the scope of the NFRD will have to comply with the CSRD by January 1, 2024. For those whom the scope of the initial NFRD was extended to, such as large companies, the application date is January 1,

Financial market actors have, as one of several benefits, that more entities, beyond the public interest entities under the former non-financial disclosure regime, are comprised in the scope of the Directive. Hence, this reduces data restraints burdens for reporting under the SFDR. There is also a bridging to the ecosystem of further sustainable finance package initiatives, besides the fact that the CSRD's reporting standards are to use indicators of SFDR (European Commission, 2021e). This is realised, subject to the adopted version of the Directive, to entities in scope of the CSRD and subject to Article 8 of the Taxonomy, reporting on indicators disclosing the extent to which their activities are sustainable and sustainability matters mandated by CSRD, in line with the criteria of the Taxonomy (European Commission, 2021e). Main impact of the proposal on reporting/disclosure requirements is that entities in the scope of the former NFRD Directive and large undertakings, to whom this regime was enlarged to, would be required to report on 'sustainability matters' in a 'sustainability reporting' regime that replaces the 'non-financial reporting' one, using sustainability standards[159] established by the EU (through delegated acts) (European Commission, 2021g, p. 12). Principle of double materiality, introduced by the Supplement on Climate Disclosure in 2019, becomes enshrined in the Directive, together with more detail that companies have to disclose on their strategy, targets, role of the board in terms of reporting, principal adverse impacts and how information came to be reported as a process (European Commission, 2021g, p. 13). Moreover, there is an emphasis on forward-looking, as well as retrospective information on the short, medium and long term, whereas Member States are no longer allowed the option to require a separate report not part of the management one for sustainability matters (European Commission, 2021g, p. 13). This is consistent with answering the challenges that expert interviews emphasized regarding climate change disclosure. Sharing from the rich experience of working with the analysis of climate-related disclosure for many years, expert 'A4' underlined the importance of financial market companies being able to develop their climate expertise on forward-looking information they use from their investees or clients, to be able to picture the position of the entity in the market landscape and where it is moving towards among competitors (Interview Transcript Expert 'A4').

2025 (Council of the European Union, 2022a). While listed SMEs ('small and non-complex credit institutions and captive insurance undertakings') will have to comply by January 1, 2026 (Council of the European Union, 2022a). Micro-undertakings, as defined in paragraph (i), Article 5 (c) of the provisional agreement on the CSRD (Council of the European Union, 2022b, p. 143).

[159] Listed SMEs, as explained in the footnote above, falling within the proposal of the CSRD would have a different sustainability standard to comply to then large companies (European Commission, 2021g, p. 13).

b. Relevance of CSRD regulatory developments for answering areas of concern of financial market actors in the sustainable finance framework

One can note that in the development of the sustainability reporting standards by delegation of powers from the Council and EU Parliament, the Commission, in its CSRD proposal, chose to combine its expertise with an exchange of views[160] with a variety of expert groups and agencies of the EU. Among them, the central role is that fulfilled by the European Financial Reporting Advisory Group (EFRAG)[161], whose technical advice should be taken into consideration when transparently developed. According to Article 1 (11), paragraph (b) of the CSRD proposal, technical advice received from EFRAG on the reporting standards should also be the subject of consultation between the Commission and the Member State Expert Group on Sustainable Finance, as well as have the opinion of ESMA by request of the Commission, provided within two months, regarding the consistency with the SFDR. Additional consultation is also sought from EIOPA, the Platform on Sustainable Finance and others[162]. Based on the proposal, the provisional agreement between the Parliament and EU Council, the European Banking Authority (EBA) was added among the list of entities to be consulted on the EFRAG-obtained technical advice (Council of the European Union, 2022b, p. 28). The other two ESAs, the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) were already-existent in the respective list through their role of ensuring the coherency between the regulatory technical standards under the SFDR and the sustainability reporting standards (Council of the European Union, 2022b, p. 28). The additional role of ESMA introduced by the Commission's proposal on ensuring supervisory convergence for certain entities using the sustainability reporting standards is also ensured (Council of the European Union, 2022b, p. 28). Moreover, the Council and EU Parliament also endorse more control on their behalf within the CSRD proposal: both the EU Parliament and Member State Expert Group on Sustainable Finance and the Accounting Regulatory Committee should be consulted by the Commission for at least once every year, in ensuring the transparency, scrutiny and democratic control of the EFRAG and its work on the sustainability reporting standards (Council of the European Union, 2022b, p. 28). Nonetheless, it can be deduced, that the Commission proposed deadline of October 30, 2022 for the adoption of the first delegated act regarding sustainability reporting standards was delayed by the

[160] See Article 1 (11) of the proposed CSRD, paragraph (b) amending Article 49 (3a) of the Accounting Directive.
[161] This group was described in the chapter describing our methodology, see footnote number 97.
[162] See *supra* 153.

provisional agreement of the Council and EU Parliament to June 20, 2023 (European Commission, 2021g, p. 45; Council of the European Union, 2022b, p. 78).

As of February and March 2021, the EFRAG published reports outlining the principles to be followed in the development of sustainability reporting standards, as well as one covering changes[163] it should follow in its governance and funding structure. EFRAG recognizes, among the suggestions it makes for the foundations, conceptual guidelines, reporting architecture and roadmap, that there is a strong necessity to ensure that the EU standard-setting is in mutual reinforcement with other international initiatives (2021a, p. 3). Commissioner McGuinness of the DG FISMA within the European Commission invited EFRAG through a letter in May 2021 to begin its work on the draft sustainability reporting standards in the proposal of the Commission, in line with its earlier reports (European Commission, 2021h, p. 2). In the period between April 29, 2022 and August 8, 2022, the EFRAG launched a public consultation on the draft of a first set of European Sustainability Reporting Standards (ESRS), which was meant to involve a large variety of stakeholders (European Financial Reporting Advisory Group, 2022b). During this period, to ensure this involvement, EFRAG organised sixteen outreach events[164] in EU countries with almost 5000 stakeholder registrations (European Financial Reporting Advisory Group, 2022b). Until November 2022, EFRAG is set to consider comments received on the ESRS in its corresponding internal governance structures, in order to hand in the modified draft to the European Commission for its preparation of the delegated act (European Financial Reporting Advisory Group, 2022b).

By advice of ESAs in these consultations on a first draft, the EFRAG has to make several improvements in order to materialise its intention of contributing to sustainability reporting global standardisation efforts. This affirmation is supported by reminding the fact that the Commission's intention is to make sure that the CSRD's sustainability reporting standards benefit the standardisation of reporting initiatives at the global level, while mentioning the commendable work of the International Financial Reporting Standards initiative in the Sustainability Standards Board and other existing initiatives (European Commission, 2021e). Furthermore, comments issued by ESMA and EBA in the public consultation of EFRAG points out several areas to be improved in this sense. For instance, ESMA underlines that while the EU's sustainability ambition should not be lowered, global reporting standardisation efforts

[163] Changes in terms of funding are needed due to the role EFRAG has to assume, as well as to ensure its transparency and equitability, whereas EFRAG's governance structure changes are mandated to ensure its acceptance by both public and private stakeholders – for instance, ESAs are given full membership (European Financial Reporting Advisory Group, 2021b, p. 4; 6).
[164] The recordings, programme and slides of all events are available online as well.

can become reality only if the EFRAG further engages with the ISSB's future Sustainability Standards and those of the Global Reporting Initiative (GRI), frequently used in NFRD regime (European Securities and Markets Authority, 2022b, p. 6). Points of further engagement could be represented by alignment of definitions and terminology, since though EFRAG and ISSB both started from TCFD aspects, EFRAG reached a much more complex architecture, to the disadvantage of future users and preparers (European Securities and Markets Authority, 2022b, p. 6). This position is also aligned with the July 2022 advice in the letter of the European Banking Authority (EBA) addressing the first draft of standards prepared by the EFRAG (2022b, p. 2). How the comments of the ESAs and other stakeholders will influence EFRAG's initial proposal remains to be seen in its final report to be sent to the European Commission in the following months. When relaying the experience on whether stakeholders are listened to in such consultations, expert 'A2' expressed the fact that consultations carried out on short deadlines and during the summer made it difficult for stakeholders to participate, when pointing out to the consultations carried out by the Platform on Sustainable Finance '*on its draft proposal for an extended taxonomy to support economic transition and social taxonomy*' and that a timely scheduling of such consultations is valuable for adapted, feasible and proportionate legislative requirements (Interview Transcript with Expert 'A2').

5.3. Expert-based and practices' insights of the status-quo of delivering transparency and public accountability by financial market participants in the European Union

Previous section of the paper aimed to answer the proposed secondary questions, with the aim of providing the evidence necessary to support the central and secondary hypothesis presented in the research design. In this section of the paper, I aim to discuss and align remaining findings from the first and third pillar of research, as an attempt to 'measure the pulse' of the status-quo in terms of practices by which transparency and public accountability is served by financial market participants in the EU.

Within the discussions I had with the five experts who brought their contribution to this research, one could benefit from understanding what their interpretation of transparency and public accountability in sustainability claims. Being inspired by the literature consulted in the review, I made the choice of providing the starting point of transparency being a pre-requisite for public accountability in sustainability reporting. Probing also into their experience of when companies can 'fail' in sustainability reporting, the exercise was fruitful. To the extent that

some of them witnessed the evolution of the domain in the last decade, the answer brought in a variety of interpretations. One of the experts considered that reporting against established standards is one way of showing accountability (expert 'A4'), whereas underlining on another occasion that simply showcasing memberships of a variety of international initiatives to the equivalent of a commitment for the future is not enough. Another expert ('A3') emphasized the difference between public and private companies when discussing accountability, with the former being much more proactive in transparency and accountability. To add on the meaning of this, expert 'A2' adds that the assurance requirements introduced by the future CSRD proposal, sought voluntarily by some financial market participants until now, should be able to strengthen public confidence on sustainability claims.

When contemplating of failing in sustainability claims, the majority of experts brought up greenwashing[165] events, such as the recent events[166] around Deutsche Bank's sustainability claims. Zooming in to the regulatory environment of the EU, on August 15, 2022, the European Commission requested the technical advice of the ESAs on the topic of greenwashing risks and the supervision of sustainable finance policies. The three ESAs were given one year to submit their progress reports and 24 months for the final ones on greenwashing risks in the financial market, supervisory practices, experiences and capacities related to greenwashing, as well as on the way in which sustainable finance policies are implemented, while also observing the extent of supervisory convergence of competent authorities in the Member States (European Commission, 2022h, pp. 3-8). Results of the report materialise the Commission's plans of assessing and where necessary, coming up with regulatory measures regarding greenwashing risks in the financial market (European Commission, 2022h, p. 3). Narrative behind the Commission's request is related to the fact that the 'sustainable finance framework' to be implemented through legislative measures that enhance transparency is ought to be accompanied by a substantiation of sustainability claims (European Commission, 2022h, p. 2). Such reasoning of the Commission matches the insight of expert 'A3', who noted the weakness of the control environment for sustainability claims as a factor influencing the 'failures' of respective claims (Interview Transcript with Expert 'A3').

[165] By greenwashing, one refers to the sense in which it is described in Recital (11) of the EU Taxonomy (Regulation 2020/852), where it '*refers to the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly, when in fact basic environmental standards have not been met*'.
[166] At the end of May 2022, prosecutors in Frankfurt (Germany) raided the offices of Deutsche Bank and its asset management company, DWS, on greenwashing allegations (Deutsche Welle, 2022). The former chief sustainability officer of DWS resigned after his initial confirmation of allegations, which were afterwards found as non-evidence based in an internal investigation of the company (Bloomberg, 2022). Despite these investment fraud allegations, the investment unit announced that it will maintain its ESG focus (Bloomberg, 2022).

Combining expert insights with the results[167] of the third pillar results I obtained, one can observe several aspects regarding the status-quo of practices of financial market players with the highest turnovers and that are also signatories of at least two of the initiatives under the umbrella of the UNEP-FI. Such entities tend to deliver on transparency by including sustainability claims into their annual reports, which also included their financial performance. Sometimes, the annual report also offers an integrated and shorter version that is easier to read than the rather extended universal registration document. To promote and underline their climate stance, eight out of the twelve entities that I included in the analysis also prepare an additional report on climate-related disclosure ('TCFD Report'), or even tend to include it as a separate document annexed to the annual report. However, in at least two of the cases observed, information in the additional report goes as unaudited (for example, in the case of the 2022 Climate Report of ING Group), even though information disclosed in the non-financial statement in the annual report is covered by at least an independent audit report, to ensure accountability of the disclosed information. This is consistent with findings of the European Lab (2020a, p. 7) on a larger sample of reporting analysis, that pointed out an improvement in the quality of companies' disclosure on climate-related reporting.

Of course, whether assurance was made an when transposing the former Non-Financial Reporting Directive in the respective Member States of who's twelve entities' ultimate owner is located in, can also be a factor in the interpretation of the aforementioned affirmation. As one could see, the NFRD text of the Commission did not contain this obligation and it was left up to the Member States to decide. But, if the formulation of the Commission regarding the CSRD is to be followed, this assurance[168] obligation will follow in the non-financial reporting that becomes 'sustainability reporting'. In other instances, among the twelve entities, another tendency was that the separate TCFD report was also doubled by the respective evaluation being drawn up as an 'Index' in the annual report. A similar situation was encountered in the case of reporting in terms of other standards, such as the Global Reporting Initiative or the Sustainability Accounting Standards Board reporting, or even the self-assessment reporting of some of the banking groups in UNEF-FI's PRB. In terms of a 'dialogue-based' accountability, as several scholars in one of the previous chapters were writing upon, practices range in the

[167] For the complete overview of the third research pillar's results, see *Appendix 12*.

[168] However, one should keep in mind the fact that this would still not entirely lead to an unexpected rise in the public confidence in sustainability claims. This is due to the fact, even though the entities in the scope of the CSRD is to be increased, a progressive approach is necessary. Moreover, as expert 'A3' noted, transparency and accountability cycles work out for certain type of entities, but not for the large majority 'out there' and improving the pathway requires a joint effort (Interview Transcript with Expert 'A3').

consulted documents from a general description of how stakeholders are consulted in the materiality assessment of financial market participants (five of the twelve entities in the analysis) to detailed presentations of the categories of stakeholders, of the methodology employed when prioritizing their needs and a quantitative evaluation of the dialogue opportunities given for the respective assessment (in the case of the other seven remaining entities).

Based on analysis in the third pillar, one can also underline that all 2021 annual reports of chosen entities commented positively on the impact of the Taxonomy-related regulatory developments for the financial market. The message regarding the complexity and confusion of the new disclosure requirements of the European Union was a common theme among the five interviewed experts, that also gave examples of the early work that a financial company has to put in preparing for changes in the internal process to comply with the respective rules. Such concern was visible even earlier, when the European Lab (2020a, p. 10) confirmed the fact that complying with a variety of disclosure requirements is creating a burden for preparers and users of such information. However, one point to be reminded of is mentioned by expert 'A1', who underlined that this should not become an 'excuse' of financial market participants displaying a conservative attitude to regulatory changes. Busch (2021, pp. 442-443) questions whether when a sufficient degree of harmonisation in the EU on sustainability disclosure-related aspects will be reached, a more sustainable world will be the result. To tackle this, the researcher builds an optimistic scenario, where the EU is sustainability standard-setter at a global level and a more pessimistic one. The latter refers to a world influenced by geopolitical powers characterised by leniency to or a forgotten sustainability agenda with a competitive advantage over the EU. Recent geopolitical events should not hamper the EU's actions of financing the transition to a low-carbon economy under the EU Green Deal.

Chapter 6. Conclusions

In this chapter, I aim to revisit some of the most relevant ideas that were brought in along the previous parts of the paper, as well as shape several recommendations resulting from the findings in the three research pillars.

The main intention of some of the first sections in this thesis were to underline the debates around risk and its importance for policy, whereas to also explore how the scholars promote the idea of climate change as a systemic risk for finance. As part of the literature review, I chose to start by revisiting essential aspects referring to academic narratives on the notion of risk deliberated by a series of scholars whose works range across the constructivist and realist perspective. Then, I noted that a significant influence part of debates around trust and risk in Europe were influenced by ideas of risk sociologists such as Beck, Giddens and not only. As a result of this, it was relevant to emphasize that the relationship between knowledge and risk is mediated by expertise. When referring to the relevance of expertise for risk and trust before the public, it was relevant to bring in Radaelli's perspective of the fact that expertise operates in a politicised environment.

Beck conceptually moved on along the staging of global risk, as financial crises and ecological crises occupied most of the examples around his concepts. In one of his unfinished works, when nothing the 'metamorphosis of the world', the author underlined that climate change transformed the way in which the world and politics are conceptualised. Other researchers had noted parallels between economics and finance in the context of climate change and this brought attempts of demonstrating the connection between traits of systemic risk in finance and those around climate change. Building on arguments that climate change as a systemic risk can influence financial fragility, a range of scholars signed up for listing arguments around the respective hypothesis. Following this, discussion focused on how this hypothesis penetrated the political discourse around finance. Not long after this, it was relevant to also bring in evidence showing that financial aspects had always been part of climate change negotiations and policy of the European Union and not only. Before diving deeper into how this is connected to disclosure and corporate governance in the world of 'sustainable finance', the relationship between the latter in the context of the financial market actors was observed. As a result of the aforementioned discussion, it was possible to also move one step on the conceptual ladder above and inquire into literature focusing on the relationship of transparency and accountability. A discussion on the roots of sustainable finance and finance for

sustainability was also required, in order to show how the climate change as a systemic risk hypothesis penetrated the discourse of the financial policy and industry.

At a later stage, the focus in reviewing relevant literature also showed how the European Commission tried to assume a proposed leadership on sustainable finance by displaying its own example of contributing to the financing of the transition to a low-carbon economy under the discourse of the ambitious European Green Deal. The sustainable finance discourse became the significant link between the strategic goal of a 'Capital Markets Union', the realisation of the 'Green Deal', as well as the EU's implementation of the UN 2030 Agenda. For the implementation of its sustainable finance plans in the financial market of the European Union the European Commission employed the technical advice of its supervisory authorities and expert groups in order to both gather relevant problem-solving support, as well as legitimise and reason its political choices. However, bringing in the opinion of stakeholders of the financial market and exposing policy choices before them was also paid a significant attention to by both the Commission, the three European Supervisory Authorities and even other expert groups involved. For a more generalised to more specific tracing of the process, the theoretical framework brought insights of the regulatory approach in the European Union's integration theories, as well as the characteristics of the EU institutional architecture of the financial sector were relevant. The use of expertise by the Commission in enabling its position formation and a source of legitimacy for policy choices, as well as the expertise offered by supervisory authorities and its exposure to stakeholder constellations also give the bureaucratic lens an interesting analytical value. The network of stakeholders in which the EU Commission and its regulatory agencies are embedded in might function as a double-edged sword, as Arras & Braun (2018) underline. All of this becomes even more relevant when the audience is comprised of stakeholders of the financial market, which at times, instigated a debate around the public or private lead regulatory policy in the context of the EU. A look into the literature of the post-crisis EU financial sector led to the intention of relaying the main changes that this systemic crisis brought to the institutional architecture of the EU, as well as the adaptation of the EU to international financial regulatory forums, that can become a channel through which ideas around transparency and public accountability and their role for sustainable finance can be received or sent. One also had to observe how sustainable finance was both linked to the 'Capital Markets Union' motive, as well as its articulation of delivering actions strengthening the transparency and public accountability of financial market participants in order to ensure the public trust or confidence in the market that is necessary to channel the supplementation of the public funds-supported transition financing by means of private funds. As I underlined

increased disclosure requirements for financial market participants and advisers in the EU are only the first step and cannot function alone, tracing the framing of these by the Commission in the European Union's regulatory policy proved a relevant focus.

Hence, this lead us to question, as presented in the chapter dedicated to the research design of the thesis, *why is accountability and transparency in the financial market of the European Union important for climate change and sustainability*. The main hypothesis which I support through the arguments is that ensuring the public accountability of European Union's financial market actors on climate change and sustainability through transparency is a stepping stone in the broader agenda of the single and sustainable capital market that the European Union tries to materialise. An additional-supported hypothesis, giving substance to the first one, is that as we observed, in the context in which transparency is a pre-requisite to accountability, the framing of climate change disclosure regulatory provisions in the implementation of the sustainable finance framework is essential to integrate sustainability at the level of (and by the) European Commission, the three ESAs for financial market actors. To tackle these, the paper is structured by answering consecutive secondary questions building the arguments and drawing upon the finding supporting the previously described position. Hence, the paper discussed the extent to which transparency and accountability of EU financial actors are regulated and implemented in the framework on sustainable finance in the two action plans, especially on climate change. Then, there was also the chance to show the involvement of the ESAs in supporting the Commission with technical advice for integrating sustainability in the institutional financial architecture, while observing the takeaways of exposing policy choices to stakeholder constellations in the public consultations organised by the previously mentioned institutions.

For the materialisation of this, it was necessary that I employed a three-pillar structured research design structured on the use of expert interviews and document analysis of public consultations and non-financial reporting practices. Limits of this research design were also acknowledged, which include the general ones associated with the choice of the used methods, as well those related to structuring research in a qualitative manner. More specific ones, related to limited number of experts, positions of financial business associations reviewed and the twelve entities' documents analysed in the third pillar, make it difficult to generalise arguments beyond the context of this paper. However, this also allowed for an in-depth analysis of the proposed topic, with a transparent data collection process for each of the three pillars and an extensive set of original and secondary data analysis.

The results obtained from applying the proposed research design were deliberately integrated with the discussion I proposed and not described in a separate section of the paper. However, to ensure the transparency of the research in the thesis, they are fully integrated into several Appendixes. Firstly, it was important to define the pre-sustainable finance disclosure regime period where a shift from voluntary to mandatory non-financial reporting in the EU regulatory context took place. Hence, I observed the implementation of the Non-financial Reporting Directive and reflected upon the insights of one of the experts I interviewed. While witnessing the evolution of disclosure requirements for financial market actors, the expert chose relay how the meaning thereof migrated throughout the years in the used approach. Followed by this, one could also note differences in the transposition of the respective Directive between Member States, analysed by several academic scholars at the respective time. Then, one of the experts also emphasized that the reason why financial market actors are sensitive to the topic of strengthening non-financial disclosure requirements to some extent is that they experience both the difficulties of preparers and users of non-financial information (of their clients). But to this extent, the rise in the demand of such information from investors also demonstrates that arguments providing evidence of association of profit with better 'ESG' performance is heard in the financial markets of the EU, which also later stimulated demands of improving the quality of provided non-financial data. Then, I underlined that whereas the NFRD serves transparency purposes, ensuring the forum before which public accountability is established is also relevant. Interviewed experts, referred here, to a certain extent to the importance of audit and third-party verification of information in sustainability claims.

For the second stage, I relayed the steps that were taken to reach the period of the sustainable finance 'disclosure regime' period. The European Commission considered that it was necessary to guide market participants into employing a beneficial approach to non-financial reporting. Hence, two non-binding legislative instruments were built in order to realise the aforementioned intention. Besides the initial Guidelines providing general guidance on all elements of the non-financial reporting regime of the NFRD, the climate urgency and recommendations of the Technical Expert Group in this sense led to an additional instrument guiding the elaboration of climate-related disclosure endorsing the Task Force on Climate-Related Financial Disclosures' recommendations and by aiming to go even further on a 'double materiality' perspective. Concerns about the level of granularity within this guidance expressed by financial business associations when consulted by the Technical Expert Group of Finance were also found with the second pillar of research. With the announcement of Sustainable Finance Disclosure Regulation and further other initiatives in the first legislative action

package under its Action Plan, the Commission also employed to a great extent the reasoning of the importance of the financial sector in fighting 'against climate change'. Experts to whom I spoke elaborated on their interpretation of the difficulties of climate change disclosure of financial market actors. As a result of this, I found that uniformity of climate reporting and its comparability are still part of concerns expressed on earlier occasions by the themes found in the analysis of positions taken by financial business associations in the chosen public consultations. Experts underlined the recommendation for further standardisation efforts in sustainability reporting at a global level, while the EU continues its agenda on sustainable finance and aims to assume the leadership on the topic. However, one recommendation arising out of this thesis is that, to counter the 'Wild West' of sustainability disclosure standards, as one of the experts recommended, certain compromises have to be made to ensure convergence to a certain extent. To this, I add the fact that just as the Taxonomy is important in making sense of the meaning of 'sustainable investments' in the EU, a certain 'imaginary taxonomy' should also be in the minds of regulators exchanging on the alignment of disclosure standards, especially in the seamlessness of definitions, in the efforts of the Commission on the developments of sustainability standards and other commendable international efforts under the SASB and other standards.

Further steps brought me to the framing of disclosure in the first and second package of sustainable finance legislative initiatives. I showed that the term used in the paper, 'disclosure regime' is used by the Commission itself when referring to the Taxonomy, Sustainable Finance Disclosure Regulation and future Corporate Social Responsibility Directive. A particular attention was given to the regulatory developments and contents of these to consider the framing of disclosure, as well as on the involvement of the technical advice of the ESAs to the Commission when specifically building regulatory and implementing technical standards framing the obligations of market actors. This is even more relevant as one of the experts also confirmed that the theme of sustainable finance became even more prevalent in meetings of official stakeholder bodies of the EBA, ESMA and EIOPA signalling a certain market pressure for improvements in the area. However, the same expert issued what can be considered a further recommendation arising out of this research effort: despite the topic being discussed frequently in independent meetings of these stakeholder bodies advising the ESAs on its regulatory efforts, going beyond sectoral observations to discussions on sustainable finance in the joint meetings that are organised among the three stakeholder bodies would be even more productive and well-enough heard. Beyond the technical advice of the ESAs, one could also see that the Commission' expertise appetite was extended to further

institutionalisation of a Platform on Sustainable Finance and Member States' Expert Group on Sustainable Finance, who as mandated in the context of the new regulatory requirements, would realise further implementation of sustainable finance actions with the Commission as a partner and under the oversight of the Council and EU Parliament. Another recommendation here, generalised from observations of interviewed experts, and the overlooked elements theme in the analysed public consultations would be improving the timeframes and anticipation of consultations with stakeholder as to ensure more inclusive and balanced approaches taken by them, rather than a 'rushing' of their positions, both on the side of the Commission as well as by those sought by the institutionalised expert groups, such as the Platform on Sustainable Finance when developing technical advice on sustainability standards for the EU Commission.

Just as the arguments built on combining the results of the first and third pillar of research emphasize, the 'Wild West' of attempting to improve disclosure at an international level, referred to by one of our experts is still a reality, whereas for those associated with the best practices among financial market participants in the EU, these continue to diversify the means by which transparency and public accountability is sought while thriving to face and implement the 'living' sustainability reporting requirements of the EU. As the political agreement between the Council and the Parliament on the Corporate Social Responsibility Directive was reached, it remains to be seen how Member States will transpose and financial market participants would adapt their practices, and whether this would also improve data available also for their Taxonomy (also amending the SFDR) disclosure requirements. Further research, at the right time, could further probe into this. Moreover, it is quite clear that, for the next few years, sustainable finance policies, how EU institutions and Member States approach them, would continue to be a living interdisciplinary research agenda. It is also interesting to observe in further research how the European Supervisory Authorities would frame their technical advice to the recent request of the European Commission of paying attention to and reporting on the monitoring of greenwashing risks and adaptation to sustainable finance policies by competent authorities within Member States. For sure, to conclude, political choices on the topic of sustainable finance require regular recalibration and the European Union is no exception to this.

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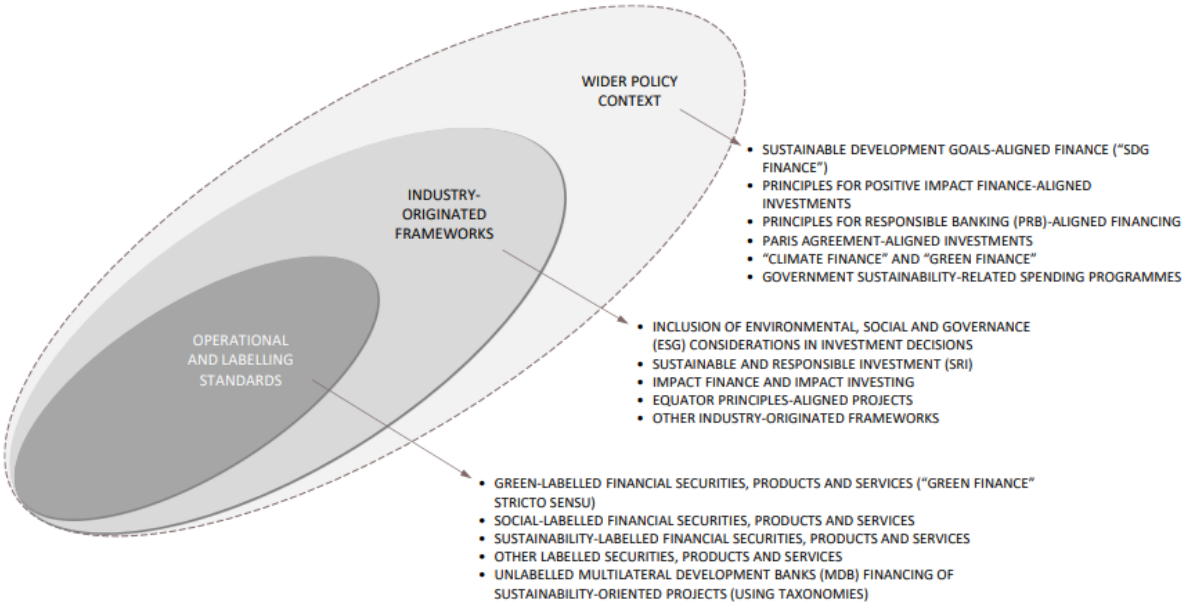
Appendixes

Appendix 1. Sustainable finance definitions in five jurisdictions

	China Taxonomy	EU Taxonomy	France Definitions	Netherlands Definitions	Japan Definitions
Sources					
Sovereign Green Bond			x	x	
Green loans definitions in legislation	x	x	x	x	
Green bonds definitions in legislation	x	x	x	x	x
Incentives					
Interest rate incentives	x		x	x	
Tax incentives or subsidies	x		x	x	x
Monetary policy/collateral incentives	x				
Objectives					
Social objectives included	x	x	x		
Climate change adaptation		x	x	x	x
Climate change mitigation	x	x	x	x	x
Water and marine protection	x	x	x	x	x
Pollution prevention and control	x	x	x	x	x
Waste and recycling	x	x	x	x	x
Ecosystems/Biodiversity	x	x	x	x	x
Sectors covered					
Nuclear		?			
Gas with emissions threshold		x			
Clean fuel	x				
Clean Coal (supercritical)	x				
Hydro	x	x	x	x	x
Solar	x	x	x	x	x
Wind	x	x	x	x	x
Biofuels (biogas, biomass)	x	x		x	
Power Transmission and distribution	x	x	x	x	
Energy efficiency	x	x	x	x	x
Green buildings/energy efficiency in buildings	x	x	x	x	x
Private passenger transport	x	x	x	x	
Public passenger transport	x	x	x	x	
Freight rail	x	x	x	x	
Waterborne transport	x	x	x		
Water infrastructure	x	x	x	x	
Clean water supply	x	x	x		
Forestry	x	x	x	x	x
Fisheries and aquaculture		x	x		x
Preparation, re use, recycling	x	x	x	x	
Waste to energy	x	x	x	x	
Clean steel		x			
Clean aluminium		x			
Clean cement		x			
Low carbon technologies		x			
Hydrogen		x			
Information and Communication Technology		x			

Source: OECD, 2020, p. 33

Appendix 2. The sustainable finance landscape



Source: Migliorelli, 2021, p. 4

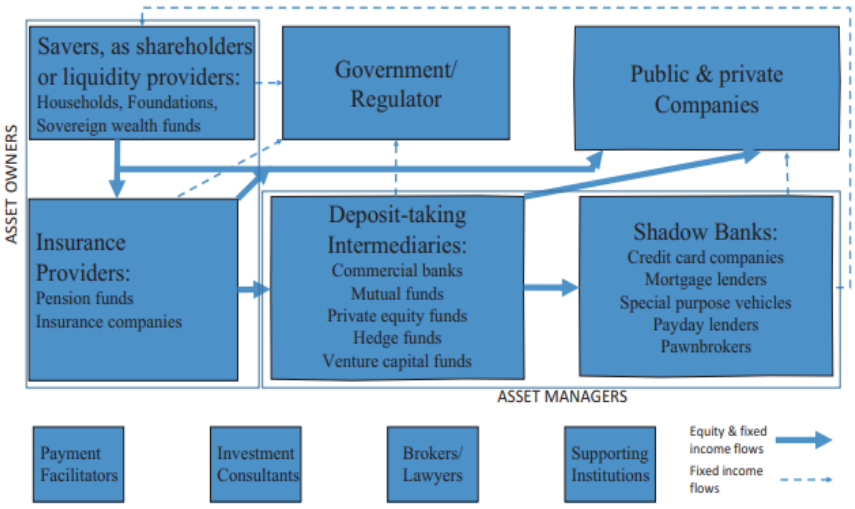
Appendix 3. Detailed overview of corporate governance framework of the European Union

Year	Name of Policy Directive Action	Description
1999	Financial Services Action Plan (FSAP)	Established policy action areas to improve financial market initiatives that focusses on financial integration and harmonisation; limited direct emphasis on corporate governance and accountability.
2002	High Level Group of Company Law Experts Report (Winter Report)	Establishes a framework for modernising European law and corporate governance on issues that include improved corporate disclosures, shareholder rights and voting, board effectiveness, remuneration, audit quality, and the responsibilities of institutional investors.
2003	Corporate Governance Action Plan	Avoids the adoption of a Europe-wide code; focus on corporate governance disclosure, strengthening shareholders' rights, and modernising the board of directors.
2003	Prospectus Directive	Set up rules about the prospectus that European Union firms are required to publish when they issue securities. There was a growing emphasis on financial market infrastructure and SMEs and a limited focus on corporate governance.
2004	Directive on Transparency Requirements for Listed Issuers	Set up policy directive aimed at harmonises transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.
2004	Markets in Financial Instruments Directive (MiFID)	Focusses on harmonising consumer protections, particularly regarding financial and investment services provided by investment firms and banks.
2004	Recommendation on Remuneration	Placed attention on long-term, performance-based pay; public disclosure; remuneration committee; and shareholders' roles.
2004	Directive on Takeover Bids	Attention on minimum standards for takeover bids and protecting minority shareholders and employees.
2005	Recommendation on Boards	Seek emphasis on board independence and committees.
2005	10th Company Law Directive on Cross-Border Mergers	Focus on facilitating cross-border mergers of limited liability companies in the EU.
2005	Amendments on 4th and 7th Company Law Directives	Policy objective to provides updated guidance for annual corporate governance statements, disclosure on risk management, and material RPTs.
2006	Directive on Statutory Audit of Annual and Consolidated Accounts	This EU directives focus on auditor quality and the audit process, including auditor appointment and audit committees.
2007	Shareholder Rights Directive	Emphasis on access to annual general meeting information and proxy voting.
2009	Recommendation on Remuneration	Develops from the 2005 Recommendations and provides greater guidance on the balance between long-term and short-term criteria, deferred pay, minimum vesting periods, and executive share retention, as well as the governance of remuneration.
2009	Solvency II Framework Directive	Focusses on risk-based prudential and solvency rules for insurers.
2010	Green Paper on Audit Policy: Lessons from the Crisis	Focus on the role and scope of auditors, including appointment, remuneration, and mandatory rotation.
2010	Green Paper on Corporate Governance in Financial Institutions	Focus on systemic risk, board effectiveness, risk management, effectiveness of comply or explain, shareholders' roles, and remuneration.
2011	Directive on Alternative Investment Fund Managers	Focusses on such issues as liquidity, leverage, reporting, risk management, and conflicts of interest for alternative funds, including hedge funds.

2011	Green Paper on Corporate Governance in Listed Companies	Focus on board effectiveness (composition, diversity, commitment, and board evaluations), remuneration, shareholder rights and responsibilities, short-termism in the capital market, how to make comply-or-explain work, and employee ownership.
2012	Corporate Governance Action Plan	A 14-point plan focussing on bolstering corporate transparency, engaging shareholders, and law harmonisation.
2012	Proposed Directive on Improving Gender Balance on Boards	Sets an objective of a 40% presence of the under-represented gender on boards.
2012	Communication on Banking Union	Focusses on a "single rulebook," including stronger prudential requirements for banks, improved depositor protection, and rules for managing failing banks.
2013	Capital Requirements Directive (CRD IV)	Prescriptive governance measures focussing on remuneration, including pay caps, for financial institutions.
2013	Transparency Directive	Reduces reporting burden for SMEs, abolishes quarterly reporting, and requires disclosure of major holdings.
2013	Accounting Directive	Covers governance-related provisions, including the requirement for a corporate governance statement that includes comply-or-explain relative to a given code, prudential reporting, audit reporting, and country-by-country reporting (extractive companies).
2014	Proposed Revisions to the Shareholder Rights Directive	Multifaceted review seeking to address the lack of adequate corporate transparency and insufficient engagement of shareholders. Key proposed provisions relate to shareholder identification, facilitation of voting rights, investor transparency regarding voting and engagement, proxy adviser transparency, say-on-pay vote, and shareholder vote on RPTs.
2014	Accounting Directive Amendment on Disclosures	Focus on nonfinancial statement disclosures, including information relating to ESG issues, sustainability, and disclosure of diversity policies.
2014	Proposed Revisions to Shareholder Rights Directive	Key proposed provisions relate to shareholder identification, facilitation of voting rights, investor transparency regarding voting and engagement, proxy adviser transparency, say-on-pay vote, shareholder vote on RPTs, and country-by-country reporting.
2014	Statutory Audit of Public-Interest Entities (Regulation 537)	Addresses non-audit fees, audit reporting, auditor independence, and a 10–20-year mandatory rotation.
2014	Long-Term Financing Communication	Focusses on funding for long-term infrastructure initiatives and providing additional sources of financing for companies, particularly for SMEs. Consultation on investor use of ESG information linked to long-term investment (2015).
2015	Capital Markets Union Action Plan	Focusses on broader financing alternatives to fund SMEs, including the use of bonds and other fixed-income instruments to provide financing to corporations and green infrastructure, as well as to reinvigorate the practice of securitisation more generally.
2015	Review of the Prospectus Directive	Focusses on simplifying and limiting prospectus requirements, especially for SMEs, and on simplifying risk disclosure for retail investors.

Source: Akuffo, 2020, pp. 21-22

Appendix 4. The taxonomy of global financial players. An ecosystem perspective with elements of the graphic explained in the table.



Category	*Function*	*Examples*
Savers	Choose to limit current expenditure below current receipts in order to fund future cash-flow requirements	Households
Shareholders	Advance cash to a company in return for a residual claim to the assets of that company	Households, pension funds, sovereign wealth funds, foundations, endowments, commercial banks (in civil law countries)
Liquidity providers	Advance cash in return for a future promise to return such cash along with interest, with or without collateral	Savers, insurance providers, credit card companies, mortgage lenders, capital market underwriters, payday lenders, pawn-brokers
Insurance providers	Accept periodic contributions of cash from households in return for a promise to provide lump-sum or periodic contributions of cash in the advent of need	Pension funds, insurance companies
Deposit-taking intermediaries	Accept cash from households with the purpose of storing and enhancing the value of such cash in the future	Commercial banks, savings and credit associations, credit unions, money market fund managers, mutual fund managers, private equity fund managers, venture capital fund managers, hedge fund managers
Brokers and lawyers	Act as an agent on behalf of borrowers, lenders, shareholders, and firms in return for a fee or a bid-ask spread	Brokerages, investment banks, securities lawyers
Consultants	Provide advice to savers or borrowers in return for a fee	Financial consultants, mergers & acquisitions advisory firms
Payment facilitators	Facilitate the payment of pre-determined amounts of cash between parties	Digital payments networks, credit card companies, Western Union, SWIFT, commercial banks
Supporting institutions	Facilitate standardization of contracts, provide verification of information, provide privacy to transactors and other supporting roles that do not involve the provision of capital or direct advice	Exchanges, peer-to-peer lenders, information providers, custodians, nominee or professional director services, rating agencies, auditors
Regulators	To design and administer rules intended to enhance the net social benefits of the financial ecosystem	National and supra-national agencies

Source: Bose *et al.*, 2019, p. 27; 29

Appendix 5. Types of expert interviews based on the focus of the data collection

Table 41.1 Forms of expert and elite interviews in relation to their function in the research design and epistemological background

	Exploratory interviews	Grounding interviews
Informational Interviews	exploratory data collection	systematising interview
Interpretive Interviews	exploration of interpretations	theory-generating interview

Source: Bogner *et al.*, 2018, p. 659

Appendix 6. List of questions, timetable and expert interviews' transcripts

Questions

1.Transparency is a pre-requisite for public accountability in terms of sustainability reporting. What are the most common ways in which financial market participants seek accountability for their sustainability claims? When do they fail to do so?

2. What are some of the main challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting?

3. What is your opinion regarding the implementation of the disclosure regime brought by the EU Commission under the auspices of the sustainable finance framework in the EU?

Note: By disclosure regime, I refer to the provisions brought by the Taxonomy Regulation, Sustainable Finance Disclosure Regulation and CSRD proposal – The EU Commission refers to these three in its 2021 Sustainable Finance Strategy)

4. In the eve of revising the sustainable finance action plan, a contrast between the Commission's ambitious plans and the cautious position of ESAs could be identified. In the context of regulatory efforts of the ESAs and Commission to integrate sustainability in the financial supervision framework, do you consider that the opinion of stakeholders is filtered 'well-enough' in the policy-making process?

5. At an international level, do you consider that the current developments (TCFD recommendations, industry-based initiatives under the umbrella of UNEP FI, EU/ Chinese Taxonomies, etc.) around climate-related disclosure provide data with the high degree of comparability or transparency that is needed or should more efforts be made? If more regulatory efforts are to be made, which actors should take the initiative?

Expert interview timetable

Expert 'A'	19.08.2022, 35 minutes
Expert 'A1'	30.08.2022, 35 minutes

Expert ‘A2’	01.09.2022, asynchronous interview
Expert ‘A3’	12.09.2022, 28 minutes
Expert ‘A4’	12.09.2022, 34 minutes

Transcript expert interview #1 – Expert ‘A’

Friday, August 29, 2022

R: Hello! Thank you for joining in this expert interview. The main scope of this is to gather practical insights and opinions from preparers and users of information in sustainability reporting within the financial sector. This interview is recorded in the scope of the transcript. Before moving on to the interview part, do you have any questions?

E: No, all good, no.

R: Alright, so we can start with the first question. Basically, starting from the idea that transparency is a pre-requisite for public accountability in terms of sustainability reporting. What are the most common ways in which financial market participants seek accountability for their sustainability claims? When do they fail to do so?

E: That’s a good question. We definitely have quite a variety of ways to look for this accountability. Let’s put it this way: if I look back at financial market participants starting to talk about sustainability claims, maybe, 10 years ago in the EU – back then it was about the nations, so that is the so-called sustainable finance 1.0. It was about the nations, about charity events, it was about sponsoring and then basically they (financial market participants) used mention that they were sponsoring many events, that’s what we’ve done, a couple of pictures, sustainability reports, quite basic, without any particular goal or scope, but whatever was interesting for financial market participants, they would publish it. Then, the sustainable finance 2.0 kicked in, which said, that no, sponsoring and charity is not enough. We actually need to look into our portfolios, what are we doing, where do we invest, what do we insure because sustainability has a risk aspect. Then we started to think about a certain type of harm avoidance, looking for approaches to avoid harm. For example, excluding certain very polluting companies or companies that violate certain human rights standards and so on and so forth. So, basically trying to avoid harm in the portfolio because harm is risk, is stranded asset

risk, reputational risk and so on. Here, transparency is challenging because it is not a common practice to talk about company names, but it's rather common practice to say we avoid severe human rights violations, we avoid this and that and such claims can be audited. If those claims are included in a certain report, the audit can come in and check what is done internally. And then just may be to add and finish the sustainable finance 3.0. that's where we are now emerging and is basically about impact investing. It is not only about avoiding harm, it is not only about trying to exclude the worst of the world, but it is about trying to make a change, to channel the money into certain positive and transition technologies, companies and trying to make a change basically. These claims are difficult to measure, to prove, because the regulations, matrixes, methodologies still evolve. What is sustainable finance, impact investing and so on and so forth, for this we still have a variety of understandings in the market, their regulation, definition is emerging and here how to prove your accountability, to provide transparency is a bit unclear, that's why there are certain greenwashing scandals, allegations happening and so on and so forth. But, now with the time, what financial market participants are doing is that they have their own methodology, they make it transparent and clear, they use data providers, and if an auditor comes then they can check, prove and say that's our understanding. That would be the way I think, from now, but of course moving forward, as more regulations, standards evolve, we need today to use a given standard. Moving on to where do they fail to do so, here I think a bit about greenwashing scandals, for instance the recent DWS story, where DWS were thinking that each and every product they are doing in investing with a little bit of sustainability is green, but a little bit of sustainability is not green by default. You can basically say that for this product we considered sustainability risks, but this product does not mean that it is completely green and the best and the most sustainable in the world. But I think it was not the only problem that occurred but it is a very prominent case. I believe that there are some other financial market participants that are in the same situation, but they are not that prominent.

R: Yes, thank you for this interesting view. Moving on to the second question, what do you think that are some of the main challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting?

E: I mean, not all data is audited, so that is a problem. Can you trust all the data, different methodologies can be used. Each methodology has a different way or element of assumption or extrapolation, or whatever means are used to overcome a data gap. So, for different

methodologies, you cannot compare companies in the same sector to each other if they used different methodologies to arrive to their conclusions. It is a bit of a problem, and also is this data audited – or not, that is a very decisive point as well. Did the company calculate it themselves and just published what they need for 4-eyes principles in external part? Looking at the data, challenging the data and so forth. I think that these would be the main challenges and then as well, to add another point data availability for Scope 3 emissions – I think that for each and every company in the world it's a problem. Whereas for Scope 1 and 2 there are enough standards to report, for Scope 3 it is very broad and I think that companies that are now publishing their Scope 3 emissions, are working a lot with assumptions and certain extrapolations and they can be right to a certain degree only.

R: Alright, now coming even closer to the EU and its sustainable finance framework. What is your opinion regarding the implementation of the disclosure regime brought by the EU Commission under the auspices of the sustainable finance framework in the EU? This is a very flexible question, you can develop your insights on the points that you find the most important to mention.

E: Hmm, yeah. Overall the idea and the need for this disclosure regime is good. We need definitions, we need standards, we need aligned questions, regime, systems, tools to look into sustainability and to compare company A and company B from the same or different sectors. Hence, the overall idea is very good, but of course, the implementation is a bit bumpy. I think this has something to do with the overall complexity of the EU, right, with its Parliament, working groups and this connection with feedback loops with local authorities at the national level. So I believe that other laws and regulations are making the same waves and changes and so on, so I do not think that it is easy for anyone, but this implementation of the disclosure regime was a bit bumpy, with certain delays and certain drafts being then somehow commented and criticised from interested parties. For instance, how ESMA also openly communicated in their letters to certain RTS standards. It is interesting to observe this process, there can be different opinions, bringing at an operational level more complexity, more paperwork and need to for documentation and audits as well. Maybe, I will just express this opinion, to a certain extent this can also harm the topic of ESG because ESG is now quite established, but there is a need for transition, to change our world (due to the new regulatory aspects), but at the same time, now ESG in the financial industry comes with a lot of paperwork, burden, a lot of reporting and sometimes it can be quite complex and people are confused about it do not know

what to do. But, maybe again, all changes are difficult when new EU regulations come and in the first years, it might be difficult for market participants to figure out what they have to do, but then they become a standard in the implementation phase. But this would be my view.

R: So that we move a bit closer to ESMA and the EU Commission and the points you just mentioned. In the eve of revising the sustainable finance action plan, a contrast between the Commission's ambitious plans and the cautious position of ESAs could be identified. In the context of regulatory efforts of the ESAs and Commission to integrate sustainability in the financial supervision framework, do you consider that the opinion of stakeholders is filtered 'well-enough' in the policy-making process?

E: Yes, let us put it this way. I am also one of the receivers of the policy, not involved in the consultations, not leading the consultations so I also do not know what happens behind the scene. Externally, it looks like they are not heard enough when they write those open letters and have some inside politics. but at the same time, I would assume that there are also certain interest groups, stakeholders that come and are not interested into that transparency or they are not interested in that transparency coming so quick to the market, so that they would prefer for something to come up in three to five years, but the Commission wants it next year and so on. I think that the politics and stakeholder interests and how certain actors act in a certain way could be one of the reasons, but at the same time it could be that they are not well heard, and we do not know all the internal key chain of events as outside experts. Everyone can be very vocal about their opinion, but at the same time, when you are leading something like a huge new regulation of around 200 hundred pages, of course, it is by default not possible to include all comments into the process. 300 stakeholders might have 300 opinions, and if you accommodate all the comments, you lose track of your policy and some comments might move your policy to a certain degree. It is okay that somebody might be unhappy with the speed, the topic of implementation and how it is implemented, but it is all about communication, wrapping it up, explaining why this yes and that other option not. I think this is the normal job of a policy-maker.

R: At an international level, do you consider that the current developments (TCFD recommendations, industry-based initiatives under the umbrella of UNEP FI, EU/ Chinese Taxonomies, etc.) around climate-related disclosure provide data with the high degree of

comparability or transparency that is needed or should more efforts be made? If more regulatory efforts are to be made, which actors should take the initiative?

E: That is a good question and it is true. The overview of initiatives, methodologies and working groups is quite broad and when we look around we see the EU, China, US perspective. We see now that ESG and sustainability or climate topic in general become such a mainstream, that each and every country and group of countries, economic powers (that is why China is in) try to position themselves on the topic. China, by having its own Taxonomy, will have different levels than the EU, for instance emissions per tonnes and as taxonomies are super-technical, they might have their own numbers, or best practices, filters, technologies mentioned. This is a normal development in a way, so yes, we see a variety of methodologies and reporting frameworks emerging. Whether they are comparable, their degree of comparability and transparency hopefully – degree of comparability I am pretty sure that there will not be. A company, a sector or a project will be viewed pretty much different among the taxonomies and all other countries may bring in their own approach – the Russian, Mongolian, US and so on ones. Lastly, in this globalised world, where as an investor you need to invest in a company, report on it, you want that decision to be made very easy for you, you do not have time to calculate or to look to compare, between taxonomies. Of course, alignment would be great. For regulatory efforts, we do have those different countries and efforts, the only organisation I could think of that has this global reach would be the United Nations. If you think about UN human rights, they have managed to achieve a common understanding of what a human right is and this for a number of human rights and to communicate and align somehow across the countries. Just as an idea that could be something that is beyond the governments, because for some countries I think that they are not even interested to arrive to a certain alignment and comparable methodologies. So, this must be something above, and to a certain extent the financial sector can also play a supporting role, because it is a user of those taxonomies. We need to report, see what is sustainable, what is not. But I mentioned supporting, as there is no such thing as one financial sector. Companies have different background, countries of origin behind them, but they can of course be a source of a certain feedback provided to this project.

R: Thank you for all these insightful comments. On my side, these were the main questions. One more point to add, would you be able recommend somebody from this area willing to participate in a similar interview?

E: Let me think about that and I might get someone from another sector of the financial market with whom I worked together with towards the area of the banking sector, as it may provide a useful perspective since the banking sector is a 'middle-man' in this discussion. After obtaining their consent, I will come back with their contact information.

R: Of course, thank you very much. For now, I have no further questions. Is there something you would like to bring up or further ask about?

E: No, I have already went through your research description.

R: Thank you very much for the time that you dedicated for this interview. I wish you all the best!

E: Good-bye!

Transcript expert interview #2 – Expert 'A1'

Tuesday, 30.08.2022

R: Hello! Thank you for joining in this expert interview. The main scope of this is to gather practical insights and opinions from preparers and users of information in sustainability reporting within the financial sector. This interview is recorded in the scope of the transcript. Before moving on to the interview part, do you have any questions?

E: No questions.

R: Then I will start with the first question. Transparency is a pre-requisite for public accountability in terms of sustainability reporting. What are the most common ways in which financial market participants seek accountability for their sustainability claims? When do they fail to do so?

E: I think companies try to – the report is to provide transparency but sometimes it is not about giving accountability. You get accountability/ Accountability is ensured by who is checking your report, but they are accountable, in my view, to their stakeholders, so the shareholders, the public. A way of trying to ensure accountability in this sense is by engaging with these

sources on the material that they publish in their sustainability reports – these are not just putting it out there and not talking to people about it. But, nonetheless, companies fail to do so when they have scandals related to certain issues. For example, if you say you are reporting on something like oil spills and you say 'Ok, this is the number of oil spills I have' but it turns out that you've actually come down with a lot more oil spills (than reported), then you can be held accountable that way through your actions to your stakeholders.

R: Now we move on to a topic you might be engaging a lot on with companies – climate disclosure. My question here would be: what do you think that are some of the main challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting? You can relate this to your own experience.

E: Based on my own experience, I would say the problem is no uniformity in how this should be done at the moment. So, companies can choose the standard they follow, the measurements to use. I would say that an issue at one level, that is one of the main issues. Second level is I think that companies also realise that, and so does the wider public and still too little standardisation is happening. It is too many people being able to publish what they want in the fashion they want. That is why you have initiatives such as Net-Zero Asset Owner Alliance, Net-Zero Insurance Alliance (NZIA). But what I now think in my view is that you have this wide acceptance that this is an issue and a wide range of people who are trying to fix it in the way they think it should be. This is not really contributing to solving the problem, it is making it much much more complex and on the insurance side, just given that nature of insurance products and non-standardisation in the products themselves, this also is making it tricky to have in any fashion some kind of standardisation. I am not that familiar with the banking side of things, but in insurance this can be an issue. But I think that is one of the main problems/challenges that financial market participants are facing at the moment. I do not think that the issue is unique to financial market participants, I think that it is also for other industry players also a problem that is trying to solved, but it is very challenging. Then you have standards such as the GRI, in which there are two levels of disclosure, it is the most widely used one. The two levels are GRI Core and GRI Comprehensive. On the core side of things, you can really choose what you want to report on, what you do not want to report on based on your materiality assessment. In general you would think that two insurance companies would have a similar materiality, of course, if you take Axa and Allianz. But it could be that they have different interests, or maybe the markets they are in differ. The material issues for both can be

wide-ranging, so it could be that they are similar, but not comparable all the time. And you do not have to go into other sectors, such as oil and gas where there is no standardised reporting on things like oil spills. So, one company would use or report on barrel of oil but another will report on barrels of oil spilled over a certain amount and not the individual barrel. Or another company would report on cubic metres of oil spilled and not on barrels of oil and this can be very confusing for the market. And then this is also very challenging for a financial service, who may be thinking about driving their portfolio to compare those figures and it becomes a very manual exercise to understand what is in your portfolio. This is also valid for CO2 emissions, which also follow a very non-standardised way of reporting.

R: Alright, now coming even closer to the EU and its sustainable finance framework. What is your opinion regarding the implementation of the disclosure regime brought by the EU Commission under the auspices of the sustainable finance framework in the EU?

E: I think what the European Union is doing is necessary. But the pace and regulatory overburden is a major challenge for the industry. You have all kind of different regulations coming or going to come into effect, such as the Taxonomy, SFDR, CSRD and there is also CSDD (Directive on corporate sustainability due diligence), more on supply chain that is coming up in the European Union. First, it is very quickly, coming on to everybody and it is trying to apply it to everybody very equally. They are trying to make sure that everybody has very similar timelines, which is a bit of a problem. In my view, they should first focus on those industries that are main contributors to CO2 emissions because it is not about financial services, it is about having the data there, steering your portfolio, making sure to bring down the emissions in your portfolio. But with the timelines that the European Union has set, they are making it very challenging for financial service companies to be able to meet these requirements. Because the data has not existed, so the companies were reporting on some of these points that the European Union is requiring, but not all of them. So, to align with the EU Taxonomy, the first year of reporting was this year and then for financial services it is in two years' time. For a financial services' company such as Allianz, two years' time to report on this would actually mean to start working already now because you have to change your systems, gather the data and in some situations maybe the companies are not reporting all the data. The pace of regulation is a bit quick for financial service providers and on the financial services' side you also rely on a variety of different actors. So, the data needs to be there, then sometimes companies do not have their own data system, they rely on a third-party. Then, we

have to get that data and measure our portfolio ourselves. But there are also other companies that rely on us with their reporting. In insurance world, you would have the real insurers who are then reliant based in the same timelines as the insurers on data reporting. Hence, it is a very well-intentioned, but the financial service market is so wide and inter-dependent on one another's reporting that maybe this was not taken into account in the base of regulation. The regulatory burden with so many things coming up all at once at the moment that it is very challenging for companies to keep up with the pace. This goes back to an earlier topic and one of the challenges I see that all of these things are somehow so inter-related with one another and that it is somehow very challenging to work out where the overlaps in the laws are and making sure that the EU comes with a framework for how we can include everything into one report and not having like, ok… this is the Taxonomy Report, this is what is important for SFDR, this is what is important for CSRD, CSDD etc. A lot is coming at once, hence companies should also be investing and supporting this as it is very important, but no matter how much you invest you have to understand everything, overlaps, interferences which is very much challenging for those people working in this domain who have to be the ones who have to implement this for sure. I would also agree with the fact that some things are up for interpretation, that some things are not clear and need to be defined, that is another point.

R: Going to a fourth question. In the eve of revising the sustainable finance action plan, a contrast between the Commission's ambitious plans and the cautious position of ESAs could be identified. In the context of regulatory efforts of the ESAs and Commission to integrate sustainability in the financial supervision framework, do you consider that the opinion of stakeholders is filtered 'well-enough' in the policy-making process?

E: I think business interests are heard very well. There is a variety of lobbying bodies for different industries, so maybe it is not that we, as (company name) are lobbying the Commission/ESAs and trying to be heard as a stakeholder but this can rather be often channelled through Insurance Europe and so forth, just like all other industries, not only the financial services have this. Maybe it is not that we are not heard well enough, but some are heard louder than others. I mean if you specifically look at the decision on nuclear and gas as part of the transition activities' list. This was included because of the lobbying of these interested parties. This is very clear – and for gas maybe the price is taking its effect but this was already planned even before the crisis happened so maybe the better answer here is that

maybe not necessarily we are not heard well-enough, but maybe some are heard louder than others in this decision-making processes.

R: At an international level, do you consider that the current developments (TCFD recommendations, industry-based initiatives under the umbrella of UNEP FI, EU/ Chinese Taxonomies, etc.) around climate-related disclosure provide data with the high degree of comparability or transparency that is needed or should more efforts be made? If more regulatory efforts are to be made, which actors should take the initiative?

E: Based on what we said earlier, I think you can already guess my standpoint on this. I do not want to downplay the efforts of all these initiatives in all of that but I think that in providing transparency, they are necessary but comparability is the issue. Because we have so many methods of reporting, TCFD, the EU and Chinese Taxonomies that standardise how things should be done, for instance in the EU, but maybe the Chinese Taxonomy wants you to report that in another way. The US and Canada or whoever else comes up with their own Taxonomies which may also not be comparable to one another. More work needs to be done to consolidate it into one global standard on how to report things. I know that in financial reporting, we have the financial reporting IFRS standard. This is one of the most widely used standard for financial reporting. In my view, and this is even being worked upon by this body, sustainability reporting standards have variability across industries across the globe for such issues such as reporting on CO2 emissions and others. At least the basic of what the world needs to know should be included, such as accident rates is a good example which is already pretty standardised reporting. CO2 emissions produces by the company, being it either Scope 1, 2 or 3, and coming up with a decision on this, to have such a body to really regulate this across the sectors and really provide comparability for such topics. I am not saying that this is easy, because of course they also have interests and lobbying, and one group wants to include this and the other one does not. I know they are working on this and this can of course be one body to do this, of course, with the support of the governments. At the moment it is such a 'Wild West' in the sustainability world that it will come to a point when all of this smaller participants or stakeholders and society see this and say 'Ok, everybody can pick and choose, you cannot compare anything, it will stop and this can pose a reputational risk. Then it can become difficult for companies to say we report this, why does the other company report it like that. But you are not going to go them and say, well the methodology they chose fits like this, same as what Axa chose because this gets you into very very strange conversations. Whereas if you can have

such a standard reporting for foundational ESG topics, you can at least provide clarity on this. Of course, this is not to say that you cannot have differences between reports. For sure you can, but at least for the most basic topics and challenges facing the globe such as CO2 emissions, pollution, accident rates and what-not such a standard can be very useful and needed in my view.

E: In my research, I also saw that some financial market participants expressed their concern on the costs of getting the data for requirements such as those regarding Scope 3 emissions and pleading, example to the EU Commission, to have some kind of guarantee will not have to face for a period liability risks until it can be made sure of that the data is reliable.

R: Well, it depends on how you look at it. As a financial services company, you can say it makes sense. As a public participant, at the end of the day, you as a company should be the one to have all the information at hand. If you offer insurance, then you take the risk as your job is to know these things. At the end of the day, those companies cannot operate without a financial service. It depends on how you look at the issue, of course, it means huge risk for companies and maybe an insurable or uninsurable future or you cannot finance it any longer. At the same time, financial services play quite such a vital role in operational activities, that I would say I agree to a certain extent with the standpoint of financial service representatives. Having this data is good, and the market that is out there for Scope 3 data is very low and the quality is not good, that is true. But what I do not want to see the financial market doing is always continuously going back to this excuse, in my view, and this is what I think I was referring to earlier with the timelines saying ‘yeah, okay, it is true that the data quality is maybe not that good yet’. But this what the market and the EU is trying to do, to improve the data quality of these companies and also the way it is reported. Despite this, the situation will not be like that forever. What I do not want to see is that companies come later and say that data quality is a problem and we cannot take this risk, so it should not be included. You can always say that and data quality can always be improved but at some point you have to cut off this excuse of the financial service market and underline that it is enough and you have to take responsibility and ownership of the problems that you are financing or insuring.

R: Thank you for all these insightful comments. On my side, these were the main questions. One more point to add, would you be able recommend somebody from this area willing to participate in a similar interview?

E: Yes, I will try to reach out to some of my former (company name) acquittances and let you know.

R: For now, I have no further questions. Is there something you would like to bring up or further ask about?

E: No, I think we already discussed what I though about bringing up.

R: Thank you once again for your contribution.

E: Very much welcome.

Transcript expert interview #3 – Expert 'A2'

Thursday, September 01, 2022 (E-mail)

R: Transparency is a pre-requisite for public accountability in terms of sustainability reporting. What are the most common ways in which financial market participants seek accountability for their sustainability claims? When do they fail to do so?

E: Reporting on sustainability performance is a key way in which financial market participants seek accountability for their sustainability claims. To substantiate their claims, many insurers voluntarily seek assurance from audit firms on their sustainability disclosures. The CSRD introduces assurance requirements on sustainability information, which will strengthen the confidence the public has on financial market participant's sustainability claims.

As Europe's largest institutional investor with €10 trillion of assets under management, European insurers are very supportive of an increased transparency, availability, and comparability of sustainability data in order to identify sustainable investments and transition projects to finance, as well as to comply with their own regulatory disclosure requirements. In that perspective, insurers support the upcoming CSRD and ESAP which will play a vital role in ensuring that sustainability data can be accessed and used efficiently.

Furthermore, a key area of regulatory change needed to allow insurers to play their full role in sustainable finance is the overall availability of suitable sustainable projects and assets in which to invest. A significant increase is necessary as the potential capacity to invest is currently not matched by available assets (eg. the first NextGenerationEU green bond issued by the EC in October 2021 were more than 11 times oversubscribed). In that perspective, European insurers are very supportive of the upcoming EU Green Bond Standard which will allow investors to invest with confidence in EU Green Bonds on the basis of reliable, comparable and standardised information.

R: What are some of the main challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting?

E: As well as being preparers of ESG data, insurers are large institutional investors, and sustainability data plays a particularly important role for them. ESG data from investee companies is therefore vital for insurers not only to be able to make sustainable investment decisions, but also, from a user perspective, to comply with EU disclosure requirements.

European insurers are therefore fully supporting the EU's ambition to increase the level of transparency via the upcoming sustainability reporting standards and related legislative requirements. Insurers also support global cooperation on sustainability disclosures standardisation between EFRAG and international standard-setters, as this is key to achieving international convergence. Furthermore, insurers support the fact that EFRAG — through demonstrating the EU's pioneering role in this field — is committed to contributing to the development of a global sustainability reporting system, which will ensure enhanced transparency.

R: What is your opinion regarding the implementation of the disclosure regime brought by the EU Commission under the auspices of the sustainable finance framework in the EU?

E: The European insurance industry has been supportive of the objectives of the EU sustainable finance strategy from its outset. As a provider of both insurance coverage and investment in sustainable assets, the insurance sector can play a key role in the transition to sustainability. At the same time, sustainability is a joint responsibility, and it requires efforts by all sectors and stakeholders in order for the economy overall to shift to a sustainable approach. In this respect,

a key condition to optimise the insurance sector's potential to contribute is that new policy and legislative initiatives deliver the right outcomes. While the urgent need for action with respect to sustainability is understood, challenges in relation to the original 2018 European Commission Action Plan and 2021 Renewed Sustainable Finance Strategy, have included:

- issues with the implementation timelines of new regulation (both due to these being very short and lack of consistency with other legislation): This was the case for example with the Sustainable Finance Disclosures Regulation, which applied since March 2021, but the related Level 2 requirements were significantly delayed.

- lack of consistency across regulation and timelines: Regulations on sustainability were drafted and approved in a very short timeframe and in parallel, creating the risk of inconsistent, unfeasible or disproportionate rules. Given that all transparency measures refer back to the EU Taxonomy, its development should have been prioritised in order to ensure consistency with other legislation (eg EU Green Bond Standard). Similarly, given the current lack of ESG data availability, the EC proposal for Corporate Sustainability Reporting Directive (CSRD) to make the reporting of ESG data mandatory for many companies and its plan to provide digital access to that data via a European Single Access Point (ESAP) should have been a clear priority as comparable, robust and public ESG data is key for insurers' investment decisions and to comply with the new disclosure obligations (eg. data needed for SFDR requirements).

R: In the eve of revising the sustainable finance action plan, a contrast between the Commission's ambitious plans and the cautious position of ESAs could be identified. In the context of regulatory efforts of the ESAs and Commission to integrate sustainability in the financial supervision framework, do you consider that the opinion of stakeholders is filtered 'well-enough' in the policy-making process?

E: Regular exchanges and consultations with stakeholders should be a key aspect of the policy-making process. It is appreciated that the European Commission has been putting efforts in engaging stakeholders in the work of the Platform on Sustainable Finance via public consultations and webinars. Similarly, the ESAs have also organised roundtables on sustainable finance with participation of the industry and relevant stakeholders.

At the same time, many consultations have been carried out with very short deadlines (often over the summer period, eg consultations by the Platform on Sustainable Finance on its draft proposal for an extended taxonomy to support economic transition and social taxonomy) making it difficult for all relevant stakeholders to participate. These are also often done later on in the process once the specific proposals have been put forward. It could therefore be beneficial to ensure more regular and timely exchanges with experts and practitioners in order to ensure that new requirements are adapted to the needs of specific sectors, feasible and proportionate (eg Level 2 requirements).

R: How would you describe the evolution of the topic of 'sustainable finance' in meetings/discussions among ESAs' Stakeholders' official bodies from your experience so far?

E: Over the last few years, the understanding and interest in the topic of sustainable finance has definitely grown. This is also seen in the discussions at the level of the ESAs stakeholders' bodies and groups. However, these usually meet independently and could potentially be very beneficial to allow for joint exchanges amongst the stakeholder bodies of the three ESAs as sustainable finance is a horizontal issue of relevance to different sectors and requires coordination.

Transcript expert interview #4 – Expert 'A3'

Monday, September 12, 2022

R: Good morning! Thank you for joining in this expert interview despite your busy schedule. The main scope of this is to gather practical insights and opinions from preparers and users of information in sustainability reporting within the financial sector. This interview is recorded in the scope of the transcript. Before moving on to the interview part, do you have any questions?

E: Good morning! No, all good, thanks.

R: Then, I will start off with the first question. Transparency is a pre-requisite for public accountability in terms of sustainability reporting. What are the most common ways in which financial market participants seek accountability for their sustainability claims? When do they fail to do so?

E: Companies have a certain type of disclosure. Who holds a company accountable for transparency? Basically, there are two types of companies as you know: public companies and private companies. Private companies are only in the end accountable to their owner. And listed companies are accountable to their shareholders. That means that when it comes to transparency and disclosure, of course, you always see more disclosure with public companies than with private companies. With public companies, in the end, due to their listing, they of course have a certain accountability in their disclosures, and they are acting for their stock price and the kind of financial performance linked to that. In the end, when it comes to reputation, compliance, of course you will see much more action coming from publicly listed companies and with them you will also see direct or indirect enforcement through their share price.

R: Thank you for your answer. Just to complete on this, on sustainability reporting, it sometimes happens that some companies encounter failure in their reporting – what is the usual reaction of stakeholders/public to this?

E: I think that in a lot cases, I do not know exact numbers, that it happens that the action of a company on a self-proclaimed commitment that we have turned out to be untrue and then there was some severe action against that company. Of course, there is a loss of reputation and alike, but I think we have to distinguish between when it comes to making commitments, in the realm of building a position and reputation. Then certainly, the respective company wants to preserve its reputation, however there's always a trade-off, right? And you end in the field of what you've seen with Deutsche Bank and greenwashing, where claims are so unsubstantiated that basically you have the regulator come in and you have potential losses against wrongful selling and thinks like that. That is, of course, a kind of greenwashing, in legal terms, is a rising field. For the field of reputation, I think that there are a lot of cases not following up on commitments let's say, inadequate reporting, misleading reporting, go potentially unnoticed, because there are no control systems in the end. Of course, you have auditors, but the question is, how far this actually remediates the issue. So, I would say that the control environment for sustainability claims is currently still very weak overall.

R: Moving on to the next question: what are some of the main challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting?

E: I honestly cannot really comment on this since I have not worked on that very specific subject.

R: Alright, then we can go on with the next question. What is your opinion regarding the implementation of the disclosure regime brought by the EU Commission under the auspices of the sustainable finance framework in the EU? By disclosure regime, I refer to the SFDR, CSRD proposal, Taxonomy.

E: I have to say that I have limited exposure when it comes to working with the regulatory side of the disclosure regime, but I would like to make an overall statement: bringing some kind of regulation to the field, even if it is with further improvements and to do's I think is a good thing, is the right direction. What of course is a potential threat is that by it's very nature, regulation is static and that is one thing. And a second idea is that we often see that regulation often is adapted after something happens. So, what you see is that a lot of regulation that now regulates the financial sector actually came after the financial crisis, not before. This just being a common theme with regulation. So, the question would be, will regulation fix everything with regards to sustainability? Certainly not, because the topic is relatively dynamic. Secondly, the major challenge being that we are trying to prevent something, anticipate it and I think that regulation is sometimes struggling with that, with anticipating nature of issues. It is not a problem, but a challenge for regulation. That would be my overall thinking on the regulatory attempts in the EU.

R: In the eve of revising the sustainable finance action plan, a contrast between the Commission's ambitious plans and the cautious position of ESAs could be identified. In the context of regulatory efforts of the ESAs and Commission to integrate sustainability in the financial supervision framework, do you consider that the opinion of stakeholders is filtered 'well-enough' in the policy-making process?

E: I cannot comment on this since I am not directly involved in the consultation process.

R: Then, I will provide an alternative point: from your experience, how does the page of regulation match issues in sustainability reporting that a financial entity comes across?

E: Yes, as I said, the general nature of regulation is that it is often static and rather reactive than anticipating. So, this relates to the first point. Regulation by its very nature is not very dynamic – it does not tell you, well, this year you need to this and next year you need to do that. It tries to provide a common understanding over a longer period of time which is only adjusted if it is really necessary. When we really need to kind of recalibrate our understanding of a certain issue.

R: At an international level, do you consider that the current developments (TCFD recommendations, industry-based initiatives under the umbrella of UNEP FI, EU/ Chinese Taxonomies, etc.) around climate-related disclosure provide data with the high degree of comparability or transparency that is needed or should more efforts be made? If more regulatory efforts are to be made, which actors should take the initiative?

E: I would speak to the general level of sustainability reporting. The question is what problem you need to fix. Because as we said in the beginning, transparency helps only if there is a certain type of accountability. Now if I have 20 Chinese companies owned by the state that suddenly have very flashy sustainability reports which lack data, what then? If they would erase that and make the data perfect, but the performance is still not where it would need to be – just as an example, right? What are you going to do? You cannot write an angry letter to the government. I think the system of disclosure works well, if you have a publicly listed company that has investors from world regions where this is the only agenda. It is very important, because as you already see, in the US we have publicly listed companies, but the political attitude is different. Just recently, I saw a news article, where an activist was saying, alright if we invest into Chevron, and we want Chevron to pump out more oil. So, you can have a publicly listed company, but if that is what as an investor you put on the agenda, alright, I am exaggerating a bit, then even the publicly listed aspect will not help you. Then, the question is of course, about potential legal actions or reputational, political aspects, that is absolutely. So, publicly listed and transparency does not already, in all cases, fix the problem. I would say when it comes to publicly listed companies, where the owners/the ownership structure is related to regions where you would see sustainability being on the agenda, yes, more transparency helps because it helps to foster the accountability cycle, absolutely. If you go to privately owned companies or the third category, state companies, which are let's say not publicly listed, but publicly owned, but in the end their ownership structure is similar, as if the owner cares, something will happen, if he does not, nothing will happen. That is it in a nutshell. Hence,

transparency and accountability cycles for certain type of companies, settings and geographies, but they do not work with the majority of companies out there. Because the majority are not those publicly listed companies with that type of, let's say, landscape or context. That in the end, is not a decisive share of companies, so publicly owned or listed companies you will only reach through regulation or even a direct government steering from publicly owned companies. In the end, I do not care what a Chinese or any other wherever headquartered company publishes or not if it is state-owned, in the end the question is what the respective government would tell them to do or not, because that is the type of accountability out there. Of course, there can be public pressure at a national or international level, but there could political aspects at play. So, do not get me wrong, it is not in the end dependent on one actor but in the end that is where accountability lies. Transparency will not necessarily change the game here. This is my opinion on this.

R: Thank you for your contribution. As the time is coming to an end and I know you have an additional engagement, I will end it here on my side. Do you have any points you would like to add?

E: No, I think it was a clear guiding through all the topics. It was good to talk.

Transcript expert interview #5– Expert 'A4'

Monday, September 12, 2022

R: R: Good morning! Thank you for joining in this expert interview. The main scope of this is to gather practical insights and opinions from preparers and users of information in sustainability reporting within the financial sector. This interview is recorded in the scope of the transcript. Before moving on to the interview part, do you have any questions?

E: No. All clear.

R: Transparency is a pre-requisite for public accountability in terms of sustainability reporting. What are the most common ways in which financial market participants seek accountability for their sustainability claims? When do they fail to do so?

E: I guess one way of showing accountability is when they report against established standards, so standardisation of reporting requirements is definitely improving a lot of transparency and the stricter the requirements are, the more specific they are, plus leeway that participants have to follow a comply or explain logic. So, I think that is the first point – standardisation of requirements and I think that is also something that from a corporate perspective, from those that are reporting becomes more relevant, because they only have to report against a handful or few standards, rather than having merrier standards and applications that they are requested to provide information on. Standardisation of reporting requirements is one of the main paths towards transparency and accountability.

R: Just to continue on the second part of the question, when do you think that there can be a failure in the sustainability reporting of financial companies?

E: There is two answers to this question: first one, when dealing with sustainability data, you are dealing a lot with qualitative reporting, so of course there are very clear quantitative KPIs, that companies can report against and where there is a clear definition – fatality rates of the employees, or CO2 emissions, you know – there are very clear guidelines of how this KPIs are defined and how you need to report on it. It is more in line with what you would maybe know from financial reporting where you have a lot of quantitative KPIs which you report on, the definition of that KPIs being made know to the financial sector and to the reader of that information. So, the interpretation of that data is clear. When it comes to sustainability reporting, a lot of it is based on qualitative information, a lot of it is narrative. I think there is always of a risk of the way that image you represent, the facts being misinterpreted. Of course, for players that are having their sustainability reports audited there is an additional kind of safeguard to say, 'ok, there is someone that is checking the information, the way it is presented in this report, it is proved to facts', but not all reports are audited. Hence, there is a lot of interpretation on how you portray the facts, how those facts are interpreted. I think that is a first thing. Definitely, there is a lot of room for greenwashing, so the way in which you position yourself, but then maybe company actions are different, and I mean you see this with oil companies, a very good example where they tend to overemphasize in their reports what they are doing in terms of green energy and all the great things they are doing. And then you check the hard facts and then notice, well green energy continues to be just a minimum portion of what they are doing and that they tend to underemphasize the impact of the true core business which is still gas or coal generation. I think that is a very good example of it. Having been a

ratings analyst for many years, it is really about defining a clear methodology to assess those reports, so that you are able to read through the lines and uncover how is the company really performing, if it is really what they are reporting. But, I think, again, the more standardised, the more you define the KPIs which need to be reported, the less room you leave companies to interpret how they want to report things.

R: Thanks for sharing from your experience. In regards to a further point - what are some of the main challenges of using the information around climate-related disclosure published by financial market participants in their sustainability reporting?

E: Hmm, several challenges I think. When it comes to climate data, in terms of the quantitative fata provided is easier, since if somebody is reporting their emissions, of course you always have to read what is it accepted in their reporting, what is in scope of, what is not in scope of their emission reporting. But that is easier in a sense – if a company is transparent on this, they will typically include a very small footnotes in which they say, 'these are the facilities that are in scope or not' or this is kind of like what it is within our reported emissions. In a way, I think that is kind of easier. If you are looking for more forward-looking kind of analysis, which is really what interests us, because of course you want to know where the company currently stands, but of course you want to know what it is moving towards. This then becomes a bit more difficult to assess and then you have to use analytical tools to understand what is the path that the company sets on. A company might set targets, but they need to be able to assess how good has the company been in the past about needing those targets. You can also use external benchmarks to understand how ambitious are those targets vis-à-vis other players in the industry. I think there is a very important role to be played by benchmarks to really understand how a company positions itself vis-à-vis peers and some broader benchmarks, for example, climate benchmarks, so that you understand how does that fit in a wider transition scenario. The difficulties that are kind of invading the information that the companies are providing within a wider analysis of what does that actually mean for climate and in climate science – there is a lot of value in external initiatives that provide that kind of guidance that allow you to embed those numbers that the companies are reporting on in an actual analysis of how good or how bad the performance of a company is. When it comes to more qualitative assessments, of how a company then positions its risks, that is a bit more open to interpretation, is the company mentioning really the right risks, is it really kind of being reflective of what are transition or physical risks that the company is facing or not. That from a financial user perspective requires

also for the financial user to develop that climate expertise to be able to assess how good or how bad a company they are investing in or insuring even is preparing, is it climate-resilient so to say. I guess it becomes more complex, it is a very complex thematic and requires for users of that data to also develop their expertise to be able to appropriately analyse and understand and also draw conclusions from it.

R: Alright, then we can go on with the next question. What is your opinion regarding the implementation of the disclosure regime brought by the EU Commission under the auspices of the sustainable finance framework in the EU? Here by disclosure regime, I refer to the SFDR, CSRD proposal, Taxonomy.

E: Well, I think that it is definitely landmark work that the EU has done on. There is a lot to be said: for many years, sustainability reporting was a voluntary exercise and it is of course larger companies that had pressure from investors for moving more towards reporting and then moving along certain reporting and voluntary standards. But I think it reached a point where that can no longer be a voluntary exercise but really needs kind of a backing that the regulator sets up and says look, this is the minimum that you start reporting on. I see there is a lot of value in that because for many years it was just a voluntary exercise and while we did see an increase in the quality of reporting, I think that at a certain point it reached a level where there is no longer an incentive to continue innovating reporting. Specifically, this comes not to the large corporations where I am saying there is a lot of investor pressure to report, but the maybe smaller, middle-sized companies, SMEs that are also within this reporting framework and need to start reporting data. Because that is a whole kind of area where there is a big black-box, as we do not know how these companies are performing. From a user of data perspective, certainly it is very welcome, because I think it would move companies to the right direction of staring to report more and again, if it would be left up to a voluntary exercise we would not see developments at this speed that are necessary. In terms of the outcomes, it is a political institution so there is always going to be a compromise, so what it is that companies end up reporting, how is it that we end up assessing the quality of certain things for example. When it comes to the EU Taxonomy, we all have to be very aware that it is a political compromise and that there is a lot of input falling into that decision, more or less from Member States, very clear decisions on nuclear energy or natural gas where when you think what is the real driver behind that, is it really kind of a pure sustainability perspective or were there a lot of political aspects that were influencing that debate. Personally, I am a bit agnostic to it, I see the

development and I understand that it is a compromise, so I take it for what it is but in comparison to other jurisdictions, definitely the European Union has positioned itself through these sustainable finance initiatives as a leader in the discussion. I see a lot of the benefits of it and understand where the shortcomings come from.

R: To go into this further, I have another question. In the eve of revising the sustainable finance action plan, a contrast between the Commission's ambitious plans and the cautious position of ESAs could be identified. In the context of regulatory efforts of the ESAs and Commission to integrate sustainability in the financial supervision framework, do you consider that the opinion of stakeholders is filtered 'well-enough' in the policy-making process?

E: I would say. It depends a bit on your market power, but definitely, I think the power of business associations and of big corporations cannot be underestimated in this process. I think the process is structured in such a way that they can voice opinions and they do so quite outspokenly and as I said, it is a political compromise and it is certainly that corporations and business associations play a big role and sway decisions in a way that it is not necessarily always pure sustainability oriented. In the end, it is of course important because you need opinion of these actors but what you end up with is a political compromise. A lot of lobbying in the EU level is well-known, it is a fact that it exists and with the sustainable finance regulation it has also been very clear what those positions have been and how that has led to specific outcomes. There is a lot of room for industry and business partners to voice their opinions when it come to the regulation of sustainable finance. On concerns that are communicated, it is important to a certain degree to be aware of limitations, you cannot implement a regulation and then they cannot put it in practice since there is no data available, but it is often that it is really a shield to say that we cannot move forward because we have no data., because of this and that. It is always a more conservative approach, but it is part of the process to voice that opinion and this is not surprising at all, and it has been the same narrative for quite a few years already, there is nothing new to this debate, there are always opinions saying we have no data, we can't move forward quick enough, we can't do this or that. So, this is what I said in terms of you cannot expect everything to be a voluntary regime, if it is always comply or explain, there will always be a reason for why you are not complying to the regime.

R: At an international level, do you consider that the current developments (TCFD recommendations, industry-based initiatives under the umbrella of UNEP FI, EU/ Chinese Taxonomies, etc.) around climate-related disclosure provide data with the high degree of comparability or transparency that is needed or should more efforts be made? If more regulatory efforts are to be made, which actors should take the initiative?

E: I am quite a bit uncertain of saying that comparability has improved because we now have a commitment, or we have an alliance or asset commitment. I would go back to saying that it is good that there is more involvement in the process, that there are more corporate players in the discussion, that they are doing this through alliances, because it helps masses mobilise further, but I do not necessarily see alliances that improve targets as an improvement of data. Data is the underling pre-requirement, so that these alliances are able to measure or report against targets that they are setting. So, I think what that sets is the ambition from financial players to say, look these are the targets, this is what we are looking at and if you are a company which we invest in or we insure, these are the expectations moving forward. It is important that this ambition is set. But when it then comes to that underlying data, a lot of other factors need to come together. It is not only the government, organisations or industry players that come and say, 'let's improve that', it should rather be a joint effort. You see more and more discussions around having climate data kind of be developed into an open source, common good kind of thing, right? Companies being able to report in their emissions in one source, one specific template and form and all financial users being able to use that information without having to pay extra within fees. This is the direction towards which this needs to go. It can be government-mandating, corporate-mandated, but really a joint effort because in the end we all profit from a better form of climate data and reporting. This idea of climate data being a common good, and of it being something that in the future needs to be open source is the right path and will require cooperation from all the different actors involved around it. Initiatives like the ones you mentioned can reinforce that and they are being supported in the back by governments and then corporates starting to see the value of reporting in a certain standard and making that data accessible. I think we are all going to profit from it. But it must be a joint effort.

R: Thank you for your contribution and allocated time. Do you have any points you would like to add?

E: No, not at this point. I would be interested into seeing the final result, good luck with that. I will also send you the signed confidentiality form.

R: Sure, I would be happy to share the final result and am awaiting the form. I will stop the recording now.

Appendix 7. Refined list of public consultations related to sustainable finance

Note: This is an interactive table. By accessing the name of the organiser or date of the consultation (when the writing is blue), the source of the consultation can be accessed.

Name of the consultation	Period	Organiser	Target	Instrument
1.Institutional investors' and asset managers' duties regarding sustainability	13 November 2017 - 11 December 2017 (Roadmap) 24 May 2018 - 22 August 2018 (Commission adoption) 24 May 2018 - 21 June 2018 (Draft Act) **25 May 2018 - 23 August 2018**	European Commission	59 respondents for fourth round – 40 respondents within the business sector 33 business associations (55.93%) 7 company/business organisations (11.86%)	'Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, pp. 13-43)'
2.**TEG Reports on the 'The EU Taxonomy '**	Early round of feedback: December 2018 Second round of feedback: December 2019	Technical Expert Group (TEG)	December 2018: 159 respondents – 144 organisations/companies – 43 companies (26.42%) 67 industry associations December 2019: 135 industry associations	'EU Taxonomy for Sustainable Activities'
3. **TEG Report on Climate-related Disclosures Consultation**	February 2019	Technical Expert Group	72 respondents 58 organisations/companies 21 industry associations (29.2%) 10 companies (13.9%)	Climate-related Disclosure Guidelines

4. Targeted consultation on the update of the non-binding guidelines on non-financial reporting	20 February 2019 - 20 March 2019	European Commission	Preparers and users of non-financial information 114 respondents – 32 business associations 26 companies	'Proposed revision of the non-binding guidelines on non-financial reporting'
5.Corporate Sustainability Reporting	20 February 2020 - 11 June 2020	European Commission	All citizens; specifically viewers and preparers of non-financial information: 'especially financial sector institutions, investors, civil society organisations and trade unions. Most financial sector companies such as banks and insurance companies' and 'Other stakeholder groups, including academics, supervisors, national authorities, assurance providers, providers of ESG data and ratings, or standards setting organisations' 588 respondents – 189 companies (32.14%) 118 business associations (20.00%) The consultation was not available under the EU survey tool, so the summary was used.	Review of the Non-financial Reporting Directive (NFRD)
6. Sustainable finance – minimum	08 April 2020 - 06 May 2020	European Commission	36 respondents – 18 companies (50.00%)	'Delegated Regulation - Commission Delegated Regulation (EU) of 17.7.2020 supplementing Regulation (EU) 2016/1011 of the European Parliament

standards for climate benchmarks			11 business associations (30.56%)	and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks'
7. Sustainable finance – environmental, social and governance criteria (benchmarks)	08 April 2020 - 06 May 2020	European Commission	18 respondents – 11 companies (61.11%) 5 business associations (27.78%)	'Delegated Regulation - Commission Delegated Regulation (EU) of 17.7.2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published'
8. Sustainable finance – EU classification system for green investments	23 March 2020 - 27 April 2020 (Roadmap feedback) 20 November 2020 - 18 December 2020 (Draft Act feedback)	European Commission	412 respondents – 145 citizens (35.19%) 88 business associations (21.36%) 69 companies/organisations (16.75%) 46589 respondents 1627 unique feedback 44964 feedback instances as part of campaigns 45555 citizens (97.78%) 362 companies (0.78%) 295 business associations (0.63%)	'Commission Delegated Regulation (EU) of 4.6.2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives'
9. Sustainable finance – obligation for investment firms to advise clients on social and	08 June 2020 - 06 July 2020	European Commission	50 respondents – 30 business associations (60.00%) 10 companies (20.00%)	'Commission Delegated Regulation (EU) of 21.4.2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational

environmental aspects of financial products				requirements and operating conditions for investment firms'
10. Sustainable finance – obligation for alternative investment funds to advise clients on social & environmental aspects	08 June 2020 - 06 July 2020	European Commission	20 respondents – 13 business associations (65.00%) 3 companies (15.00%)	'Commission Delegated Regulation (EU) of 21.4.2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers'
11. Sustainable finance – obligation for insurance firms & brokers to advise clients on social & environmental aspects	08 June 2020 - 06 July 2020	European Commission	21 respondents – 7 business associations (33.33%) 5 companies (23.81%)	'Commission Delegated Regulation (EU) of 21.4.2021 amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products'
12. Sustainable finance – obligation for mutual funds to advise clients on social & environmental aspects	08 June 2020 - 06 July 2020 (midnight Brussels time)	European Commission	25 respondents – 13 business association (52.00 %) 6 companies (24.00%)	'Commission Delegated Directive (EU) of 21.4.2021 amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS)'
13. Eco-friendly investment – EU standard for 'green bonds'	12 June 2020 - 07 August 2020 (Roadmap feedback) 08 July 2021 - 27 September 2021	European Commission	11 respondents – 3 companies (27.27%) 3 public authorities (27.27%) 2 business associations (18.18%) 27 respondents –	'Proposal for a Regulation of The European Parliament and of the Council on European green bonds'

	(Draft Act Feedback)		12 business associations (44.44%) 9 companies (33.33%)	
14. Sustainable finance – obligation for certain companies to publish non-financial information	28 July 2020 - 08 September 2020 (Roadmap feedback) 07 May 2021 - 02 June 2021 (Draft Act Feedback)	European Commission	78 respondents – 42 business associations (53.85%) 21 companies (26.92%) 162 respondents – 73 companies (45.06%) 69 business associations (42.59%)	'Commission Delegated Regulation (EU) of 6.7.2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation'
15. Sustainable finance – environmental, social and governance ratings and sustainability risks in credit ratings	04 April 2022 - 06 June 2022 (Call for evidence)	European Commission	25 respondents – 12 EU citizens (48.00%) 8 companies (32.00%) 1 business association (4.00%)	'Proposal for a regulation on ESG ratings and sustainability risks in credit ratings'
16. Financial transparency – single EU access point for company information	18 December 2020 - 15 January 2021 (Roadmap feedback) 25 November 2021 - 29 March 2022 (Draft Regulation feedback)	European Commission	Roadmap feedback: 27 respondents – 9 companies (33.33%) 9 business associations (33.33%) Draft Regulation feedback: 37 respondents 24 business associations (64.86%) 8 companies (21.62%)	'Proposal for a Regulation of the European Parliament and of the Council establishing a European single access point providing centralised access to publicly available information of relevance to financial services, capital markets and sustainability'

17. Taxonomy-related product disclosures	17 March 2021 - 12 May 2021	ESAs	ESAs' stakeholders 82 respondents	'Regulatory Technical Standards (RTS) on the content and presentation of disclosures as a result of the Sustainable Finance Disclosure Regulation'

Source: Own analysis based on data retrieved from the European Commission database on public consultations. Available at https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives_en.

Appendix 8. Codes and themes resulting from the second research pillar

Table 1. Code-book under the thematic content analysis

Code/theme	Definition
Usability	= comprised of concerns raised by business associations regarding the extent to which the respective sustainable finance legislative initiative can be applied in practice by market participants;
Data	= concerns raised by business associations in the financial market around the type, content of information to be disclosed, its gathering, inclusion and publishing;
Clarity	= points of concern raised around the way in which provisions are understood and not considered ambiguous;
Interpretation	= issues around explanations of the meanings attributed to legal provisions and eventual contradictions;
Regulatory sequencing & timing	= refers to the order and pace of legislative proposals included in the regulatory puzzle around sustainable finance;
Investment/cost	= concerns raised by stakeholders regarding the act of putting money in the implementation of envisioned SF legislative proposals;
Overlooked elements	= points raised by business associations in the financial market and claimed to have not been addressed in the respective legislative measure.

Table 2. Summary view of results grouped by themes defined above

Themes in selected 'sustainable finance' public consultations	Points to consider/areas to improve as per stakeholder statement (Descriptive level)
Usability	**(2)** The taxonomy will not provide a clear indication of what could be considered environmentally sustainable; The classification based on NACE in the taxonomy is too simplistic; The list of activities is not consistent; There should be an alignment/harmonization of the taxonomy to other classifications; The relevance of the taxonomy to the broader investment landscape might be limited; The Taxonomy will not be adopted on a large scale if NACE codes are to be used and there is no guidance available on how GICS codes used by the financial industry relate to them; More guidance on how the Taxonomy relates to the Non-Financial Reporting Directive. Open questions remain to the application of the taxonomy to different asset classes/local contexts; The taxonomy is still too complex to be used as a list of eligible investments; Main issues that have to be solved are around the usability of the Taxonomy: lack of data, implementation of data into investment systems, corporate disclosure not being tailored to the purpose of the taxonomy. **(3)** Adopting TCFD recommendations via NBGs is not effective; hard-law legislation is required Comparability of data is compromised when reporting on positive and negative consequences of climate change in different scenarios over time; Non-binding nature of disclosure requirements is appreciated as there are implementation difficulties for financial firms due to the complexity of their exposures;

	Further climate-related requirements have to be consistent with the rest of the supervisory and regulatory legislation of banks; **(4)** Sufficient degree of flexibility is required; Retaining flexibility in choice of reporting standards, frameworks, methodologies; A common approach towards listed and non-listed companies is desirable; Adapting the guidelines to different kind of business might lead to a tailored transparency. **(8)** A well-balanced and clear taxonomy, practically applied by market participants is supported; (/ Timing) The length of the technical annex suggests the complexity of the taxonomy, which may bring delay of the implementation and make it difficult to match the pace of technological progress; Taxonomy can be applied on the issuance of a new financial product but the screening of an entire portfolio is challenging. Draft of the Delegated Act should be improved in the sense of usability, eliminating inconsistencies resulting from the lack of wording's clarity, limiting the amount of cross-references; The taxonomy eligibility criteria should be predictable and finite ex ante; A large need and demand for usability guidelines regarding the taxonomy.
Data	**(2)** May lead to information gaps when clients of banks do not provide the necessary data; One of the challenges would be the feasibility of the taxonomy for fund managers; key question is how to obtain sufficient information for the individual economic activities of the corporation; The data intensity level and complexity in the level of detail will be difficult to implement; might lead to buying research from external providers rather than developing one internally; Issuers of assets must assume liability for taxonomy data and have standardized ways to disclose the required sustainability characteristics; Establishing an European open register for taxonomy-required data should be taken into consideration; In the beginning, providers of financial data should not be held liable for misclassifications.

	Data availability for a large part of insurers is an issue; The usability of the Taxonomy should be improved for large portfolios; A database allowing for mass downloads by investors of disclosed data should be ensured. **(3)** Data availability requires further clarification; it would be difficult for SMEs to have access to historical data while it may be possible for some large companies; The additional non-financial KPIs and the use of historical information is rejected; Lack of reliable data on how the asset, products and services portfolio is impacted by climate change Including Scope 3 information on GHG emissions is difficult until more legislative developments ensure the relevant data or alternatives to Scope 3 reporting should be considered; KPIs for financial intermediaries should be adjusted with the input of the NGFS. Disclosing forward-looking information regarding climate risks and opportunities is a sensitive topic since disclosure on financial planning of companies is not desirable; **(4)** Lack of data for some quantitative indicators; Difficulties associated with quantifying the financial materiality of climate change; A qualitative approach to climate risks; difficulty of SMEs to gather such information; Focus on ensuring issuers provide investors with the required data to assess and manage climate risks; Many of the key performance indicators requested by the guidelines are too hard to manage even for non-financial reporting-experienced big-sized companies; **(8)** Open eligibility assessments are preferable for sectors where metrics are not possible/appropriate with more granular guidance on assessing the eligibility; Public data alongside Level 2 requirements should be provided by the Commission;

	Insufficient availability, quality and reliability of publicly available ESG data; Public data alongside Level 2 requirements should be provided by the Commission; Only reliable sustainability-related information should be published; The necessary data must be provided to the investors by the real economy in a standardised, free of charge and barriers form (eg. a central EU-wide register); The enabling/transitioning distinction must be transparent from company data; Sharing loss data should be anonymised since it is business-sensitive; At one point, a significant administrative effort will lead to an applicable view table determining the screening of customers and ESG risks – this will pose issues for small regional banks and SMEs in Europe. For this purpose, a web-based tool for the technical screening should be developed.
Clarity	**(2)** Still some highly qualitative issues within the taxonomy; Users of the taxonomy may find difficult to determine the investments' sustainability; The taxonomy is not sufficiently clear for investment purposes as it should not allow for divergent interpretations; (/Regulatory sequencing & timing) Specific guidance has to be seen in the context of regulatory developments; while the integration of climate-related risks into the management framework is supported; that of ESG factors is too early; Disclosure should highlight how climate risks and opportunities are taken into account by the business; More sector-specific guidance is desirable; lack of data on clients should be solved **(4)** Lack of clarity on disclosure types (x two times); Further clarification to avoid overlaps in legislation; Further guidance from the Commission on the meaning of social/environmental materiality is awaited; Guidelines might be too granular for companies that are not in climate-sensitive sectors;

	Efforts to improve the comparability, consistency and clarity of corporate reporting methods are welcome; **(8)** Additional guidance and support on the use of the Taxonomy and regulators' expectations; Listed technical screening criteria should apply at company level.
Interpretation	**(2)** Practical challenges arise out of interpretation issues; Absence of quantitative thresholds for the 'do no significant harm' and mitigation criteria might be problematic; Classification of economic activities will be costly; **(3)** Concerns around the risk definition in several regulatory developments in the area of sustainability, a need for consistency; Better integration of climate and non-climate banking risks when sustainability legislation uncertainty is addressed. **(4)** Several points are made regarding the too-detailed level of disclosure proposed by the Guidelines; **(8)** Conflicting objectives between environmental protection and social objectives may come up; Conflicting objectives between various aspects of sustainability, such as environmental protection concerns and social ones have to be addressed on Level 2; Criteria for brown activities might contradict the technology neutral Taxonomy.
Regulatory sequencing & timing	**(2)** A time lag for issuers to proceed with the characterisation under the taxonomy; Low carbon assets that do not yet meet the sustainability thresholds will lead to delays in the financing of a transition to a low carbon future; The impact-based approach is poorly accommodated. Mandatory and inflexible rules would be obstacles in strengthening sustainability in the insurance sector; Reviewing the rules on non-financial reporting after only one period is premature; The integration of financial and non-financial information will improve once the regulatory 'uncertainty' around sustainability issues is addressed;

	Not compromising current bank prudential framework by disclosing climate risks; Avoid inconsistencies with other risk information disclosed by banks; **(8)** More time for consultation and reasonable adjustment of the date on entry into force; The timeline and sequencing of provisions leads to members trying to understand 'how the different pieces of the regulatory puzzle fit together'; Revision of NFRD should not be delayed; The Platform of Sustainable Finance would deal with the issues around the implementation of the Taxonomy; Increasing the international relevance of the Taxonomy via the International Platform on Sustainable Finance; A one year accounting difference between banks and their clients should be granted; Revision and adaptation of the taxonomy in the 'fast-moving international work on sustainability'; Concerns around transparency in the non-financial reporting under Article 8 of the Taxonomy due to the application of the Act as of 1 January 2022 (the legal basis is set to be available on June 1, 2021); A phased approach to the application of Article 8's (of the Taxonomy) transparency requirements is proposed based on the short implementation period and bank portfolios; Formally updating the taxonomy at regular intervals and entailing visioning.
Investment/cost	**(2)** The taxonomy is not sufficiently clear, an automation of the identification of sustainable activities; Will require significant investment in training and IT solutions; Not sufficiently clear for investment purposes, even if it were, financial market participants might come up with different approaches on the same activity; The usability from an investment perspective has to be improved; More clarity on the position of the taxonomy regarding other legislative proposals;

	Unlikely that the taxonomy will be used as a screening device for mainstream investments; Investors cannot be expected to assess investments at the level of economic activity, as this has to be made available by the company or a mandated third-party; If investors are to face large liability risks, than green products would be put at disadvantage compared with other products; Several unclear points remain regarding the way in which investors should calculate their equity investments' alignment to the Taxonomy; **(4)** High costs imposed by implementation of disclosure requirements; **(8)** Requirements should apply for new business and a cost-benefit analysis condition to extend to the portfolio level. It might be a large hurdle for the green transition of the economy if the use of the taxonomy and the documentation on the levels of sustainability is too difficult or expensive.
Overlooked elements	**(2)** The proposed taxonomy will not enable compliance with potential future disclosure obligations (additional sustainability factors beyond environmental sustainability also count in assessing these aspects of a company); How companies conduct their business should also be part of the approach to sustainable investments, beyond economic activities; An emphasis on the 'governance' aspects should also be included in the Taxonomy ('beyond the E and S'); How the 'prudent person' principle should be aligned to the Taxonomy; Hard legislation is necessary to ensure that companies disclose non-financial information; **(3)** Climate-related disclosures should at least in the beginning be developed in a qualitative manner, later for a gradual quantitative turn; Climate-related issues must be integrated in the culture of the organisation; Existence of some of the climate risks and opportunities over the long term may not be materialised yet and these might be challenging to disclose; Non-binding character of the Guidelines should be clearly specified; Mid to long term risks should be captured in qualitative terms due to the inherent uncertainties of climate change impacts;

	The reporting obligations in the financial sector should be looked at in their entirety; Climate-related disclosures should be a qualitative rather than risk disclosure tool; Linking the impact of climate change to profit and loss needs more study; Including Scope 3 information on GHG emissions is difficult (since data is prepared on the basis of the data of entities across the supply chain and frequently they do not provide this information); Disclosure requirements should be reduced since a gradual approach is preferred; The need to seek independent assurance on non-financial information; **(4)** The need to seek independent assurance on non-financial information; More specific references to dialogue with shareholders; Extensive/substantial calculations should be a Type 2 disclosure that companies 'may consider'; Including climate risk in strategies and processes of banks requires additional appropriate tools; Including Scope 3 information on GHG emissions is difficult; Disclosure of physical risks should be voluntary; Wording of NFRD and NBGs differ in some in instances where they should be consistent; Too detailed key performance indicators go against the non-binding nature of the Guidelines; TCFD-reporting companies should be considered as having complied to the Directive already; The NBG should be more principles-based rather than provide overly prescriptive guidance; A more gradual approach to climate-related disclosures; maintaining consistency with financial disclosure under other regulatory requirements; More research is necessary to link climate risk information with financial information;

	Including Scope 3 information on GHG emissions is difficult; Concerns around the potentially repetitive reporting and administrative inefficiencies; The European Commission should demonstrate that this is avoided; True development on sustainability is driven by demand rather than regulatory intervention; Introducing TCFD recommendations by means of an update in the Guidelines is viewed as positive; Concerns around linking remuneration to Type 2 disclosure; **(5)** Quality and scope of non-financial information, standardisation, materiality, assurance, digitalisation, location of reported information, supervision of non-listed companies, administrative burden; **(8)** Principle of proportionality is essential for sustainable finance (a simple enough taxonomy, length points out complexity, delay of implementation, unreasonably difficult for SMEs); A comprehensive analysis of activities in transition, as few economic activities fall within; Nuclear energy should be in the Taxonomy as transition energy; The taxonomy-compliant activities should be expanded to cover government bonds and predominantly climate-neutral activities; The removal of the activity of 'Existing forest management' from the Taxonomy is questioned (x two times); An apparent downplay of incentivising transition by not recognizing transition activities as taxonomy aligned (eg. real estate); Assets should keep the classification of the taxonomy during the lifetime of the loan financing it.

Table 3. Extended view of the analysis' results

No.	Stakeholder	Specific issue related to sustainable finance	Feedback attitude	Points to consider/areas to improve as per stakeholder statement (Descriptive level)	Theme
2	European Banking Federation	TEG Report on 'EU Taxonomy'	Negative	The taxonomy will not provide a clear indication of what could be considered environmentally sustainable; The classification based on NACE in the taxonomy is too simplistic; The list of activities is not consistent; There should be an alignment/harmonization of the taxonomy to other classifications; May lead to information gaps when clients of banks do not provide the necessary data; The taxonomy is not sufficiently clear, an automation of the identification of sustainable activities; Will require significant investment in training and IT solutions.	Usability Data Investment
	Portuguese Banking Association (APB)		Positive	Still some highly qualitative issues within the taxonomy; Practical challenges arise out of interpretation issues; Absence of quantitative thresholds for the 'do no significant harm' and mitigation criteria might be problematic; Classification of economic activities will be costly; Not sufficiently clear for investment purposes, even if it were, financial market participants might come up with different approaches on the same activity.	Clarity Interpretation Investment
	European Fund and Asset Management Association		Negative	The relevance of the taxonomy to the broader investment landscape might be limited; One of the challenges would be the feasibility of the taxonomy for fund managers; key question is how to obtain	Usability Data

				sufficient information for the individual economic activities of the corporation; The proposed taxonomy will not enable compliance with potential future disclosure obligations (additional sustainability factors beyond environmental sustainability also count in assessing these aspects of a company); How companies conduct their business should also be part of the approach to sustainable investments, beyond economic activities.	Overlooked regulatory elements
	International Capital Market Association (ICMA)		Partly positive	Users of the taxonomy may find difficult to determine the investments' sustainability; A time lag for issuers to proceed with the characterisation under the taxonomy; Low carbon assets that do not yet meet the sustainability thresholds will lead to delays in the financing of a transition to a low carbon future; The impact-based approach is poorly accommodated.	Clarity Regulatory sequencing & timing
	Insurance Europe		Undetermined	The usability from an investment perspective has to be improved; More clarity on the position of the taxonomy regarding other legislative proposals; Unlikely that the taxonomy will be used as a screening device for mainstream investments; The data intensity level and complexity in the level of detail will be difficult to implement; might lead to buying research from external providers rather than developing one internally; The taxonomy is not sufficiently clear for investment purposes as it should not allow for divergent interpretations.	Investment Data Clarity
	Dec 2019 session: Association of German Public		Positive	Mandatory and inflexible rules would be obstacles in strengthening sustainability in the insurance sector;	Regulatory sequencing & timing

	Insurers - Verband öffentlicher Versicherer (VöV)			Issuers of assets must assume liability for taxonomy data and have standardized ways to disclose the required sustainability characteristics; Establishing an European open register for taxonomy-required data should be taken into consideration; In the beginning, providers of financial data should not be held liable for misclassifications.	Data
	Swedish Securities Dealers Association		Undetermined	The Taxonomy will not be adopted on a large scale if NACE codes are to be used and there is no guidance available on how GICS codes used by the financial industry relate to them; More guidance on how the Taxonomy relates to the Non-Financial Reporting Directive.	Usability
	Insurance Europe		Positive	Open questions remain to the application of the taxonomy to different asset classes/local contexts; The taxonomy is still too complex to be used as a list of eligible investments; Data availability for a large part of insurers is an issue; The usability of the Taxonomy should be improved for large portfolios; Investors cannot be expected to assess investments at the level of economic activity, as this has to be made available by the company or a mandated third-party; If investors are to face large liability risks, than green products would be put at disadvantage compared with other products.	Usability Data Investment/ cost
	Eumedion		Positive	Several unclear points remain regarding the way in which investors should calculate their equity investments' alignment to the Taxonomy; An emphasis on the 'governance' aspects should also be included in the Taxonomy ('beyond the E and S');	Investment/ Cost Overlooked elements

				How the 'prudent person' principle should be aligned to the Taxonomy; Hard legislation is necessary to ensure that companies disclose non-financial information; A database allowing for mass downloads by investors of disclosed data should be ensured.	Data
	Dutch Federation of Pension Funds		Positive	Main issues that have to be solved are around the usability of the Taxonomy: lack of data, implementation of data into investment systems, corporate disclosure not being tailored to the purpose of the taxonomy.	Usability
3	Eumedion	TEG Report on Climate-Related Disclosure	Negative	Adopting TCFD recommendations via NBGs is not effective; hard-law legislation is required	Usability
	European Savings and Retail Banking Group (ESBG)		Positive	Data availability requires further clarification; it would be difficult for SMEs to have access to historical data while it may be possible for some large companies	Data
	German Insurance Association		Positive	The additional non-financial KPIs and the use of historical information is rejected; Comparability of data is compromised when reporting on positive and negative consequences of climate change in different scenarios over time.	Data Usability/data
	European Banking Federation		Undetermined	Climate-risk disclosures should not compromise the credibility of the current prudential framework in the EU; Climate-related disclosures should at least in the beginning be developed in a qualitative manner, later for a gradual quantitative turn; Climate-related issues must be integrated in the culture of the organisation; Lack of reliable data on how the asset, products and services portfolio is impacted by climate change; Including Scope 3 information on GHG emissions is difficult until more legislative developments ensure the	Overlooked elements Data

				relevant data or alternatives to Scope 3 reporting should be considered	
	International Capital Market Association (ICMA)			Non-binding nature of disclosure requirements is appreciated as there are implementation difficulties for financial firms due to the complexity of their exposures; Existence of some of the climate risks and opportunities over the long term may not be materialised yet and these might be challenging to disclose; KPIs for financial intermediaries should be adjusted with the input of the NGFS.	Usability Overlooked elements Data
	EuropeanIssuers		Undetermined	Disclosing forward-looking information regarding climate risks and opportunities is a sensitive topic since disclosure on financial planning of companies is not desirable; Non-binding character of the Guidelines should be clearly specified.	Data Overlooked elements
	AFME (Association for Financial Markets in Europe)		Positive	Disclosure of a company's impact on climate that goes beyond TCFD does not have reporting practices as developed as recommendations of the aforementioned; Mid to long term risks should be captured in qualitative terms due to the inherent uncertainties of climate change impacts; Specific guidance has to be seen in the context of regulatory developments; while the integration of climate-related risks into the management framework is supported; that of ESG factors is too early.	Overlooked elements Clarity & regulatory sequencing & timing
	German Banking Industrie Commitee		Negative	Concerns around the risk definition in several regulatory developments in the area of sustainability, a need for consistency; Better integration of climate and non-climate banking risks when sustainability legislation uncertainty is addressed.	Interpretation

				Reviewing the rules on non-financial reporting after only one period is premature; The reporting obligations in the financial sector should be looked at in their entirety.	Regulatory sequencing & timing Overlooked elements
	European Association of Co-operative Banks		Undetermined	Further climate-related requirements have to be consistent with the rest of the supervisory and regulatory legislation of banks; Climate-related disclosures should be a qualitative rather than risk disclosure tool; Linking the impact of climate change to profit and loss needs more study; Including Scope 3 information on GHG emissions is difficult (since data is prepared on the basis of the data of entities across the supply chain and frequently they do not provide this information); Disclosure requirements should be reduced since a gradual approach is preferred.	Usability Overlooked elements
	Portuguese Banking Association		Partly positive	The integration of financial and non-financial information will improve once the regulatory 'uncertainty' around sustainability issues is addressed; Disclosure should highlight how climate risks and opportunities are taken into account by the business; More sector-specific guidance is desirable; lack of data on clients should be solved.	Regulatory sequencing & timing Clarity
4	Portuguese Banking Association (APB)	Climate-related Disclosure Guidelines	Positive	Not compromising current bank prudential framework by disclosing climate risks; Avoid inconsistencies with other risk information disclosed by banks; Lack of clarity on disclosure types; Lack of data for some quantitative indicators.	Regulatory sequencing & timing Clarity Data

	Accountancy Europe		Negative	Lack of clarity on disclosure types; Avoid an isolated approach to climate risks; Clarity on the location of disclosures (e.g. annual report); The need to seek independent assurance on non-financial information	Clarity Overlooked elements
	European Banking Federation		Positive	Lack of clarity on disclosure types Difficulties associated with quantifying the financial materiality of climate change More specific references to dialogue with shareholders Extensive/substantial calculations should be a Type 2 disclosure that companies 'may consider' Including climate risk in strategies and processes of banks requires additional appropriate tools Including Scope 3 information on GHG emissions is difficult	Clarity Data Overlooked elements
	German Insurance Association (GDV)		Undetermined	Sufficient degree of flexibility is required; Disclosure of physical risks should be voluntary; Wording of NFRD and NBGs differ in some in instances where they should be consistent; Too detailed key performance indicators go against the non-binding nature of the Guidelines; TCFD-reporting companies should be considered as having complied to the Directive already.	Usability Overlooked elements
	Insurance Europe		Undetermined	The NBG should be more principles-based rather than provide overly prescriptive guidance; Retaining flexibility in choice of reporting standards, frameworks, methodologies; Including Scope 3 information on GHG emissions is difficult; Sustainability risks should get the same treatment as other types of risks.	Overlooked elements Usability Overlooked elements

	European Association of Co-operative Banks		Partly positive	A more gradual approach to climate-related disclosures; maintaining consistency with financial disclosure under other regulatory requirements; More research is necessary to link climate risk information with financial information; High costs imposed by implementation of disclosure requirements; A qualitative approach to climate risks; difficulty of SMEs to gather such information; Including Scope 3 information on GHG emissions is difficult Further clarification to avoid overlaps in legislation	Overlooked elements Investment/ costs Data Overlooked elements Clarity
	International Corporate Governance Network		Partly positive	Concerns around the potentially repetitive reporting and administrative inefficiencies; The European Commission should demonstrate that this is avoided; Further guidance from the Commission on the meaning of social/environmental materiality is awaited; Guidelines might be too granular for companies that are not in climate-sensitive sectors;	Overlooked elements Clarity
	Federation of European Securities Exchanges (FESE)		Positive	True development on sustainability is driven by demand rather than regulatory intervention; Introducing TCFD recommendations by means of an update in the Guidelines is viewed as positive; A common approach towards listed and non-listed companies is desirable; Adapting the guidelines to different kind of business might lead to a tailored transparency.	Overlooked elements Usability
	The Investment Association		Positive	Concerns around linking remuneration to Type 2 disclosure;	Overlooked elements Data

				Focus on ensuring issuers provide investors with the required data to assess and manage climate risks; Efforts to improve the comparability, consistency and clarity of corporate reporting methods are welcome.	Clarity
	EuropeanIssuers		Undetermined	Several points are made regarding the too-detailed level of disclosure proposed by the Guidelines; Many of the key performance indicators requested by the guidelines are too hard to manage even for non-financial reporting-experienced big-sized companies.	Interpretation Data
5	Users and preparers of non-financial information	Revision of the NFRD Summary document	Undetermined	*On the quality and scope of non-financial information*: more concrete and detailed definitions, harmonize requested information among Member States, common definitions on the environmental aspects included in the Taxonomy's objectives to ensure coherence with the SFDR. *On standardisation*: a common reporting framework would address issues around the comparability, reliability and relevance of information, proportionality of reporting requirements should be ensured, companies should be at the heart of the process as prepares of this information; *On materiality*: the two dimensions should be clearly stated in the revised directive, there is a need to align time horizons of climate risks and financial materiality; transparency around the materiality assessment process. *On assurance*: most consider this is required, while some prepares mention that decision should be left with companies. Preparers are concerned about the cost of assurance, while for users, assurance brings the reliability of information. *On digitalisation*: making non-financial information machine readable enhances its searchability, readability and comparability; proposing different ways in which the costs for SMEs would be kept affordable.	

				On the location of reported information: some preparers consider it a secondary issue, while others insist on it being included in the management report. *On the supervision of non-listed companies*: the same authorities that supervise non-financial reports of listed companies should also be responsible for non-listed companies. *On the scope of the NFRD*: different groups argued for expanding the scope to all companies established, listed or operating. Supervisors and some financial industry representatives argued for different scope thresholds for financial institutions. *On administrative burden*: the need to ensure sufficient time for collection and analyses of data, the difficulty of having a reporting framework that is not overly complex to meet demands of a broad range of users.	
8	WSBI-ESBG	Taxonomy Delegated Act (DA) on Climate Change Mitigation and Climate Change Adaptation	Positive	Principle of proportionality is essential for sustainable finance (a simple enough taxonomy, length points out complexity, delay of implementation, unreasonably difficult for SMEs); Open eligibility assessments are preferable for sectors where metrics are not possible/appropriate with more granular guidance on assessing the eligibility; Conflicting objectives between environmental protection and social objectives may come up; Public data alongside Level 2 requirements should be provided by the Commission; More time for consultation and reasonable adjustment of the date on entry into force.	Overlooked elements Data Interpretation Data Regulatory sequencing & timing
	EFAMA		Positive	A well-balanced and clear taxonomy, practically applied by market participants is supported;	Usability

				The timeline and sequencing of provisions leads to members trying to understand 'how the different pieces of the regulatory puzzle fit together'; Insufficient availability, quality and reliability of publicly available ESG data; Revision of NFRD should not be delayed; The Platform of Sustainable Finance would deal with the issues around the implementation of the Taxonomy; Increasing the international relevance of the Taxonomy via the International Platform on Sustainable Finance; Additional guidance and support on the use of the Taxonomy and regulators' expectations.	Regulatory sequencing & timing Data Regulatory sequencing & timing Clarity
	The German Banking Industry Committee		Undetermined	The length of the technical annex suggests the complexity of the taxonomy, which may bring delay of the implementation and make it difficult to match the pace of technological progress; Conflicting objectives between various aspects of sustainability, such as environmental protection concerns and social ones have to be addressed on Level 2; Public data alongside Level 2 requirements should be provided by the Commission.	Usability / Timing Interpretation Data
	Fédération Bancaire Française		Positive	A comprehensive analysis of activities in transition, as few economic activities fall within; Nuclear energy should be in the Taxonomy as transition energy; A one year accounting difference between banks and their clients should be granted; Only reliable sustainability-related information should be published; Taxonomy can be applied on the issuance of a new financial product but the screening of an entire portfolio is challenging.	Overlooked elements Regulatory sequencing & timing Data Usability

	German Insurance Association (GDV)		Positive	The necessary data must be provided to the investors by the real economy in a standardised, free of charge and barriers form (eg. a central EU-wide register); The enabling/transitioning distinction must be transparent from company data; The taxonomy-compliant activities should be expanded to cover government bonds and predominantly climate-neutral activities; Criteria for brown activities might contradict the technology neutral Taxonomy.	Data Overlooked elements Interpretation
	Association of Mutual Insurers and Insurance Cooperatives in Europe (Belgium) (Draft Act)		Undetermined	Listed technical screening criteria should apply at company level; Sharing loss data should be anonymised since it is business-sensitive; The removal of the activity of 'Existing forest management' from the Taxonomy is questioned;	Clarity Data Overlooked elements
	Länsförsäkringar		Undetermined	The removal of the activity of 'Existing forest management' from the Taxonomy is questioned; The proportionality and detail level of the act are concerning.	Overlooked elements Usability
	European Association of Co-operative Banks (EACB)		Positive	Draft of the Delegated Act should be improved in the sense of usability, eliminating inconsistencies resulting from the lack of wording's clarity, limiting the amount of cross-references; Revision and adaptation of the taxonomy in the 'fast-moving international work on sustainability'; At one point, a significant administrative effort will lead to an applicable view table determining the screening of customers and ESG risks – this will pose issues for small regional banks and SMEs in Europe. For this purpose, a web-based tool for the technical screening should be developed.	Usability Regulatory sequencing & timing Data

	European Savings and Retail Banking Group (ESBG)		Undetermined	An apparent downplay of incentivising transition by not recognizing transition activities as taxonomy aligned (eg. real estate); Concerns around transparency in the non-financial reporting under Article 8 of the Taxonomy due to the application of the Act as of 1 January 2022 (the legal basis is set to be available on June 1, 2021); A phased approach to the application of Article 8's (of the Taxonomy) transparency requirements is proposed based on the short implementation period and bank portfolios; Requirements should apply for new business and a cost-benefit analysis condition to extend to the portfolio level.	Overlooked elements Regulatory sequencing & timing Cost / Regulatory sequencing
	Finance Denmark		Positive	The taxonomy eligibility criteria should be predictable and finite ex ante; Formally updating the taxonomy at regular intervals and entailing visioning; A large need and demand for usability guidelines regarding the taxonomy; It might be a large hurdle for the green transition of the economy if the use of the taxonomy and the documentation on the levels of sustainability is too difficult or expensive; Assets should keep the classification of the taxonomy during the lifetime of the loan financing it.	Usability Regulatory sequencing & timing Usability Investment / cost Overlooked elements

Appendix 9. List of results after applying the sampling and search strategy to the Orbis database

	Company name Latin alphabet	PRI/PSI/PRB*	Country ISO code
1.	AXA SA	PRI / PSI	FR
2.	ALLIANZ SE	PRI/ PSI	DE
3.	ASSICURAZIONI GENERALI SPA	PRI / PSI	IT
4.	MUNCHENER RUCKVERSICHERUNGS-GESELLSCHAFT AKTIENGESELLSCHAFT IN MUNCHEN	PRI / PSI	DE
5.	BANCO SANTANDER SA	PRI/ PRB	ES
6.	BNP PARIBAS	PRI/ PRB	FR
7.	SOCIETE GENERALE	PRI/ PRB	FR
8.	DEUTSCHE BANK AG	PRB	DE
9.	BANCO BILBAO VIZCAYA ARGENTARIA SA	PRI/ PRB	ES
10.	CREDIT AGRICOLE SA	PRI/ PSI/ PRB	FR
11.	INTESA SANPAOLO	PRI/ PSI/ PRB	IT
12.	MAPFRE SA	PRI/ PSI	ES
13.	ING GROEP NV	PRI/ PSI/ PRB	NL
14.	SCOR SE	PRI / PSI	FR
15.	UNICREDIT SPA	PRI / PRB	IT

16.	AEGON NV	PRI/ PSI	NL
17.	NN GROUP NV	PRI / PSI	NL
18.	UNIPOL GRUPPO SPA	PRI / PSI	IT
19.	UNIPOLSAI ASSICURAZIONI SPA	PRI / PSI	IT
20.	CAIXABANK, S.A.	PRI / PSI / PRB	ES
21.	VIENNA INSURANCE GROUP AG - WIENER VERSICHERUNG GRUPPE	None	AT
22.	SAMPO OYJ	PRI	FI
23.	COMMERZBANK AG	PRI / PRB	DE
24.	NORDEA BANK ABP	PRI / PRB	FI
25.	AGEAS SA-NV	PRI / PSI	BE
26.	ABN AMRO BANK NV	PRI / PRB	NL
27.	ERSTE GROUP BANK AG	PRI / PRB	AT
28.	GROUPE BRUXELLES LAMBERT SA	PRI	BE
29.	KBC GROEP NV/ KBC GROUPE SA	PRI / PSI / PRB	BE
30.	DANSKE BANK A/S	PRI / PRB	DK
31.	ADYEN N.V	None	NL
32.	RAIFFEISEN BANK INTERNATIONAL AG	PRI / PRB	AT
33.	ASR NEDERLAND NV	PRI / PSI	NL

34.	BANCO DE SABADELL SA	PRI / PRB	ES
35.	POWSZECHNY ZAKLAD UBEZPIECZEN SA	PSI	PL
36.	SKANDINAVISKA ENSKILDA BANKEN AB	PRI / PRB	SE
37.	POSTE ITALIANE SPA	PRI/ PSI	IT
38.	SOCIETA CATTOLICA DI ASSICURAZIONE S.P.A.	None	IT
39.	GRUPO CATALANA OCCIDENTE SA	PRI / PSI	ES
40.	BANCO BPM SPA	None	IT
41.	SWEDBANK AB	PRI / PRB	SE
42.	SVENSKA HANDELSBANKEN AB	PRI / PRB	SE
43.	DEUTSCHE BOERSE AG	PRI	DE
44.	OTP BANK PLC	PRB	HU
45.	BPER BANCA S.P.A.	PRB	IT
46.	NURNBERGER BETEILIGUNGS AG	PRI	DE
47.	BANK OF GREECE	PRB	GR
48.	AERCAP HOLDINGS N.V.	None	NL
49.	POWSZECHNA KASA OSZCZEDNOSCI BANK POLSKI SA - PKO BP SA	None	PL
50.	BANCA MONTE DEI PASCHI DI SIENA SPA	PRI / PRB	IT

Source: The set of companies was exported from the Orbis database. UNEP-FI initiatives' screening was conducted using their official websites, as below.

**Note*:

PRI = Principles for Responsible Investment (https://www.unpri.org/signatories/signatory-resources/signatory-directory)

PSI = Principles for Sustainable Insurance (https://www.unepfi.org/psi/signatory-companies/)

PRB = Principles for Responsible Banking (https://www.unepfi.org/banking/bankingprinciples/prbsignatories/)

Appendix 10. Specific non-binding further guidance on non-financial climate-related disclosure for banking and insurance companies suggested by the European Commission

	General	Lending	Investment	Insurance	Asset management
Business model	- How climate-related risks and opportunities of the investment, lending and insurance underwriting portfolios might affect the financial institution's business model. - Whether and how the institution takes into consideration that its counterparties take climate-related risks and opportunities into account. - How the assessment of climate-related risks and opportunities are factored into relevant investment, lending and insurance underwriting strategies and how each strategy might be affected by the transition to a lower-carbon economy			- How the potential impacts from climate change could influence policyholder, ceding company, reinsurer and their selection by the insurance company.	
Policies and due diligence processes	- How the financial institution encourages better disclosure and practices related to climate-related risks to improve data availability and any effort to increase the awareness of counterparties, and more generally of customers, of the relevance of climate-related issues as part of their lending, investment, and insurance		- How climate-related issues are considered as drivers of value in the financial institution's investment decision process.	- Whether specific climate-related products are under development, such as the underwriting of risks of green infrastructure and nature-based solutions - Whether any of the company's life products incorporate climate considerations in the	- How climate-related considerations are embedded in suitability assessments in order to understand customers' preferences and awareness regarding climate-related risks and opportunities. - How the financial institution ensures that its climate-related

	underwriting processes, including for example by means of specialty climate-related risk advisory services. - Any stewardship activities related to the financial institution's climate strategy such as engagements with companies, outcomes, and proxy voting (e.g. resolutions filed or supported). - Any investment, lending and insurance underwriting portfolio contributing to climate change mitigation and adaptation and any relevant target in this respect, e.g. in terms of insurance revenues related to energy efficiency and low carbon technology.			modelling of biometric risks (Life). - Whether the insurance company is part of public-private partnerships to promote awareness raising about climate-related risks, disaster risk resilience and/or climate adaptation investments.	performance is aligned with the climate strategy of its clients. - The targets associated with climate-related exposure of assets under management across asset classes (e.g. equity / bonds / infrastructure / real estate / structured products / MBS / derivatives).
Outcomes	Development trend of the amount of carbon-related assets in the different portfolios against any relevant target set and the related risks over time. The development trend of the weighted average carbon intensity for the different portfolios against any relevant target set and the related risks over time.				
Risk and risk management	- Whether risk management processes, including internal stress testing, consider climate-related risks - Any exposures in the different lending, investment and underwriting activities to sectors perceived as contributing to climate change, which might create reputational risks for the financial institution. - The climate-related risks identified in the different lending, investment or	- Volume of the collateral highly exposed to climate-related risks and the impact of the selected scenarios on its value. - Volume of real estate collateral by energy efficiency rating according to energy performance certificates. - Volume of real estate collaterals highly exposed to physical risk in		- Processes for identifying and assessing climate-related risks on re-/insurance by geography, business division, or product segments. - Mitigating actions, such as reinsurance treaties or hedging strategies put in place by the institution to reduce climate-related risks and the effect of any change in such techniques.	

	underwriting activities and how the financial institution assesses and manages those risks. - The exposure of financial assets, non-financial assets and assets under management to principal climate-related risks and provide with a breakdown of those risks in physical and transition risks. - How the financial institution has assessed the exposure of financial assets and non-financial assets to climate-related risks under different climate-related scenarios. - Characterisation of their climate-related risks in the context of traditional industry risk categories such as credit risk, market risk and operational risk - How climate-related risks could affect overall solvency needs of insurance companies and banks' present and future regulatory capital requirements.	comparison to total collaterals		- The amount of carbon-related underwriting exposures in terms of insurance revenues.	
KPIs	- Amount or percentage of carbon-related assets in each portfolio in MEUR or as a percentage of the current portfolio value (*awareness of portfolio exposure to climate-change exposed sectors*) - Weighted average carbon intensity of each portfolio, where data are available or can be reasonably estimated	- Credit risk exposures and volumes of collateral by geography/country of location of the activity or collateral (*concentration of exposures*). - Volume of collaterals related to assets or activities in climate change mitigating sectors (*volume of green collaterals*). - Volume of financial assets funding sustainable economic activities contributing substantially to climate mitigation and/or adaptation (absolute figures and compared to		- Breakdown of underwriting exposure by lines of business to economic sectors (life / non-life / reinsurance). (*Awareness of economic exposure to climate change*) - Percentage of products incorporating climate-related risks into the	- Breakdown of assets under management by business sector across asset classes (equity / bonds / infrastructure / real estate / structured products / MBS / derivative (*Awareness of economic exposure in industries exposed to*

	- Volume of exposures by sector of counterparty.	total exposures) according to the EU taxonomy (*Concentration of green investments*) - Total amount of the fixed income portfolios invested in green bond certified according to a potential EU Green Bond/according to any other broadly recognised green bond framework (at year-end) divided by (a 5-year rolling average of) total amount of holdings in fixed income portfolios	underwriting process for individual contracts (life / non-life / reinsurance) (Product portfolio resilience to climate change) - Number and value of climate-related underwriting products offered (Non-life / reinsurance) (*Risk management maturity and business resilience to adverse conditions*). - Maximum Expected Loss from natural catastrophes caused by climate change (life / non-life / reinsurance).	*climate changes in different degrees*)

Note: Rationale of KPIs is added in *Italic* when present.

Source: Adapted based on Annex 1 in European Commission, 2019c, pp. 21-28

Appendix 11. Evidence in supporting the described position of the ESAs regarding SFDR's RTS drafting

Theme	Concrete concerns of stakeholders communicated by ESAs	ESAs' suggested solution
Data	'*The ESAs are aware that data constraint is one of the biggest challenges when it comes to sustainability-related information to end-investors'* (JC ESAs, 2020, p. 8)	'*The ESAs shares the view that it is necessary to start demanding data from financial market participants and financial advisers to achieve the objectives of the SFDR (...) The ESAs are aware that this point may be a concern for respondents regarding some indicators in particular, which could be further considered if necessary.*' (acknowledging SFDR premise and showing flexibility to stakeholders)
Regulatory sequencing & timing	'*The ESAs also identified as a challenge that the negotiations were on-going on the draft taxonomy regulation while Article 2(17) SFDR defined "sustainable investments" without reference to the taxonomy regulation*.' (JC ESAs, 2020, p. 8)	'*The ESAs also acknowledged that the empowerments related to taxonomy-specific product disclosures laid out in Article 25 of the draft taxonomy regulation, will be an occasion to further strengthen the link between 'sustainable investments' as defined under Article 2(17) SFDR, and investments financing taxonomy-compliant activities, with a view to reducing regulatory divergence*.' (JC ESAs, 2020, pp. 8-9)
Investment/costs (of implementation)	'*The ESAs are aware that disclosure obligations have an effect on the compliance costs for companies* (…) (JC ESAs, 2020, p. 11)'	'*The ESAs duly considered which information items are necessary to meet the objective to inform end-investors sufficiently and excluded information items deemed too granular to be included in the draft RTS*' (JC ESAs, 2020, p. 11)

Source: Quotes in italic can be consulted in Joint Committee of the European Supervisory Authorities, 2020, p. 8; 9; 11)

Appendix 12. Results of the third research pillar on non-financial reporting practices for the selected sample of financial market players

	Company name Latin alphabet	PRI/PSI/PRB *	Country ISO code	Latest deliverables in demonstrating transparency	Means of seeking accountability on sustainability and/or climate-related disclosure
1.	AXA SA	PRI / PSI	FR	2022 Climate and Biodiversity Report (since 2015) 2021 Annual Report (Integrated)	TCFD-aligned reporting Independent limited assurance report (PwC) Statutory audit (AR)
2.	ALLIANZ SE	PRI/ PSI	DE	Sustainability Report 2021 Sustainability Factbook Annual Report of Allianz SE for 2021 (Non-financial statement)	GRI Independent limited assurance report (PwC) on SR Stakeholder engagement list
3.	ASSICURAZIONI GENERALI SPA	PRI / PSI	IT	2022 Generali Group Strategy on Climate Change 2021 Group Annual Integrated Report 2021 Climate-related Financial Disclosure	TCFD-aligned reporting Independent Auditor Report (on non-financial statement) Brief description on stakeholder engagement
4.	MUNCHENER RUCKVERSICHERUNGS-GESELLSCHAFT	PRI / PSI	DE	2021 Sustainability Report 2021 Group Annual Report	Standards'-aligned separate reporting process

	AKTIENGESELLSCHAFT IN MUNCHEN			2021 TCFD & SASB Index ClimateWise Report for 2021	Table-based explanation on engaging with categories of stakeholders Independent limited assurance report (Ernst & Young) on SR
5.	BANCO SANTANDER SA	PRI/ PRB	ES	2021 Climate Finance Report 2021 Annual Report 2022 'Sustainable finance classification system'	Content indexes for UNEP FI PRB, SASB, GRI Independent verification report (PwC) 'What our stakeholders tell us' section with concrete numbers
6.	BNP PARIBAS	PRI/ PRB	FR	Climate analytics and alignment Report released in 2022 (unaudited) 2021 Universal Registration Document (with amendments) CSR Strategy Presentation (June 2022)	'Listening to stakeholders' section Sustainable Finance Strategic Committee responding to Board
7.	SOCIETE GENERALE	PRI/ PRB	FR	PRB Report (self-assessment) 2021 SASB Mapping Report 2021 Universal Registration Document	Independent Third Party Report (in URD for SR matters) Describing updates for 2021 in working on the commitments of sustainability-related memberships Description of stakeholders' consultations

8.	BANCO BILBAO VIZCAYA ARGENTARIA SA	PRI/ PRB	ES	2021 Report on TCFD 2021 Annual Report	TCFD-based reporting WEF-IBC and SASB standards- aligned reporting Description of stakeholder engagement (table with numbers) Describing the approach used when prioritizing the issues according to their importance for stakeholders, impact of climate change on stakeholders Independent Assurance Report (KPMG)
9.	CREDIT AGRICOLE SA	PRI/ PSI/ PRB	FR	2021 Universal Registration Document	PRB implementation report TCFD-aligned reporting GRI-aligned reporting General description of how stakeholders are consulted Independent third party Statutory Auditor (PwC) on non-financial statement Independent Limited Assurance Report on Indicators related to the implementation if 2021 climate strategy
10.	INTESA SANPAOLO	PRI/ PSI/ PRB	IT	2021 Consolidated Non-financial statement 2021 TCFD Report	PRB-aligned reporting GRI Content Index

					GRI Impact Boundaries SASB Indicators Index WEF Stakeholder Capitalism Metrics Index Independent Auditor Report (Ernst & Young) Table describing the identification of stakeholders, prioritization of issues and estimates for some of the ways they are listened to
11.	ING GROEP NV	PRI/ PSI/ PRB	NL	2022 Climate Report (unaudited) 2021 Annual Report 2021 Technical Appendix	TCFD-aligned reporting GRI/SASB, PRB-aligned reporting Independent auditor report on climate change risk (AR, KPMG) Stakeholder engagement process description
12.	CAIXABANK, S.A.	PRI / PSI / PRB	ES	2021 Consolidated Management Report	Combined Taxonomy, GRI, SASB, TCFD, PRB-aligned reporting Independent verification report (PwC): on non-financial information, solely on Taxonomy-related reporting, GRI, SASB tables Describing dialogue with stakeholders in a qualitative & quantitative manner

Annex. List of references for data used in Appendix 7 and 12

For Appendix 7:

Note: The feedback provided by financial business associations was selected by navigating through the pages of public consultations (when the consultation is on the webpage of the Commission) or by filtering the data in the EU Survey tool. All public consultations related to sustainable finance identified based on methodological considerations explained in the paper that are part of the sample of the qualitative analysis of the second research pillar with results in Appendix 8, Table 2, are listed below. Number in brackets corresponds to numbering in Appendix 7.

2. TEG Consultations on reports about the EU Taxonomy**.** Public consultation of December 2018 is available at https://bit.ly/3S8dad1. The one from December 2019 is available at https://bit.ly/3UvMrZw.
3. TEG Consultation on Climate-related Disclosures**.** Public consultation of February 2019 is available at https://bit.ly/3xJNUlg.
4. Targeted consultation on the update of the non-binding guidelines on non-financial reporting**.** Public consultation of February-March 2019 was available at https://bit.ly/2NgYuYC. Page is no longer available in a previous check: https://bit.ly/3R4lAB6. Alternatively, a summery is offered here: https://bit.ly/3StrKvJ.
5. Corporate Sustainability Reporting Consultation of February-June 2020. Available at https://bit.ly/3BAKjHj.
8. Sustainable finance – EU classification system for green investments**.** Roadmap feedback of March 2020-April 2020 is available at https://bit.ly/3dxKlYL. Public consultation of November-December 2020 is available at https://bit.ly/3UAX7GC.

For Appendix 12:

Axa, (2022). Climate and Biodiversity Report. Available at https://bit.ly/3dCcj5A.

Axa, (2021). Annual Integrated Report. Available at https://bit.ly/3UtMSUi

Allianz (2021a). Sustainability Report. Available at https://bit.ly/3C3bhZO.

Allianz (2021b). Sustainability Fact Book. Available at https://bit.ly/3f9H4PC.

Allianz (2021c). Annual Report Allianz SE. Available at https://bit.ly/3C2kZvc.

Assicurazioni Generali (2022). Generali Group Strategy on Climate Change. Available at: https://bit.ly/3C2kZvc

Assicurazioni Generali (2021a). TCFD Climate-related Financial Disclosure. Available at: https://bit.ly/3C2kZvc.

Assicurazioni Generali (2021b). Group Annual Integrated Report. Available at: https://bit.ly/3qWKgAS.

Munich RE (2021a). Sustainability Report. Available at: https://bit.ly/3xHZkGo.

Munich RE (2021b). Group Annual Report. Available at: https://bit.ly/3LETxXU.

Munich RE (2021c). TCFD, SASB Index. Available at: https://bit.ly/3dywTne.

Munich RE (2021d). ClimateWise Report. Available at: https://bit.ly/3qYp6lF.

Banco Santander (2021a). Climate finance Report. Available at: https://bit.ly/3BG3SOs.

Banco Santander (2021b). Annual Report. Available at: https://bit.ly/3DQ9V5M.

Banco Santander (2022). Sustainable finance classification system. Available at: https://bit.ly/3DQ9V5M.

BNP Paribas (2022a). Climate analytics and alignment Report. Available at: https://bit.ly/3R7kHrs.

BNP Paribas (2022b). 2021 Universal Registration Document. Available at: https://bit.ly/3C2fcG1.

BNP Paribas (2022c). 'CSR Strategy Presentation'. Available at: https://bit.ly/3UpLSR0.

Societe Generale (2022a). Principles for Responsible Banking Report (self-assessment). Available at: https://bit.ly/3UvM1Cw.

Societe Generale (2022b). 2021 SASB Mapping Report. Available at: https://bit.ly/3xKXXGI

Societe Generale (2022c). Universal Registration Document. Available at: https://bit.ly/3R4Fjka.

Banco Bilbao Vizcaya Argentaria (2022a). Report on TCFD. Available at: https://bbva.info/3SqAjax.

Banco Bilbao Vizcaya Argentaria (2022b). Annual Report. Available at: https://bbva.info/3C3tJRU.

Credit Agricole (2022). 2021 Universal Registration Document. Available at: https://bit.ly/3C04b8k.

Intesa Sanpaolo (2022a). Consolidated Non-financial statement for 2021. Available at: https://bit.ly/3LEvQPu

Intesa Sanpaolo (2021). TCFD Report for 2021. Available at: https://bit.ly/3dBJupO.

ING Group (2022a). 2022 Climate Report. Available at: https://bit.ly/3S8fFvV.

ING Group (2022b). 2021 Annual Report. Available at: https://bit.ly/3dHnVnH.

ING Group (2022c). 2021 Technical Appendix – GRI/SASB/Environmental Programme and UNEP FI PRB. Available at: https://bit.ly/3QZFDAA.

CaixaBank (2022). 2021 Consolidated Management Report. Available at: https://bit.ly/3r3cAl7.

München, 28.09. 2022

Declaration on honor

I hereby declare on my honor that I have done this work independently. The thoughts taken directly and indirectly from other sources are marked as such.

The work was neither submitted to another examination authority nor published.

Bianca Lucaci