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EU Sustainable Finance action plan and its impact on companies

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Abstract

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The objective of this study is to analyse the EU Sustainable Finance action plan, and its regulation and policymaking for delivering the European Green Deal and fighting the global issue of climate change. The study will focus on the implications of the components of the Sustainable Finance Package on companies, considering the development of the Non-Financial Reporting directive. The latest proposal of the European Commission to support the sustainability transition in the EU consists of ambitious policies to further enhance the transition to a more sustainable economy. The study will investigate EU's proposal and long-term sustainability ambitions included in this package of measures, in particular its proposal for a Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy Climate Delegated Act. After identifying the key elements of these new regulations, the paper will analyse how the new directive will make corporate sustainability reporting more harmonized and how this will support companies' transparency and allow them to provide more consistent information to key stakeholders. In addition, through a collection of primary data from an expert interview, the author intends to present evidence and key insights of the concrete actions that businesses can take to prepare for the implementation of the new directive and the changes they will need to do in a strategic level. Furthermore, the study indicates that the EU regulation and the CSRD will be without a doubt tightened in the coming years and this is something companies should start considering already and start to find better ways to respond to their environmental challenges to comply with the policymaking of the EU while remaining financially stable.

Keywords: Sustainable Finance, Sustainability, Taxonomy, Corporate Sustainability Reporting Directive, Non-Financial Disclosure

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Glossary

CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social and Governance
EU	European Union
NFRD	Non-Financial Reporting Directive
IFRS	International Financial Reporting Standards
OECD	Organization for Economic Co-Operation and development
TBL.	Triple Bottom Line
SDGs	Sustainable Development Goals
UN	The United Nations
UNFCCC	UN Framework Convention of Climate Change

1 Introduction

1.1 Setting the Scene

Nowadays, we hear about environmental, social and governance (ESG) in our everyday lives. It is important to understand that the ESG movement in finance has a long development history behind and has become one of the major drivers of sustainable finance. The topic of ESG has been discussed over a long period, and there is a large quantity of literature (both actual and old) that discusses the beginnings of the whole movement of ESG practices, linking it to the insurance industry and the increasing problems related to climate change that have been threatening the insurance industry's own financial sustainability. The first time that the ESG issues were mentioned was in the 2006 United Nation's Principles for Responsible Investment report (Atkins, 2020). This marked the beginning of the ESG movement and when ESG criteria and practices began to be introduced also in financial evaluations. These changes were focused on further enhancing sustainable investing (Atkins, 2020).

However, there are also older research studies and academic papers that have discussed the topic from a more critical point of view and evaluated what actions should be taken to reduce costs related to climate change. As Michael Tucker claimed already in 1996, that problems related to climate change, such as weather-related challenges that impacted negatively the insurance industry, made the insurance sector itself one of the industries more concerned about slowing "what has been identified as a causal factor in climate change: emissions of greenhouse gases" (Tucker, 1997). This statement provides us clear evidence of the roots of the issue of climate change and how this was already negatively impacting the insurance industry. It also shows us again, that the discussion around the topic started a long time ago and has been evolving over time to what it is nowadays. It is evident that the issue has evolved to a much broader problem, not only impacting the insurance industry but the economy. However, looking at these pieces of older research showcase the urgent action must be taken to combat climate change and the need for action from policymakers and governments, such as the European Union.

A lot of further research was undertaken since then, to better understand the issue and to further develop the arguments about the topic that were made previously. For instance, Michael Hawker stated in his article in 2007, that weather and climate are core business for the insurance industry (Hawker, 2007). In his research, Hawker also presented the example of Australia, being one of the countries with a higher risk of extreme weather events. The example mentioned in his article was the research conducted on the topic by the Insurance Australia Group (IAG) to understand the weather risk at the time and thus enable insurers to ensure sustainable business in the long term, while creating shareholder value. Afterwards, in 2019, Susanna Paleari wrote about disaster risk insurance, and argued that the increase in the number of natural catastrophes and their economic effects are giving more discussion to the debate about the development of insurance as a “risk financing and management instrument” (Paleari, 2019).

All this previous research and discussion gives us a better understanding of the main academic motivators for further research that has been happening during the past years. Moreover, they present the first linkages that were made between climate issues and the economy. It also shows that there has been a lot of debate in the literature about this issue, as well as uncertainty about the topic. It has not been easy to find a commonly accepted approach regarding ethical investing or ESG, as it complex to identify what can be considered ethical or not, and to what extent. Besides from the big role of insurance companies, investors and governments also play a very important role in this topic, especially during the past years and the continuous development of ESG and sustainable finance. The concept has become much wider than before, and investors are demanding more non-financial information from companies, that would disclose more about their ESG and sustainable performance. In summary, there has been tremendous evolvement of the movement, with another example being the earlier attempt of the “Triple Bottom line” by John Elkington. However, this concept has been also argued extensively because it has one major disadvantage which is its role when applied to a monetary economy. This is because it is not possible to measure societal and environmental issues on the same way as profit. Thus, it did not allow companies to easily consider all three bottom lines suggested in the TBL concept (Atu, 2013).

As a result, this has led to further development on the concept and involvement of the European Union. This study will be discussing the theme from the context of the EU policy, however by also taking into consideration its development and root causes. The actions the EU is taking for sustainable finance play a key role and will have a big impact in the economy as they have been developing a common sustainability reporting format and trying to find a solution to these old problems and inconsistencies. The study will explore further into these issues and analyze to what extend the EU policy on sustainable finance can have an impact, and how this will affect companies and organization and therefore, the economy.

1.2 Research Objective and Research Questions

The objective of this study is to provide an analysis of the EU Sustainable Finance regulation, its current requirements, and the current development of the new proposal of the European Commission to further support and enhance sustainable development across the EU. The study will consist of literature-based research, as well as a chapter containing empirical analysis (in form of an interview), both providing a structured and comprehensive analysis as an answer to the research questions. The research will explore why the new obligations of the European Commission regarding Non-financial reporting are important, how they affect sustainability development in a European level, and their impact on the companies. The main research problem is that the current Non-financial Reporting requirements (NFRD) of the European Commission can be considered insufficient. There is a lack of transparency on the non-financial information reported by companies, and it is challenging for stakeholders to understand the real impact, “due to a lack of consistency, reliability, or comparability” (Deloitte, 2021). Therefore, the new proposal of the European Commission for a Corporate Sustainability Reporting Directive (CSRD) aims to substitute the current Non-Financial Reporting Directive (NFRD). This will be done by changing the regulation and requirements in place for companies and thus, improve the sustainability reporting of organizations and make it more aligned with their financial reporting. The final aim of these modifications in the policy is to create a common reporting format for all companies and improve the quality of their sustainability related information that is reported. This paper will examine these

packages of measures in detail and provide an analysis of their implications and requirements.

Therefore, according to the above stated research problem, the following research questions will be addressed:

1. What are the implications of the EU Sustainable Finance Package on companies?
2. How might the new CSRD requirement affect companies' profitability?
3. To what extent the EU policy will help to harmonize a common reporting format?

By answering these questions, this study will create a picture of the non-financial reporting obligations and the effect these will have for different stakeholders, as well as how these can bring value to the companies themselves. The study will explore how companies can benefit from the EU's tighter regulation, and how by doing this they will be contributing to climate change mitigation in a global level. The research will highlight the importance of sustainability related disclosures that companies can take to improve their financial performance while delivering value for all the stakeholders.

1.3 Methodology

To address the research questions presented in this paper, the study will consist of a balanced mixture of both literature-based research and practical examples. To provide an accurate and theory-based answer to the research questions, the study will be supported by previous research, academic literature, as well as online sources. Furthermore, in order to provide an empirical part to the study, there will be a section with qualitative research, consisting of a top-down and open-ended interview to a subject matter expert on the field of sustainable finance and CSR. The topics of the supporting literature will be relevant to (but not limited to) EU Sustainable Finance, Sustainability development, Corporate Social Responsibility, ESG, The international Financial Reporting Standards, Sustainable Development Goals, Environmental Sustainability, Ethical Investment. Nonetheless, the starting point of the research, and therefore the main sources of information will be European Commission and the EU policy, and its

Amendments to Delegated Acts, which state the non-financial disclosure obligations for corporate sustainability reporting. The study will analyse the topic from the EU perspective and use existing literature to support and contrast all the claims made.

In brief, the literature used in the study will be either theoretic (e.g., La Torre (2021), Schoenmaker and Schramade (2019), Thomson, S (2021), Silvola and Landau (2021)), Official online sources (e.g. The European Commission), evaluations and reports (e.g., Messini (2021), Bernow, S. (2017)), Journals (e.g., Paleari (2019), Hawker (2007)), Examining Sustainable Finance aspects with other approaches (e.g., Consultancy reports), and also primary data gathering in the form of interview with an expert who will provide essential insights to support the research.

1.4 Structure

The structure of this study consists of six chapters. Chapter 1 is the introduction, in which the topic has been presented and the research objectives and questions and defined. Chapter 2 will be discussing relevant background information around the topic, and it gathers essential information to answer the research questions. In Chapter 3, there will be an analysis and discussion about the European Green Deal and analyse the Sustainable Finance Package adopted by the European Commission as well as an in-depth analysis of its components (including research and information about the NFRD and CSRD as well as EU Taxonomy regulation and how does this fit in the broader Sustainable Finance Framework). In Chapter 4 the findings from the primary research and the empirical part of the research will be presented, by presenting a qualitative research approach in form of an interview with open-ended questions to a subject matter expert, providing industry insights on the topic and supporting the arguments made in the previous chapters. The findings of the research will be summarized and discussed in this chapter. Lastly, in Chapter 6, there will be a conclusion with the key takeaways of the research and a review of all the information gathered from previous chapters will be presented to draw conclusions about what the implementation of the policy will mean in practice for companies in the European Union, and what key actions they will need to take for effective implementation. This section will end with further research and implications.

1.5 Limitations

One of the biggest challenges of the topic of Sustainable Finance is the limitation of information, due to the novelty of the topic and the fact that the CSRD is only a proposal and hasn't been implemented yet. Moreover, another challenge that the topic and this study faces is the amount of misleading information that can be found about the topic and the criticism the topic and the proposal has received. According to La Torre, unaligned regulations and the increasing issue of green washing are some of the biggest challenges that sustainable finance faces (La Torre, 2021: 2). Therefore, it will be of high importance to carefully evaluate the reliability and content of sources, especially during the time of the development and implementation of the CSRD due to all the new features it brings. Although previous research and literature give very relevant insights to the study, the information provided by European Commission will be at the core of the study.

Greenwashing is becoming an increasing concern and the new directive has proven particularly controversial and politically challenging, which leads to investors' concern. The directive is facing challenges, and there are already some members states and associations that are not supporting the components of the directive. Furthermore, the European Commission's Regulatory Scrutiny Board - an independent body within the Commission – rejected the draw law for the CSRD proposal twice. This is unusual and casts some doubts on the directive's future (Gambetta 2021). Therefore, despite that the aim of the EU proposal is to create a consistent and more harmonized reporting framework for companies under the scope, this will also lead to many concerns due to the different views different stakeholders will have about it. One of these concerns will be still the risk of unalignments and gaps in the information that is reported, as well as difficulties in understanding how to follow the standard. In addition, fund managers are also struggling to identify which products are included in green categories. As a result, they require more information from companies to put an end to greenwashing (Brenton, 2021). Furthermore, there have been a number of rumours in the industry, which have led to more investigation on those claims. These unrealistic claims will only harm the development of sustainable finance and could also potentially affect companies that are behaving ethically and are really Paris-aligned. Recently, a report found that three out of four ESG equity funds it assessed were not aligned with the goals of the Paris Agreement. The report found out that climate funds were holding investments in

companies operating in the oil industry and pipeline operators (Fletcher & Oliver, 2022). This issue of misalignment is important to consider when drawing conclusions regarding EU policy and sustainable development.

1.6 Definitions of key concepts

1.6.1 Sustainability

To reach sustainable development, it is essential to take a unified approach that includes both environmental concerns and economic development. The aim of sustainability development is to maximise value for companies and the economies while taking into consideration the global issue of climate change. Back in 1987, sustainability was described with the definition of "economic-development activity meeting the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, n.d). It is possible to find a large array of definitions of sustainability, as it can vary a lot depending on the context and what it means to each person or organization. However, this study will be referring to economic and environmental sustainability.

1.6.2 Sustainable Finance

In a nutshell, the term of Sustainable finance means taking ESG considerations (environmental, social and governance) in mind when making investments. This is one of the goals of the EU and it will lead to more long-term investments and flows towards sustainable activities and projects (The European Commission, n.d). Firstly, environmental aspects include climate change and its mitigation and adaptation efforts, but also other issues as biodiversity, pollution prevention and the circular economy. Secondly, social considerations include issues of inequality, inclusiveness, labour relations, human capital, as well as human rights (The European Commission, 2021). Lastly, the governance of public and private institutions includes their management, employee relations and executive remuneration (The European Commission, 2021). This study will be focusing on the broader concept of Sustainable Finance rather than solely in ESG. It is evident that ESG has a pivotal role in sustainable future, and it has been demonstrated that ESG practices have a strong impact on companies' financial growth, but sustainable finance also focuses on opportunities and offers as a broader

view, also incorporating ESG into it. Consequently, it can be said that while ESG is something very specific, sustainable finance is an umbrella concept.

1.6.3 EU Taxonomy

Taxonomies are defined as “definitions of sustainable finance that aim to be comprehensive classification systems, while definitions of sustainable finance are less ambitious in scope” (OECD, 2020). Sustainable finance taxonomies can have very positive impacts when they are created in a comprehensive and precise way. These benefits include for example improving market clarity. This means that if there are more consistent definitions of which investments are truly sustainable and which ones are not, it will give a clearer picture to investors when making their decisions (OECD, 2020). This classification system plays a very important role in helping the European Union’s transition to make Europe Climate neutral by 2050, boost sustainable investments and implementation of the European Green deal.

Being aware of the advantages and benefits this classification system will provide, the EU proposed to establish a new framework to further support sustainable growth in the economy. This regulation, the EU Taxonomy Regulation, can be considered one of the most important pillars of the of the EU Sustainable Finance Action Plan (OECD, 2020).

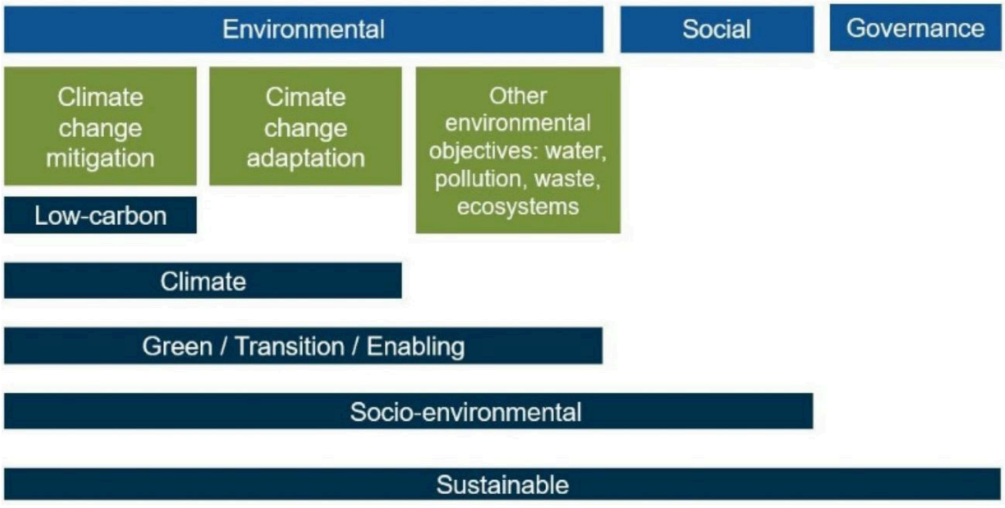

Figure 1. Objectives of Sustainable Finance Taxonomies (OECD, 2020)

Figure 1 above shows the objectives of Sustainable Finance Taxonomies. What can be concluded from it is that in order to consider an activity as truly sustainable, this needs to fulfil all the criteria. This again highlights the existing importance of ESG even in the EU Policy context. In order to identify if an activity is fully sustainable, multiple considerations and reflections must be made.

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2 Background – ESG and Sustainable Investing

Section 1.6.2. (see page 7) covered the definition of what Sustainable Finance means for us today, and the importance of ESG practices for companies and investors. But which is the link between finance, sustainable investing and sustainability? In a few words, finance has a key role in increasing investment towards more sustainable activities and therefore accelerate the transition to a low carbon and more circular economy (Schoenmaker and Schramade, 2019). There is an increasing number of institutions that are reporting on their activities with non-financial data or are publishing integrated reports which include both financial and non-financial data. It turns out that financial data are no longer sufficient to assess a company's performance, especially its capabilities and potential (Ziolo, 2020). These inconsistencies have led to companies to be more concerned about their performance to reach the investor community's expectations and to also remain competitive. Even though there is still room for improvement, we have already been able to see an important transition and many positive steps forward in this movement. Before discussing the EU Sustainable Finance components and the disclosure obligations, we will be looking into the concept of ESG and how this has led to the umbrella concept we today call sustainable finance.

As discussed in Section 1.1 (see page 1), the issue of sustainable finance comes from the much wider ranging concept of ESG which is very important to consider. In the past years, the ESG movement has become very popular and there has been a clear rise in investments that consider ESG. This growing trend has been mainly due to the fact that governments, societies, and consumer, among other stakeholders, are realising the importance taking ESG considerations have in the performance and stability of companies. This means that a strong ESG approach can safeguard a company's long-term success (Henisz, Nuttall & Koller, 2019). This highlights the importance for businesses to think and act on ESG in a proactive way, as it has become a top priority and more relevant for investors when making decisions. So far, this has had a positive impact, as many companies are doing their best to improve their sustainable practices, which has been proven to be correlated with business performance. Furthermore, it has been found that having a good ESG performance also corresponds with a reduction in downside risk, which is shown for example by lower loan and credit default swap spreads and higher credit ratings (Henisz, Nuttall & Koller, 2019).

Therefore, reviewing literature related to terms such as ESG is key in this study. To answer the research questions, we also need to focus on what started the ESG “movement” in finance, and the strong linkage between ESG and value creation. This information will help us understand the development of the concepts and be able to come up with better hypothesis.

3 European Green Deal

The issue of climate change and the damage caused to the environment have become a real threat to both Europe and the world. As a result, the EU has set its European Green Deal objectives, which will support in overcoming these challenges. The Green Deal will help the EU transition to a more competitive and resource efficient economy, ensuring: 1) No net emissions of greenhouse gases by 2050; 2) Economic growth decoupled from resource use; and 3) No person and no place left behind (The European Commission, n.d).

To reach all these ambitious objectives, and make Europe a climate neutral continent by 2050, the Commission has come up with a detailed plan of action that will support and drive forward these initiatives. This plan will deliver the Green Deal and consists of a package of proposals to reach the EU's roadmap (for climate, energy, transport, and taxation) and reducing net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels (European Commission, n.d). This target is set by the European Climate Law, which is the regulation that makes the objectives of the EU legally binding.

With the increasing concern of climate change which has become a global threat, we need to show a response and efforts in a global level. Thus, to achieve those objectives to reduce greenhouse gas emissions, there must be efforts done in all sectors, from industry and energy, to transport and farming (The European Commission, 2021). This is one of the main reasons for the European Union to be involved in and supporting its international partners on the global mission to minimize greenhouse gas emissions. In particular, through the UN Framework Convention of Climate Change (UNFCCC) and its Paris Agreement (The European Commission, 2021). Furthermore, the EU is not only trying to mitigate climate change, but also implementing adaptation actions, as unfortunately the impact of climate change in our society has no turning back and we need to learn how to adapt to it yet trying to avoid further harm.

This study will be focusing on the role of the Sustainable Finance action plan in supporting on reaching the pledges and policies of the European Green Deal as well as the European Union's international commitments on sustainability development (The European Commission, n.d). This highlights its importance as we can see that it is part of something much bigger, as the European Green Deal, the United Nations 2030

Agenda and Sustainable Development Goals as well as the Paris Agreement. Thus, Sustainable finance is one of the crucial elements and steps that will help Europe to achieve its long-term sustainability pledges by ensuring that there are money flows towards more sustainable activities that will support and create a strong economy and drive sustainable development.

3.1 Sustainable Finance Package

Climate change is nowadays a big threat for our planet and action needs to be taken now to reduce its impact. It has effects that are seen already in the economy, society, biodiversity, and to avoid less harm there must be a transition to a more sustainable economy and sustainable development. To achieve this, it is also crucial to have the right regulation in place to be able to guide financing. Several jurisdictions are moving on in this direction (OECD, 2020 as cited in La Torre, 2021). One of the main examples of this is the European Commission, which is highly prioritising sustainable development in its strategy and continuously evaluating how to integrate sustainability issues in its financial policies to support the European Green Deal and climate pledges.

The main aim of the EU's policy is to stimulate and improve investments towards the transition to a carbon-neutral economy, by changing the regulation in a way that activities can be listed in terms of climate change, environmental aspects, and social aspects (Silvola & Landau, 202: 199). Similar to the ESG concept, the EU policy aims to increase transparency and disclosure of non-financial information but by creating a broader classification with more defined criteria. The EU aims to further develop the classification system over time in a way that helps to enhance the transition as much as possible. The purpose is to avoid the issue of greenwashing as much as possible and therefore allow investments for environmentally friendly activities across the EU (Silvola and Landau, 2021: 199). These political and governmental efforts are not only meant to be aligned with the aim of the Green Deal but also with the Sustainable Development Goals of the United Nations and the Paris Agreement.

To reach these goals in a quicker and more efficient way, the new milestone the EU commission has announced regarding sustainable reporting its so-called Sustainable Finance Package. On 21 April 2021, the European Commission launched a determined and extensive package of measures to increase the investments towards more

sustainable and green activities in the EU. These new measures will be very important in the transition of Europe to become climate neutral by 2050 and positioning the EU as a global leader in setting standards for sustainable finance (The European Commission, 2021).

The new package of measures in the EU's proposal to make the financial sector even more sustainable consists of:

- EU Taxonomy Climate Delegated Act
- New Corporate Sustainability Reporting Directive (CSRD)
- Six amending Delegated Act (The European Commission, 2021)

A review of the literature shows that the preparation of sustainable financial reporting can be undertaken by organisations, considering the theme of sustainability, as well as by fulfilling the obligation arising from applicable legal norms (NGFS, 2018; Pereira da Silva, 2019; Ziolo et al., 2019, as cited in Ziolo (2021)). According to the literature review, non-financial information in the modern economic environment significantly affects the stability of financial systems. ESG reporting has become the norm, and it has been shown that social responsibility issues force recognition of these factors. ESG risk is significantly correlated with the stability of financial systems, as demonstrated in the literature (In et al., 2017; Benlemlih & Bitar, 2018; Ziolo et al., 2019, as cited in Ziolo, 2021). Current trends in reporting on the sustainable development of enterprises are the result of the evolution of the phenomenon of non-financial reporting. The growing trend indicates that applicable law, as well as good practices, indicate flexibility in the scope of data presentation and disclosure. This diversity undoubtedly encourages organisations to take the trouble to present non-financial statements. It shows that companies want to improve their market position in an understandable way, and those that seek stability in the long term compile such reports. It should be noted that the number of non-financial reports prepared by financial institutions is growing together with enterprises (Ziolo, 2021). However, here comes the problem the EU is trying to solve by passing more rules. With an increasing number of companies reporting their non-financial information, and reporting becoming so widespread, the risk of not aligned content or lack of information making the companies look not trusty in the eyes of investors. With the new proposal of the CSRD, the EU aims to create a common reporting framework that would solve these

inconsistencies and improve the quality of the information that is being reported by firms. This will not only help to increase the flow of money to more sustainable activities (and therefore contribute to tackling climate change) but will also help companies to be attractive for their key stakeholders.

Thus, this new proposal, besides from being ambitious and forward-looking, will suppose a big challenge for many companies in different sectors and will also entail many changes and actions from their side to effectively implement and follow the new regulations and comply with EU policy. This is something companies should pay close attention as with the development and increasing importance of ESG and Sustainable Finance, as key stakeholders, particularly investors recognize the climate crisis and are becoming more and more environmentally concerned and are willing to invest more in sustainable companies. This demand for increased transparency and the actions needed from companies will be discussed in the next section.

3.1.1 Current legislation: From NFRD to the new CSRD

So, which is the main concern that leads to this study? The current EU Non-Financial Reporting Directive (2014/95/EU) requires large public-interest entities to disclose information about their key environmental, social, and governance aspects (Silvola & Landau, 2021: 201). The NFRD is currently applied to more than 6000 companies in Europe. The Directive 2014/95/EU consists of the requirements on disclosures of sustainability related information and also information related to ESG activities by large EU public-interest companies in their annual reports (Ribeiro and Araujo, 2022). As stated in *Article 19a* of the Directive 2014/95/EU, public-interest entities falling under the scope (large companies) shall include in their non-financial reporting the following information:

- A description of their business model.
- A description of the policies undertaken by the company in relation to those matters, including the due diligence processes applied
- The outcome of those policies
- The main risks related to those matters linked to the company's operations including its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the company is managing those risks.

- The company's Non-financial key performance indicators (The European Parliament, 2014).

Under the directive of the NFRD, in those cases when companies fail or decide to not include information linked to one or more of the above-mentioned policies, their non-financial reporting statement should include a clear and detailed reasoning for it. Furthermore, the directive also has a "comply or explain" system, which means that if the company in question doesn't not have a policy for one of the requirements of the directive, they must provide an explanation for not doing so. This system aims to make sure that companies apply all policies, because otherwise they will have to disclosure and make a public "announcement" of not following the policy, leading to a potential bad image about it (Datamaran n.d). This is however giving companies more freedom to decide to what extent they want to disclose their non-financial information and can be seen as one of the main reasons for the revision of the NFRD and all the challenges with comparability that have been during the years of NFRD reporting. It leads to one of the issues discussed previously which is the inability to compare the non-financial information reported by companies, as under this directive, companies can choose the indicators they want to report on depending on that they consider more substantial (Silvola & Landau, 2021: 201). This again shows the gap there is between the non-financial information companies are reporting on and the needs of the stakeholders who need that information (The European Commission, 2021), who are generally investors looking for transparent companies that have green initiatives in place.

It is evident that with the continuous development of sustainable finance, as well as increased expectations and concerns from investor, reporting under NFRD and following ESG techniques is not sufficient anymore. Therefore, with the aim of supporting the transition and increase economic flow toward sustainable activities in the EU, a proposal for a Corporate Sustainability Reporting Directive (CSRD) was adopted by the European Commission on April 21, 2021. This new proposal of the European Commission intends to replace the current NFRD, by adjusting and updating its reporting requirements for companies under the scope. The proposal for the CSRD aims to create a more comprehensive format for reporting and build an alignment between sustainability reporting and financial reporting, aiming to harmonize sustainability-related disclosures (Ribeiro and Araujo 2020). The new CSRD aims to close the widening gap between non-

financial information that is reported by companies and the needs of investors by applying more reporting obligations for companies. The proposal: 1) Extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises) from 11,600 to almost 50,000 companies in the EU; 2) Requires the audit (assurance) of reported information; 3) Sets more detailed reporting requirements, to report accordingly to mandatory EU sustainability reporting standards; and 3) Requires companies to digitalize the reported information (The European Commission, 2021).

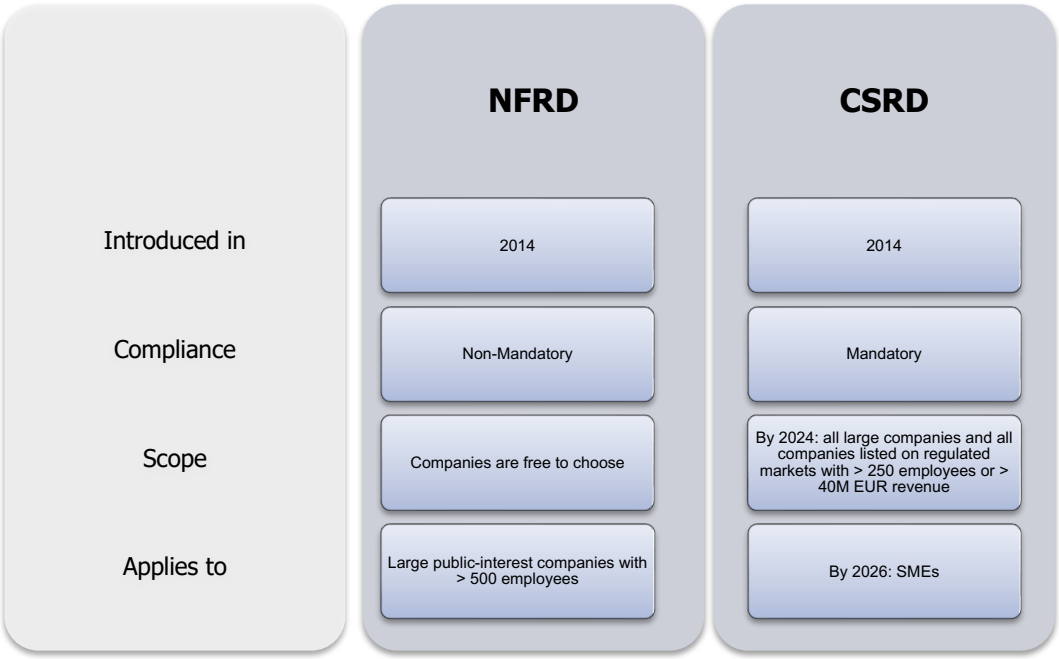

Figure 2. Evolution of NFRD to CSRD

Figure 2 above shows a summary of the key differences and information concerning the NFRD and the CSRD. Although the CSRD is still at the proposal stage, we can already see that it has a clear plan for strengthening the existing requirements of the NFRD. The objective of the new directive is to improve the way companies report on their sustainability related issues (at least possible cost) while making sure that there is enough and transparent information available publicly that will help investors have a clear picture of the situation of the company. This will also play a key role on improving trust between companies and society.

Furthermore, as represented below in Figure 3, we can see that the EU's sustainability reporting policy is moving forward in an unusual pace, due to the revision of the NFRD

and the new regulations this implies to companies. The new proposal for the CSRD should have a big impact and give a push for companies to increase their non-financial disclosures and the risks and opportunities that come with them. This will help and ensure that investors are completely informed about the sustainability of their investments (CDSB, n.d).

Figure 3. Expected timeline of CSRD Implementation (CDSB, n.d)

The timeline shows that the CSRD will entail many new changes which companies will have to follow, including changes in their ways of disclosing information, the data they need to report on, and what activities and actions they need to take in order to achieve this. The CSRD may not be the ultimate policy of the EU to fight climate change, but it is vital for a faster transition and to support the economy. It will extend the scope of corporate sustainability reporting and create a harmonized reporting format for all companies, based on globally recognised guidelines and principles (Celsia, 2021). The timeline presented above gives us a good overview of the stages of the CSRD and its current stage. It also helps to better understand what companies can expect from the new obligations and how they should adapt their reporting, which is meant to happen as of January 2023 (for large companies). We can also see that companies are expected to publish their first reports following CSRD by Q1 2024. This can be considered

relatively soon, and it can raise the questions of whether all companies will be able to follow this transition? The CSRD will undoubtedly be a big challenge for many of the companies under scope (especially the ones operating in highly polluting industries), due to the short time frame and tighter measures.

3.1.2 Reporting standards

When reporting under the CSRD, companies under the scope will be required to use the sustainability reporting standards being developed by the European Financial Reporting Advisory Group (EFRAG) (Wollmert & Hobbs, 2022). The first set of standards will be published by October 2022 by EFRAG, and they will be a key step in the development of corporate sustainability reporting in the European Union. The standards will be adapted to EU policy however they will also consider the international and global aspect. The proposals made by EFRAG take into account the importance of aligning the development of EU reporting standards with other global initiatives. Moreover, as stated by the European Commission, “EU sustainability standards are necessary to meet the political ambition and urgent timetable of the European Green Deal” (The European Commission, 2021). These standards will also support the European Commission on ensuring consistency of all the activities and action plan of their sustainable finance agenda.

However, according to EFRAG, the standard setting will be an ongoing process which is estimated to last until 2025. Their roadmap for the development of a set of EU standards can be seen in Figure 4 below.

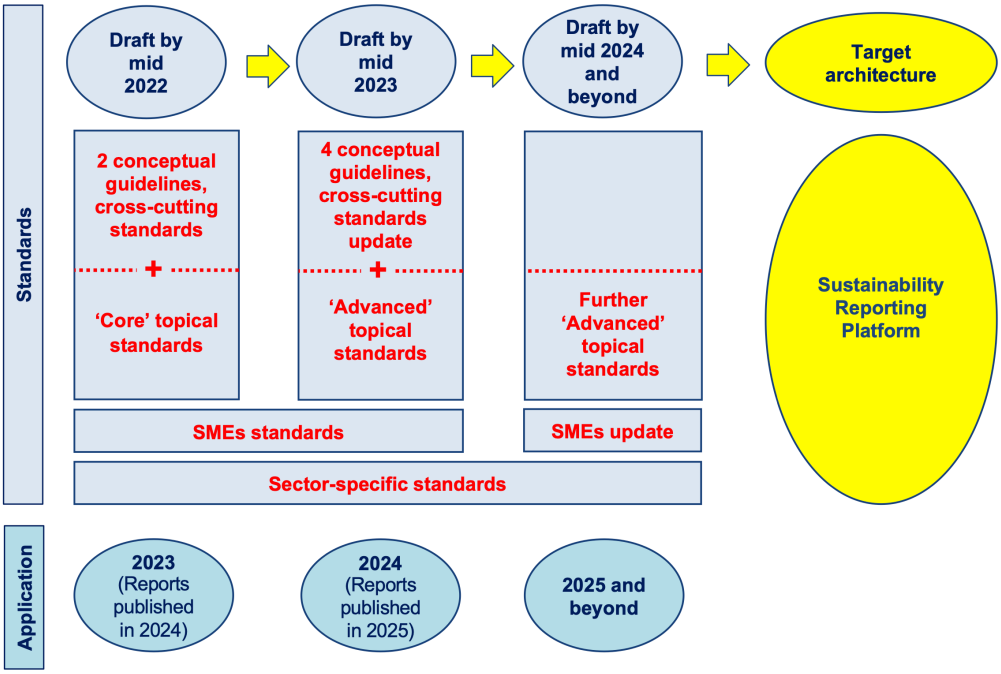

Figure 4. Standard setting roadmap (EFRAG, 2021)

Sustainability reporting standards have a long development roadmap. It will entail many steps that will eventually help to achieve the final goals. It will consist of a gradually developing project towards a thorough reporting platform with the purpose of helping companies to better align their reporting with the criteria set by the CSRD.

3.1.3 Sustainable Development Goals in EU Context

When talking about sustainable development in the EU context, another of the key efforts and actions that we find in its core is the 2030 Agenda and the SDGs. The 17 Sustainable Development Goals set by the UN define a clear roadmap for Europe (but also on an international level) to achieve and maximise a sustainable development. The EU has also incorporated the goals to its strategy and some policy areas and aims to create connections with the Green Deal and the SDGs. Thus, it can be said that there is a strong linkage between the SDGs and the EU policy as the SDGs are used globally as a measure for sustainable development focusing in the economic, social and environmental dimensions. The EU has an important role on strengthening sustainable development and can support its initiatives with the SDGs.

To analyse this more in detail, the author has decided to present an overview of the performance of one of the EU members states regarding sustainability development. This will be the case of Finland and the progress this member state has made on the SDGs. The Sustainable Development Report has been setting standards for both the developing countries and for more industrialized countries. These standards are very useful in particular for countries and their governments to understand what the key actions are they need to take to reach the ambitions of the 2030 Agenda for sustainable development.

These metrics are necessary for turning the SDGs into practical tools for problem-solving. According to the 2022 report findings, together with Denmark and Sweden, Finland has achieved one of the top rankings in 2022 on the SDG Index. Finland has been considered a pioneer in sustainable development among the EU countries and has become a strong leader in setting environmental policies, with its commitment to become carbon neutral by 2035 and its aim to develop the world's first circular economy (OECD, 2021). It is interesting to also analyse from this perspective and provide a country specific example, because after all, all these initiatives are correlated and aim to reach the same goals. Just as a group of panellists at the SDSN's Senior Working Group on the European Green Deal agreed that the development of innovative solutions to address both the SDGs and climate goals must be achieved through an integrated approach combining technology, policy, and financial instruments (Crete, 2022). Furthermore, the role of governments and member states becomes more and more important as they can have a big impact on the companies and the way they approach sustainability issues. For example, Finland aims to become carbon neutral by 2035 and many companies in the country have already committed to similar targets and to be aligned with the government pledges. Also, high-level government leaders emphasized also in the Green Deal event mentioned earlier the need for more integration of sustainable development and the Sustainable Development Goals (SDGs) at the core of policy-making and national budgeting across Europe and the world (Crete, 2022). Figure 5 below represents an infographic showing Finland's 2022 performance in the SDGs Index. It has been ranked 1st among OECD countries regarding its overall sustainability performance, with an 86.5/100 SDG Index Score.

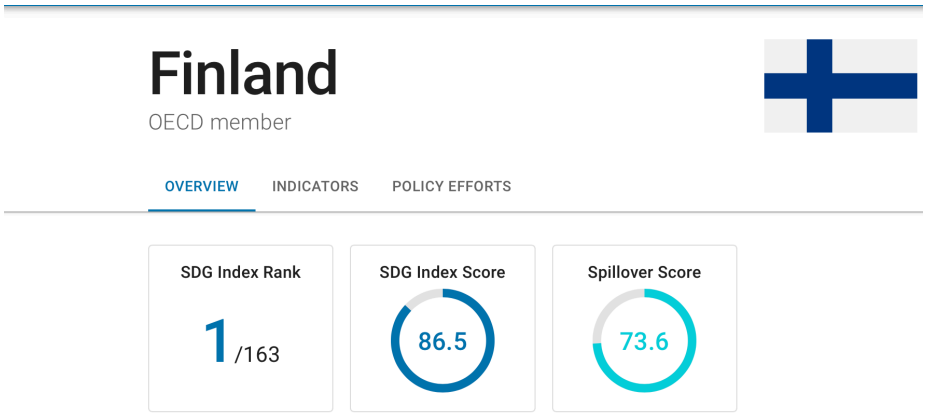

Figure 5: SDG Index, Finland ranking (Sustainable Development Report)

This is a very good achievement for Finland and clearly shows that the commitments of the government are brining results and having an impact on the economy and society. Nonetheless, there is still room for improvement, as according to the OECD Environmental Performance Reviews in 2021, Finland is not fully in its desired path to reach its ambitious goals. Their carbon emissions decreased in the past years, but to reach the target, the transition must be done in a faster pace (OECD, 2020). All in all, what this index is telling us, as well as the OECD review are very relevant also in the context of this study, because it shows that the alignment of a member state with the EU Policy has a big impact also on the performance of its public sector and economies. Many of the biggest and most influential Finnish companies are currently among the world's most sustainable companies. The most recent list gathered by Sitra shows that Finland has taken a very big step in the development of circular economy, with companies and solutions that can be considered cutting-edge, also internationally (Sitra, n.d). The list includes some of the companies with a largest market cap in Finland, including Neste, Fortum, and Konecranes. These companies, despite being major players in their industries and operating in some of the most polluting industries (Oil & gas, energy, and metals industry, respectively) have achieved to position themselves among the most interesting companies in the circular economy in Finland (Sitra, n.d). Summing up, it is interesting to analyse the issue also from the SDGs perspective, as it reveals that there is a strong influence of the way the country or the member state sees sustainable development in the approach the companies in that particular country take to fight climate change and improve their operations.

3.2 EU Taxonomy Regulation

3.2.1 Key features and environmental objectives

As defined in section 1.6.3 (see page 8), EU Taxonomy is a classification system that establishes a list of environmentally sustainable economic activities. EU Taxonomy plays a significant role in the implementation of the European Green Deal and the transition to sustainable investments the European Union is trying to do. The Taxonomy Regulation establishes the basis for the EU taxonomy by setting out a list of conditions that an activity has to meet to be considered as environmentally sustainable (The European Commission, n.d).

The six main environmental objectives established by the Taxonomy Regulation are presented in Figure 6 below, including: 1) Climate change mitigation; 2) Climate change adaptation; 3) The sustainable use and protection of water and marine resources; 4) The transition to a circular economy; 5) Pollution prevention and control; and 6) The protection and restoration of biodiversity and ecosystems.

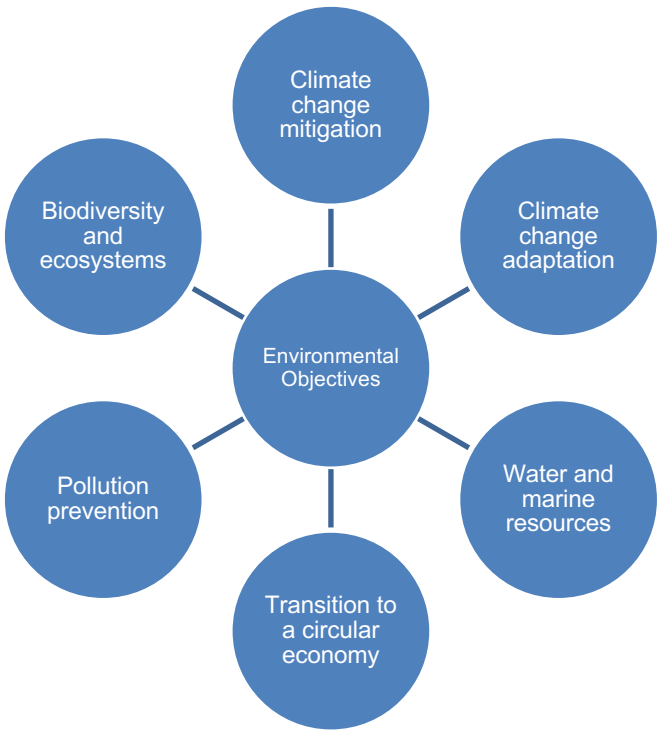

Figure 6. Environmental Objectives of EU Taxonomy Regulation (European Commission)

Under the Taxonomy Regulation, the European Commission defined a list of environmentally sustainable activities by defining technical screening criteria for each environmental objective through delegated acts (The European Commission, n.d). Furthermore, for an activity to qualify as sustainable it cannot cause any harm to ant of the other objectives of the Taxonomy (Doyle, 2021).

3.2.2 Taxonomy's role within the sustainable finance framework

We have already reviewed the components of the EU Green Deal and its Sustainable Finance Package, but what are exactly the building blocks of the Sustainable Finance Framework and were does EU Taxonomy fit into? It is evident that they are all correlated, but this framework is supported by three disclosure tools. Firstly, the NFRD (after revision reamed as CSRD) which aims to create a common sustainability reporting framework with both qualitative and quantitative data; Secondly, EU Taxonomy, which together with the Corporate Sustainability Reporting Directive, will make sure that companies are as transparent as possible and disclose their environmental performance data as well as information related to their alignment with the Taxonomy (The European Commission, 2021); and lastly the Sustainable Finance Disclosure Regulation (SFDR) which supports corporate disclosures by creating a comprehensive reporting framework for financial entities. Since the focus of this thesis is toward the corporate side and analyse the impact on companies, we will not analyse in depth the SFDR, although we must recognize its importance and relevance within the broader framework of sustainable finance.

3.2.3 Taxonomy climate delegated act

The first delegated act (Climate Delegated Act) on sustainable activities for climate change mitigation and adaptation objectives of the EU Taxonomy has been applicable from 1 January 2022 (The European Commission, 2021). This first act consists of requirements for the sectors and activities that are more linked to the proposal's ambition and for further enhancing the transition to climate neutrality. This includes sectors such as energy, forestry, manufacturing, transport, and buildings. On 15 July 2022, the second (complementary) Climate Delegated Act of the Taxonomy Regulation was published. This second act sets strict criteria for specific nuclear and gas energy activities, and it will apply as of January 2023. The criteria for those sectors are aligned with the EU's climate and environmental goals and will support in accelerating the transition from solid

or liquid fossil fuels, including coal, towards a climate-neutral future (The European Commission, 2021).

3.2.4 The platform on Sustainable Finance

The EU Taxonomy is under continuous development to support the green transition and consider all the six environmental objectives. Now, with the development of the Platform of Sustainable Finance we can say that the EU Taxonomy is becoming even broader. This is another great step forward as two new and very relevant reports have been released: The first one being the Technical Screening Criteria for the remaining four environmental objectives and the second report being the Extended Environmental Taxonomy, which as described by Gamsjäger and Ray, defines the “transitional activities and encouraging the move from negative to positive contribution” (Gamsjäger and Ray, 2022).

As mentioned, the Platform also includes the “Extended Environmental Taxonomy” which is a suggestion for including non-sustainable and transition activities in the Taxonomy. This suggestion recommends the classification shown in Table 1 below.

Table 1. Extended Environmental Taxonomy Three step classification (Nordea)

Green	The most sustainable activities, making a substantial contribution to at least one environmental objective.
Amber	Transition activities which do not meet substantial contribution criteria but also do not create Significant Harm
Red	Non-sustainable (significantly harmful) activities

With the aim of encouraging non-green activities and companies to transition towards more sustainable business, one of the characteristics of the extended taxonomy is that some of the activities can move between the presented levels (Gamsjäger and Ray, 2022). Even though this system aims to force those non-green organizations to transition, including non-sustainable activities in the taxonomy will indeed make them realize that there is a possibility to change and achieve a better ranking in the classification. Entities and organizations will probably see this a challenge and will be more motivated to reconsider their activities towards a more sustainable way of operating.

The Platform is highlighting the urgency for change for those activities that are classified as non-sustainable, and thus, recommends the extension of the Taxonomy, focusing on activities supporting urgent environmental transition (The European Commission, 2022). Below in Figure 7 we can see a simplified diagram that shows how the Platform proposal fits in the bigger picture of the Taxonomy.

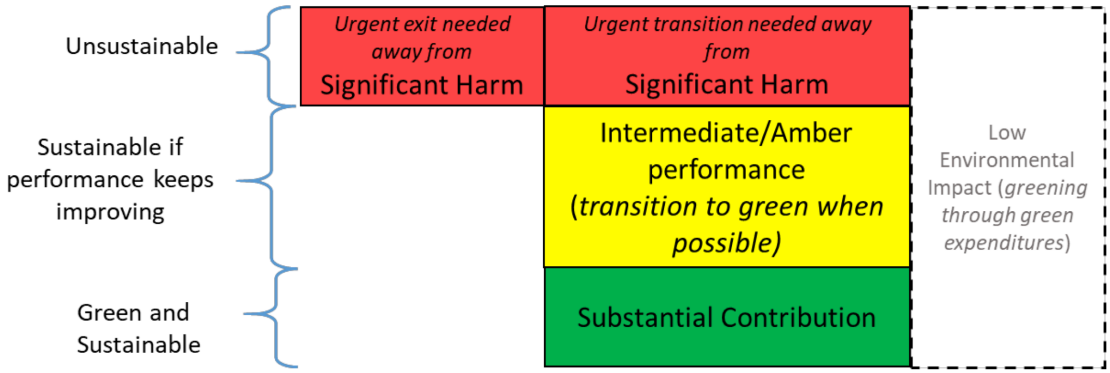

Figure 7. Extended Environmental Taxonomy in the economy (European Commission)

In conclusion, the main objective of the Extended Environmental Taxonomy is to increase transparency across the economy. This increased transparency will help organizations and companies have their own transition path or story and make sure on which are the clear actions and steps needed to make a substantial contribution. This extended taxonomy can be considered a very good way for making the EU Taxonomy and the classification system even broader, considering the four remaining environmental objectives. The Platform shows the importance of engaging with all companies, regardless of their initial sustainability performance (CSR Europe, 2022).

4 Findings

As mentioned in the methods section (See section 1.2.), to support previously presented evidence, analysis and discussion, the author has collected primary data in form of a qualitative research method that will support in answering the research questions from a more practical perspective. This part will consist of an open-ended exploratory interview with a Sustainability and Corporate Responsibility expert and consultant.

4.1 Interview with subject expert

The interview will consist of a top-down approach, starting with more general questions about sustainability and how the interviewee supports clients in developing sustainable activities and how to use sustainability reporting tools. Afterwards, the questioning will be more related to EU Policy (rather than to personal experience with clients) and how the expert sees EU Sustainable Finance developing and how their views on how the new package of measures the EU is proposing will help to achieve a harmonized reporting format among companies. Finally, the author will ask the interviewee broader questions asking the expert to give opinions about potential benefits of the new policy as well as challenges (such as greenwashing) that will potentially affect the EU policy.

4.1.1 Designing the questions

The questions (a total of 11) around the topic of Sustainability development and EU Sustainable Finance were designed and chosen by the author. The main considerations when choosing the questions was to find discussion points that would support all the claims and arguments made previously during the thesis. It was decided to start the interview with questions that were more related to the consulting industry and working with clients, in a way that the interviewee could talk about the topic specifically and giving industry insights. Afterward the questions became more related to the EU and intended to collect the personal thoughts and views of the interviewee regarding the development of the policy and how this will affect companies and their reporting.

As a first step in this qualitative research, the author reached out to the interviewee with an invitation to participate in the research, explaining the purpose of the project together with the list of potential questions for a review. The subject matter expert had the

opportunity to ask clarifications regarding the interview questions and was given 14 days before the video interview was arranged.

The interview questions, from more generic to more detailed (top-down), are listed in Appendix 1.

4.1.2 Ethics and informed consent

Being a qualitative research approach, involving data collection from an interview, it is important to comply with the EU's GDPR guidelines. Therefore, before beginning the data collection, the author confirmed the interviewee's informed consent which clearly explained the purpose of the study, data management plan and other conditions of the study. The participant was fully informed about the rights as an interviewee and was aware that the participation was completely voluntary.

4.1.3 Selection of interviewee

The main criteria when choosing the professional to interview was the area of expertise and background. The aim was to find an expert working on the field of Sustainability and preferably compiling with a background or experience in consultancy, as this would allow the expert to share information from different angles. Also, the professional should be working on topics related to EU regulation.

Following this criteria, Riikka Rantakari was chosen. Rantakari is the CEO and founder of FitComm, which is a company specialized in sustainability, corporate responsibility, and sustainability communications. Rantakari works together with companies, but also with other organizations such as ministries, foundations, and other public institutions. The main area of work is around sustainability related issues, such as strategy, education, and trainings. But most importantly, sustainability, reporting, and communications. Furthermore, FitComm also does research to back up the sustainability work of their clients.

4.1.4 Analysis and discussion

The interview began by providing a brief explanation of the scope and purpose of the research in question. Then, the interviewee had the change to give an introduction and talk about her professional career and expertise relevant to the topic, followed by the interview questions and answers, which are presented and discussed in this section.

1. What are the main sustainability concerns of your clients?

When Rantakari was asked this first question, related to her experience working with clients and cases, she gave an overview of the main issues companies face when they are in contact with her company, FitComm. She highlighted several reasons for this. Firstly, the biggest reason being their willingness to develop their sustainability work and understand their sustainability in more detail or because they want to be more in contact with their stakeholders. Secondly, because they want to understand their impact, and how they can respond to the new EU regulation (and international regulation) due to the increasing pressure from stakeholders including investors, customers, employees, owners, and media. Rantakari also pinpointed that companies are struggling with the coming legislations and regulations. Thirdly, she explained that companies want to understand their own sustainability and to support the UN Sustainable Development Goals and sustainable development and change their business in a way that they can create a better tomorrow.

2. How do you help a client who is struggling to implement sustainability initiatives?

When Rantakari was asked about concrete actions she takes to help companies struggling with their sustainability or not understanding the regulation or initiatives in place, she referred to the variety of approaches there are that depend on the field of business. She provided the example of the textile industry, by highlighting that there are already lots of international initiatives around human rights and so forth. However, she mentioned that usually those companies are willing to go deeper and FitComm helps them to look into their business from a sustainability perspective and helps them to better understand their impact. Rantakari continued; What kind of value is being created and to whom? Here is where it is important to look at the long term and the short-term impacts and the direct and indirect impacts of their operations and value chains. This is referring

to the strategic level. Furthermore, she mentioned that another way of helping clients is with reporting, but she referred to this as being “Just the tip of the iceberg”. This means that there must be a starting point, and the sustainability work and changes in strategic level need to be done before doing the report. Rantakari continued by saying that the way she tries to help in those cases is by first looking at the issues there are in the company that they can report on, and that is the point when some companies start to realize about things regarding the environment and their impact that they hadn’t considered before.

3. How do you help companies to use reporting as a tool for sustainability?

Rantakari approached the question by talking about her personal views about reporting. She stated that she has always been a big supporter of reporting as a tool for management, for continuous development and for stakeholder communications. Rantakari continued by emphasizing the importance of reporting as a tool for companies to start developing sustainability. At that point, she used as an example one scenario where a company’s client or investor has requested the company to show their sustainability report, and that is the moment when the company starts to understand through reporting what kind of issues there are under sustainability. At the end, Rantakari summarized “Reporting is a very good tool. But it can also be used wrongly in a way. But when used properly, it is a very good tool for developing sustainability and with communicating with stakeholders”.

4. In your opinion, what are some of the most important things that businesses can do to become more sustainable?

When Rantakari was asked about actions that companies can take to become more sustainable, she referred to several steps that companies can do and need to do to increase their sustainability. In this regard, she mentioned that there are many questions to ask. What is the purpose of why we are doing what we are doing? How are we doing it? And who are we doing it for? She further explained that these are important things to consider especially for companies that want to help the world in good ways and maximize the positive impacts while minimizing the negative ones. Afterwards, she continued elaborating the fact that while companies need to be financially viable, they also need to consider the environment especially during times like now with the climate crisis and loss of biodiversity which are issues that are affecting small business and all organizations

as well as people and countries. To wrap-up the answer, Rantakari stated clearly “either very directly or indirectly, if the companies do not take these into account, we will not have an earth, the environment where we can operate and that will affect the companies in one way or another”. Furthermore, she made a linkage to human rights issues, meaning that together with the environmental considerations, if taking the issue of Human Rights into consideration within the supply chain and the company, it will support the transition of companies to become more sustainable.

5. **How do you see the sustainable finance developing, in the context of EU Policy?**

Rantakari responded this question by simply saying “The EU is trying to do a good job. But there are quite ambitious” She acknowledged the work the EU is doing and their efforts to come up with policies and regulations that would really help Europe, European companies, organizations, and countries to become more sustainable. She then expressed her concern about the negative side of the regulation, which is that Europe, countries, politicians, and the whole European arena is quite divided in many ways. These different opinions and political wills can in some cases lead to doing less than the original ambition. She further explained, that in terms of development, Sustainable Finance will continue its development path more and more in the coming years, So, as EU law and EU policy will become more ambitious, companies will need to continue taking their sustainability into account.

6. **If we consider the Sustainable Finance Package of the EU, to what extent you believe the components will be tightened in the upcoming years?**

In this regard, Rantakari had some very interesting views. She responded by saying that in her opinion, the components of the Sustainable Finance Package of the EU will be tightened because of the undergoing huge challenges, so release is not an option. However, she expressed her concern about the political struggle around this that will come in the coming years. Afterwards, she further elaborated on her views regarding the future of the policy, explaining that when companies follow the Corporate Sustainability Reporting Regulation and the European Reporting standards, they will see what it is doing to the business (in a positive way) so that they will be more prepared to follow tightened policies in the upcoming years.

7. In your opinion, to what extent will the EU policy of sustainable finance and CSDR help to harmonize and impose a common reporting format for all companies?

For Rantakari, it was clear that EU policy is going to lead to that direction and help to harmonize reporting for all companies. She explained that up until now, with the NFRD (covering a smaller scope of companies), the GRI which has been the most used reporting framework international, and other reporting frameworks such as the TCFD and the ISSB it has been challenging for companies to know what to use and what should be followed. Therefore, she then claimed that with the CSRD and the EU Sustainability reporting standards, and that combined with the ISSB standards, it will help to harmonize the reporting and reporting standards, and this will make the reporting process easier for companies and organizations because they will have a clearer view of what needs to be followed, instead of having to choose from multiple different formats. She further explained that this common standards and format will also make it easier for stakeholders to understand the reporting. This is due to the fact that now, with the different requirements and criteria imposed by each framework, it has been challenging for stakeholders to compare companies and their performance. Lastly, she summarized by saying that the new directive, CSRD, will unboundedly help companies and their stakeholders, but also regulators to understand better the impact of different operations and then being able to compare them.

8. How would you say companies can prepare for an effective implementation of the CSRD?

According to Rantakari, one of the most important steps is that companies need to understand what sustainability means for them as well as the different aspects of sustainability for their business. These considerations will help them to understand the key elements for them. She then further explained that with all the undergoing changes happening in the world, priorities and key sustainability elements can also vary for companies. This is way they need to be aware and stay vigilant while facing these changes, in a way that they can also reconsider their actions accordingly. She then stated, that in order to prepare for an effective implementation, companies also need to understand the requirement of the new reporting directive and the issues that come with it, related to environmental, social, and governmental aspects. Companies will need to first identify their objectives regarding those themes, and then consider how to measure

them and report on them. She also claimed that the measurement part and getting data can be very challenging for many companies, and it is mainly due to the lack of data systems to report on the issues that the new directive and the standards will require to report on. Summing up, the key actions that companies that are starting reporting according to the new directive need to do are: 1) to understand their impacts and the value chain; 2) then set objectives or at least consider them; and 3) consider the measurements and the data systems to comply with the CSRD requirements.

9. According do you, what are the most important concrete actions companies will need to do in practice to align with the new regulations of the proposal?

Further elaborating on question 8, Rantakari mentioned another key action that companies will need to do to comply with the new regulation. She explained that the first step to achieve this alignment must come from the management, the boards and top management. Companies need to understand that reporting is not something that the communications department will do. “There needs to be a lot of input from the top management” Rantakari stated. It is crucial to first understand the strategy and explain it from the sustainability perspective, and for this companies need to have objectives. This is something that has to come from the Management, who need to understand how sustainability is being managed and led within the company, and this is linked to the double materiality idea the directive has. Rantakari further explained that companies now only must identify their impact on the environment and other issues such as human rights, but also how the sustainability issues impact their financial situation. This needs to be first understood by Management, so that they can give the necessary resources for the company to be ready to report on the issues according to the directive.

10. What is your opinion on undefined (or not aligned) regulations and green washing as some of the most relevant challenges of sustainable finance?

Rantakari answered the question by saying that the issue of greenwashing will continue happening in some ways, even if in her opinion it will be much less with the implementation of the new directive. She clarified, one of the reasons for this being the requirement of data. That data needs to be checked first and there needs to be the strategic level. This means that companies will have to show to stakeholders how they think about sustainability and how they operate sustainably both in the strategic and operational level. Companies will need to prove with data and actions what are their

impacts on the environment and social issues and how they impact the business. By doing this, the company will be more credible, she stated. Afterwards, she further clarified that this is not only about creating marketing or communication materials stating that the company is environmentally friendly, but it needs to be shown how these issues are really taken into account in the company and also there has to be data to back this up. Rantakari then expressed the concern that data can sometimes lie. But this is something inevitable, and data will still be necessary to understand in what direction the company is going. She then provided an example scenario if a company would for instance, provide false data about their CO2 in 2022 and then in a few years that data is very different, it would be very easy to understand if what said originally was correct or not. She concluded saying that companies will have to present clear objectives, numbers, and data, and even names. This is because the role of Management and boards will become more important in the sustainability issues with the new directive. Together with the Corporate Sustainability Due Diligence Directive, the CSRD will increase the responsibility of the Management and they will be responsible of their sustainability issues. And this is something that will not leave space for greenwashing, as companies will need to take it more seriously, and thus, the issue of greenwashing will decrease with time.

5 Conclusions

5.1 Summary

So, what does the new directive mean for companies? The CSRD is undoubtedly a major step in the transition and in the development of corporate reporting. The directive comes with major implications for companies and also for the future of sustainable finance and sustainability reporting in the EU but also in a global level. “Companies, regulators, standard-setters, and auditors will all need to devote significant time and resources to prepare for implementation of the directive, within a short timescale” (Wollmert and Hobbs, 2022). Expectation for businesses and listed companies will only become higher and stricter. However, applying this “pressure” and tighter regulations will have a massive impact on a global level, even if companies start by doing small actions to tackle their environmental impact. In summary, the main impacts the directive will have on listed companies will be 1) having to disclose more sustainability related information about their strategy, operations and supply chains; 2) provide sustainability related information that other stakeholders (generally investors) can benchmark with other companies in the industry and identify their sustainability performance (usually done with assessment tools and methods, and also supported by initiatives such as the Transition Pathway Initiative (TPI); and 3) Changing the way companies approach their decision making process and how they communicate those with stakeholders.

However, identifying what is sustainable development is not always an easy and straightforward process. There are many controversial cases of companies whose actions are not completely aligned with what they communicate or with their offering. For instance, it can happen that a company is providing solutions to mitigate climate change and at the same time is using forced labour in its manufacturing and across the supply chain (Silvola & Landau, 2021: 202). Moreover, the role of politics is also important when identifying green investments, since the definitions are supported by the ambitions and goals set by the European Union, which are subject to changes, and therefore also changing the meaning of green business (Silvola & Landau, 2021: 202).

In summary, we can say that the directive means and entails an urgent call for action to companies under the scope. The CSRD, being part of the Green Deal aims to increase economic flow toward sustainable activities, however, the main change drivers must be the companies themselves. And this supposes a challenge to them as for some it can mean having to change their strategy, business model, value chains, and operations. These processes often take time and in this case the time frame is very tight. What this means is that some companies will probably need to reconsider their priorities and their action plans, to be ready to report under the requirements imposed by the CSRD starting from January 2023.

5.2 Implications

After conducting this in-depth research on the topic of EU Sustainable Finance, the findings and conclusions indicate that the non-financial disclosure requirements, or sustainability related disclosures are becoming increasingly important for investors and for the transition to a carbon-neutral economy. Therefore, it is something the European Commission will undoubtedly continue developing in the upcoming years to reach their Green Deal targets by 2050 and build a better world for future generations. This has been also professional opinion in the conducted interview to Riikka Rantakari, who views the EU policy as ambitious however also sees that it will continue its development due to the big challenges that we are facing globally. Sustainable finance policy in the EU is undergoing continuous development and we have been able to see this throughout this study.

By analysing the topic from different angles and taking into consideration all the different players in the movement, it is possible to see its huge relevance. Sustainability is becoming more and more important for companies to include in their reporting and is becoming a must rather than something nice to have. It is also clear that when considering the EU sustainable Finance package and its components, it is very likely that the requirements will be tightened in the future and thus, is it crucial for companies to act now and start implementing greener activities in their strategies. According to *Ziolo,* it is crucial to analyse and look into the effects of sustainability reports on the stability of the financial systems. Non-financial disclosures have become highly important nowadays when dealing with so many challenges and threats (Ziolo, 2021). This shows again the

strong relation between the role of companies on disclosing their sustainability information and solving the global climate crisis with these steps.

In order to prepare for an efficient implementation of the new CSRD, there will be several implications for companies. In summary and as reviewed previously, they will have to evaluate their practices for identification of their sustainability related information, and also understand how they manage their ESG activities and set goals and KPIs with an opportunity to reassess their relevance (Wollmert and Hobbs, 2022). Also, as Rantakari stated in the interview, sustainability is something that will need to be rooted in the operations and strategy of the company as well as daily operations. Only then, companies will be able to communicate and report on their activities in a transparent way. All this will have to be done in accordance with the new EU rules.

To improve the quality of the reporting and increase their trust, companies will have to make major changes to the way they do things and most importantly, be more transparent across their entire value chain. These actions will give them the tools and the opportunity to disclosure their non-financial information in a more EU aligned manner. All companies that will be required to report under the CSRD will need to make big changes on the way they prepare and disclose sustainability related information to their stakeholders. In practice, Management will play a critical role in this transition and will need to make sure that the company is aligned with the criteria set by the new directive, including 1) providing additional disclosures; 2) reporting in accordance with new reporting standards developed by EFRAG; 3) using digital tagging (digital taxonomy). This has also been supported by Rantakari, who views that one of the keys to efficiently implement sustainable activities and disclosures is to have a clear strategy coming from Top Management. It is an issue that needs to be very well analysed from the strategic perspective and understand how sustainability can be managed and led within the company and once this is clear reporting can be done. Moreover, the quality of the reporting will be ensured by an auditor, which will make the process even more transparent and fair. In summary, all this will be achieved by designing a new strategy and setting clear goals within the company that ensure the least possible harm to the environment, while still being able to maximise their operations.

5.3 Future research

For future research, one issue to carefully consider will be trying to identify to what extent will the EU policy of sustainable finance and CSDR help to harmonize and impose a common reporting format for all companies and whether this will be the final step of the Commission to fight climate change until the 2050 target is reached or not. The analysis done in this paper has shown that the CSRD and its criteria can still be considered inconsistent or incomplete in some ways. For example, it can be still challenging to identify how they are aligned with other frameworks and standards. The CSRD is definitely a big challenge for companies, especially timewise since they need to start taking action now and show it in their reporting very soon. There seem to be good reasons for slowing down and reflecting the cost to benefit relation of the proposed regulation (Baumüller & Brbenic, 2021), nonetheless, when looking ahead, it seems that the European Commission will pay more attention to the sustainability pledges and transition, rather than focusing too much on the struggles of corporations in understanding the frameworks.

Moreover, the issue of greenwashing has been a “hot” topic during the past years with the rise of green finance. This is of the main things the CSRD aims to solve, by incorporating all the tight measures and audit. However, the concern has been with us for a long time, and it has led to question what it means to be green? There seems to be a big issue of misalignment and not harmonized ESG metrics in each sector and markets, making key stakeholders confused and not able to identify what are the real and true actions companies are taking. This has also led stakeholders to rely on third-party assessment providers to support the process and help with those identifications.

In conclusion, the important factor to consider and one of the key takeaways of this study is that the CSRD is a proposal, as there are many development steps coming the place in the next years and there will be many changes companies will have to take in many ways. It will for sure help to harmonize the reporting and increase transparency and thereby support investors in their decisions, but this will come with challenges for corporations. The next step is for the European Parliament, and the Member States in the Council, to negotiate a final legislative text based on the Commission's proposal (The European Commission, 2021). The reporting obligation will apply from 01 January 2024 and therefore already includes reports for the 2023 financial year. Companies will have

to start take action as soon as possible first from a strategic level and then include that in their reporting. It will also be interesting to see how the directive and the regulation continue developing in the future and what it will mean for companies.

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Appendix 1 (2)

Interview questions for research project on EU Sustainable Finance

Question 1:

Could you tell me about your work and your position at your company?

Question 2:

What are the main sustainability concerns of your clients?

Question 3:

How do you help a client who is struggling to implement sustainability initiatives?

Question 4:

How do you help companies to use reporting as a tool for sustainability?

Question 5:

In your opinion, what are some of the most important things that businesses can do to become more sustainable?

Question 6:

How do you see the sustainable finance developing, in the context of EU Policy?

Question 7:

If we consider the Sustainable Finance Package of the EU, to what extent you believe the components will be tightened in the upcoming years?

Question 8:

In your opinion, to what extent will the EU policy of sustainable finance and CSDR help to harmonize and impose a common reporting format for all companies?

Question 9:

How would you say companies can prepare for an effective implementation of the CSRD?

Question 10:

According do you, what are the most important concrete actions companies will need to do in practice to align with the new regulations of the proposal?

Question 11:

What is your opinion on undefined (or not aligned) regulations and green washing as some of the most relevant challenges of sustainable finance?