

EU rules on sustainability reporting

**A study of the initiatives regarding transparency
and disclosure from a Swedish perspective**

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Abstract

Making Europe climate neutral by 2050 is the primary goal of the European Green Deal. This goal has given rise to sustainable finance and action plans for financing sustainable growth. Such commitment is ensured by the legal initiatives put forward by the Commission. The Non-Financial Reporting Directive introduced the requirements for some firms to produce a sustainability report based on disclosing information in accordance with the recommendations drawn up by the Task Force on Climate-related Financial Disclosures. Following the directive, the Commission presented two regulations.

This thesis aims to shed light on the legislative acts adopted by the Commission while viewing the acts from a Swedish point of view.

The Disclosure Regulation covers how financial market participants integrate sustainability in their processes while also regulating how the information should be disclosed. In June 2020, the Taxonomy Regulation was adopted, containing information regarding determining what criteria to review when stating that economic activity should be considered environmentally sustainable. To further improve the sustainability reporting for companies, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive, aiming to amend and extend the existing reporting requirements.

Finansinspektionen is currently playing a role in implementing, adapting, and informing the financial market on the new legalities regarding sustainability reporting from a Swedish perspective. Finansinspektionen further suggests tools for affected actors to mitigate and manage the risk of current and future legislation.

Abbreviations

2030 Agenda	The 2030 Agenda for Sustainable Development
2DII2	Degree Investing Initiative
CapEx	Capital expenditure
CSRD	Corporate Sustainability Reporting Directive
EEA	European Economic Area
EFRAG	The European Financial Reporting Advisory Group
EIB	European Investment Bank
EIB	European Investment Bank
ESMA	European Securities and Markets Authority
EU ETS	EU Emissions Trading System
EU	European Union
FI	Finansinspektionen
FOI	Swedish Defence Research Agency
GBP	The Green Bond Principles
GBS	Green Bond Standard
ICAO	International Civil Aviation Organization
ICMA	The International Capital market Association
IOSCO	The International Organisation of Securities Commission
KPIs	Key performance indicators
NFRD	The non-financial reporting directive
OpEx	Operating expenditure
PACTA	Paris Agreement Capital Transition Assessment
Paris Agreement	the United Nations Framework Convention on Climate Change
SDGs	Sustainable Development Goals
STO	Stockholm Stock Exchange
TCFD	Task Force on Climate-related Financial Disclosures
TEG	The Commission High-level Expert Group on sustainable finance

1. Introduction

1.1 Background

National initiatives and local jobs, backed by public and private financing and European support programmes, to share knowledge and capacity. That is, in my view, how a European Green Deal can work directly for the people. – Frans Timmermans (2019)

During the last years, a "sustainable agenda" has become prominent on an EU level. Climate change and environmental degradation is thought to be an existential threat to Europe and the world. To face these challenges, Europe has applied a strategy to modernise the Union to a resource-efficient and competitive economy. The EU is taking the 2030 Agenda for Sustainable Development (2030 Agenda)¹ into consideration. European Green Deal aims to make Europe the world's first climate-neutral continent; with that aim, developing cleaner sources of green technologies and energy will be premiered. The overarching goal is to make the EU's economy sustainable and have no net emission of greenhouse gases by 2050.²

The Green Deal aims partly to revise the Commission's strategy for sustainable growth. The idea is partly to integrate and create a symbiosis by the institutions within the EU and the financial market participants. Since they play an increasingly substantial role in getting the economies of Member States to increasingly consider sustainability, in order to achieve the goals set out by the Commission and presented within the Green Deal, investments and capital must derive from the private sector via the financial market. Even though participants are lining up, the EU is rolling out regulations to ensure, calculate, and speed up the process.

¹ UN General Assembly, *Transforming our world : the 2030 Agenda for Sustainable Development*, 21 October 2015.

² Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'The European Green Deal' Brussels, 11.12.2019 COM(2019) 640 final.

As a part of the EU's Green Deal, an extensive action plan for financing sustainable growth has been adopted by the Commission,³ resulting in revising the current state of sustainable activities. Part of the EU's action plan is regarding the rules of the disclosure of information linked to sustainability.

The disclosure requirement was first presented in the Non-Financial Reporting Directive, with the requirement for certain firms to produce and present a sustainability report alongside their annual Report. Following the Directive, the EU decided on two regulations containing provisions on sustainability reporting.

The new regulations entering into force will have a substantial impact on the financial market regarding the area of sustainability. The regulation subject for further analysis is the Disclosure Regulation⁴, regarding the concept of reporting sustainability-related information for certain companies. Moreover, the EU taxonomy contains information regarding rules on categorising and classifying whether activities are to be labelled as environmentally sustainable.

This paper will present the overarching initiatives being presented and implemented on an EU level. In contrast, at the same time, present and analyse the legal output derived from these initiatives, meaning the relevant directives, regulations, guidelines, and standards. Looking at the initiatives taken on a national level, Sweden has pursued a sustainable agenda over the last years by taxing carbon oxide and promoting legislation regarding sustainable finance. Finansinspektionen (FI) plays a central role in communicating the initiatives from an EU level to the national market actors. FI has provided reports regarding ongoing work with the implementation and future tools and analytical perspectives. The concept of green bonds could play one role in the current transition and the changes to come.

³ Communication from the Commission 'Action Plan: Financing Sustainable Growth' Brussels, 8.3.2018 COM (2018) 97 final.

⁴ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1.

1.2 Aim and research question

The broad aim of this paper is to examine the initiatives and legislation proposed and adopted by the Commission on the topic of sustainability relating to the financial market. The more specific aim is to view the impact these legislative acts might have on the Swedish financial market.

- What commonalities exist within the different directives, regulations, and initiatives derived by the Commission?
- How are the legal acts presented by the Commission perceived from a Swedish perspective?

1.3 Scope and constraints

Several reflections can be voiced concerning the aim and research question. Even though this thesis will be as thorough as possible in an endeavour to bring light to the topic as mentioned earlier, there is a need for a limited selection when it comes to the material presented to provide the reader with relevant information on the various areas of this thesis aims to cover. Potential problems regarding overlapping information, an unclear correlation between subjects or depth will be prevented by applying reliable methodology and relevant material while navigating the reader through the areas of interest according to a clear and concise structure.

In terms of constraints, this thesis relies heavily on information put forward by the Commission, the Member States, or various institutions. Information produced by financial market actors is still developing as a response to the legal initiatives presented. Therefore, a relevant constraint is to analyse the initiatives, acts, regulations, guidelines, and their impact potential on the financial market, instead of a comparative analysis of the EU institutions on one side and specific market actors on the other.

The broad spectra of information provided through this thesis stem primarily from the legal perspective. In order to strive for multivariable analysis, sources with an economic point of view are used as input.

Further constraints needed to comply with the above-mentioned reasoning is the depth to which the initiatives contra legal sources are presented. The initiatives presented in 2. Sustainable initiatives on an EU level are briefly described to provide context to the subject areas for a more extensive presentation and analysis, being the following chapters.

Additionally, this thesis mainly presents the subject from an EU perspective, alongside a "national perspective". The national perspective described through the thesis refers to Sweden as a Member state and the Swedish effort to implement the regulations and adapt to the initiatives. Given this, no other Member state is being taken into account on an individual basis.

Finally, the selection of which articles and reports have been made is based on the value of the specific source. The value is based upon the strength, accuracy and validation of the content provided.

1.4 Materials and method

To pursue the intended purpose, there will be a need for a systematic presentation of the relevant material that is the foundation of this paper. In order to achieve this, there is a need for a suitable methodology. The application of a methodology is based on how it relates and navigates through the relevant material. Since the purpose is partly legal and the subject is EU law and finance, this thesis applies the concept of *European Legal Methodology*. In doing so, it becomes possible to sort through the sources of law and interpret EU primary law and secondary legislation.⁵ The primary law is binding, also binding secondary law, general principles of EU law, international agreements and the judgement from the Court of Justice of the European Union (CJEU).⁶ The methodology is needed since the EU has a specific legal order nature of law.⁷ The scope of this paper extends beyond the legal sources presented by the Commission. With that said, the EU methodology has still been

⁵ K, Reisenhuber, *European Legal Methodology*, 1st edition, Berlin 2017. P, 40.

⁶ J. Hettne and I. Otken Eriksson, *EU-rättslig metod – Teori och genomslag i svensk rättstillämpning* 2011 P, 40-43.

⁷ Case 26/62 *Van Gen den Loos v Nederlandse Administratie Der Belastingen* (1963) ECR 1.

resourceful when navigating the different regulations, directives, decisions, recommendations, and opinions.⁸ Through this thesis, the norms within the hierarchy of the EU are respected and sought after. Primary legislation is not necessarily a central part of this thesis; however, it is referred to when addressing times when the secondary legislation, i.e., the Taxonomy and Disclosure Regulation, addresses the principle of subsidiarity as set out by Article 5 of the TEU.⁹

This paper also sets out the review articles, reports, newsletters, and publications from various outlets, both from the academia, institution, both national and EU institutions. Since the paper presents a substantial number of sources from EU institutions, it is essential to consider that even though these sources are deemed to have a high reliance and transparency. There is still a need for further critical reflection to achieve what researchers deem essential for a thesis of this magnitude: trustworthiness and validity.¹⁰

Looking at the national perspective, the material that is being reviewed stems both from legal sources and reports that give a broader coverage of the concept of sustainability. Looking at the national legislation, i.e., The Annual Accounts Act and Report of the Inquiry into Green Bonds, the hierarchy and interplay of the legal sources on the national level need to be respected by the legal dogmatic method.

To pursue the purpose, it is essential to review the aforementioned sources and draw parallels while looking at the descriptive statistics related to the intended purpose. A practice facilitated through the methodology within *Qualitative methodology* known as *Document analysis*.¹¹

Even though neither the European legal methodology nor the Document analysis within Qualitative methodology has been perfectly applicable by themselves, they have been proven to be helpful when it comes to drafting this paper.

⁸ M. Nääv and M. Zamboni (red.), *Juridisk Metodlära* (2018).

⁹ THE TREATY ON EUROPEAN UNION [2012] OJ L 326/13 Article 5.

¹⁰ A, Bryman, E, Bell & B, *Harley Business Research Methods*, 5th edition. Oxford 2018. P, 379-381.

¹¹ A, Bryman, E, Bell & B, *Harley Business Research Methods*, 5th edition. Oxford 2018. P, 517.

1.5 Structure

The introductory chapter aims to provide the reader with the area subject for theoretical description and analytical process. The introductory chapter also aims to provide the reader with a broad understanding of why the subject is deemed relevant. Furthermore, the introductory chapter provides the scope, research questions, and the methodical approaches used when handling the material.

In the second chapter, *2 Sustainable initiatives on an EU level*, the aim is to provide context to the subject. This is done by taking a broad stance on the overarching initiatives presented by the EU or adopted and implemented by the EU. This context is essential to understand where and why the legal scope of chapter three derives from.

The legal scope is presented in *3. regulations from the EU*. The chapter aims to provide the reader with the facts of the regulations and directives that are the core of this thesis, namely the Non-Financial Reporting Directive (NFRD), the Disclosure Regulation, and the Taxonomy Regulation. While also presenting the Commission's guidelines on non-financial reporting to create perspective on the strictly legal sources presented. This chapter enables the following chapter to reflect on the information provided.

The following chapter, *4 Implementation in Sweden*, focuses on the area of sustainability from a Swedish perspective. This chapter takes both a legal perspective and a more technical perspective various analytical approaches for the market to use to face the coming transitions. This chapter provides Swedish legal sources, reports from FI, and initiatives from the market actors. The sources aim to bring an extensive understanding of the reasoning and implementation from a Swedish perspective.

The final chapter of this thesis aims to break down the information provided in the previous chapters; this is done systematically to navigate through the vast sources of information. This chapter will also provide elaborated reflections, comparisons, and conclusions on the topics presented throughout the thesis and its relation to the aim and research questions.

2. Sustainable initiatives on an EU level

2.1 Chapter outline

This theoretical chapter aims to provide the reader with general information regarding the initiatives put forward by the Commission on the subject of sustainability and its relation to the capital market. Initially, the scope of the 2030 Agenda was presented through an EU perspective. The following parts introduce the European Green deal, being the overarching goals and the Action plan, being the strategic procedural to advance towards the goals presented by the Commission. Finally, this chapter addresses the EU Green Bond Standard put forward by the Commission.

2.2 Agenda 2030 from the perspective of the Commission

On 25 September 2015, the UN General Assembly adopted a new global sustainable development framework¹². At the core of the 2030 Agenda is the Sustainable Development Goals. These goals aim to cover three aspects of sustainability: economic, social, and environmental.¹³

As a result of the SDGs' implementation, the Commission communicated on 22 November 2016 on the project on the horizon. Namely, to link the SDG to the Union policy framework. Thus, ensuring all EU action and initiatives take the SDGs in the calculation when framing policies. The Council confirmed the commitment of the EU and its Member States, meaning that the 2030 Agenda was to be implemented

¹² UN General Assembly, *Transforming our world : the 2030 Agenda for Sustainable Development*, 21 October 2015.

¹³ UN General Assembly, *Transforming our world : the 2030 Agenda for Sustainable Development*, 21 October 2015.

in a thorough, comprehensive, and coherent manner, whilst having a focus on including partners and stakeholders.¹⁴

The Commission has developed a reference indicator framework to monitor the SDGs as requested by the Communication "Next steps for a sustainable Europe future".¹⁵ Resulting in the yearly monitoring report on progress towards the SDGs in an EU context: 2020 edition.¹⁶ In addition to the yearly report, there are several supporting documents. Among them is the EU SDG Indicator set. Moreover, this results from the review in preparation for the 2021 edition of the EU SDG monitoring report.¹⁷

2.3 The European Green Deal

Before going into the specifics of the different instruments introduced by the European Commission, it is crucial to understand the movement behind them. The European Green deal is often referred to as the start or the umbrella of the EU's entire sustainable and environmental movement. The concept behind it started with the realisation that Europe would need a new growth strategy to transform the current Union into a resource-efficient, modern, and competitive economy.¹⁸ The plan to make the EU's economy entirely sustainable, mostly but turning the current challenges into opportunities.

The slogan "Striving to be the first climate-neutral continent" sets out the goal for the actual action plan for the European Green Deal. The action plan points out the investments needed and how they could be financed. The legal concept is being introduced since the EU aims to be climate neutral by 2050. There is a proposition

¹⁴ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'Next steps for a sustainable European future, European action for sustainability' COM (2016) 739 final.

¹⁵ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'Next steps for a sustainable European future, European action for sustainability' COM (2016) 739 final.

¹⁶ Sustainable development in the European Union 'Monitoring report on progress towards the SDGs in an EU context' 2020 edition.

¹⁷ EU SDG Indicator set 2021 'Result of the review in preparation of the 2021 edition of the EU SDG monitoring report' Final version of 15/01/2021.

¹⁸ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'The European Green Deal' Brussels, 11.12.2019 COM(2019) 640 final.

for a European Climate Law to turn the commitment into more of a legal obligation. EU leaders aspire to agree on the overall details regarding the law in late 2020 to have the law finalised in 2021. However, there might be a disturbance in the agreements since the law causes a bit of distress in coal-dependent economies like Bulgaria or Poland and the capitals, where a big part of the workforce work in steel plants or trucks fleets.¹⁹ The legal concept and the specifics of the law will be introduced in a later chapter.

The Green Deal will ensure that all of the EU's budget will be subject to revision to ensure that its money is being spent in ways that benefit the environment. The Commission is sure that jobs will be created in the promoted industries, i.e., high-tech and renewable energy and electric vehicle manufacturing. Furthermore, the current view is that these new jobs are supposed to repay the cost of the changes.²⁰

Some of the actions presented regarding the investment in environmentally friendly technologies as well as decarbonising the energy sector, while at the same time working with partners on an international level to ensure and improve global environmental standards. The EU is also set out to provide financial support and technical assistance to provide help for those who have significant obstacles to moving towards the green economy. This concept is known as "the Just Transition Mechanism" and is supposed to mobilise a minimum of 100 billion Euro over the coming seven years. Looking at the proposed 100bn Euro, it is divided primarily into three legs. 1. The just transaction fund that can act to mobilise recourses from EU regional budget, 2. The "investEU" programme with capital from the European Investment Bank (EIB), and 3. EIB Funding coming from the EU banks own capital.²¹ In order to inspire the member states and every stakeholder, one of the goals along the way is concretised by that the Commission itself aims for climate neutrality by 2030. While simultaneously cutting greenhouse gas emissions by 55% compared to 1990 levels by 2030.²² The initial aim was to for the emissions to be

¹⁹ What is the Green Deal? (2020) Politico (1 chapter) The Wonk's Survival Guide to the European Green Deal <[What is the Green Deal? – POLITICO](#)> Accessed 2021-05-01.

²⁰ F, Harvey and J, Ranking "what is the European Green Deal, and will it really cost 1tn? (2020) The Gaurdian <[What is the European Green Deal and will it really cost €1tn? | World news | The Guardian](#)> Accessed 2021-05-04.

²¹ F, Simon "The EU releases its Green Deal" (2019) Climate home news, Euractiv <[The EU releases its Green Deal. Here are the key points \(climatechangenews.com\)](#)> Accessed 2020-05-01.

²² "Eu agrees on tougher climate goals for 2030 (2020), DW <[EU agrees on tougher climate goals for 2030 | News | DW | 11.12.2020](#)> Accessed 2021-04-01.

reduced to 40% compared to 1990. However, after lengthy negotiations, the prime ministers and the presidents of the EU agree to a reduction that resulted in the range of 55%. Initially, Poland tried to veto both the 2050 target and 2030, but it was accepted several months later, with the addition that that gas would count as a transition fuel.²³

The projects that have emerged from the Green deal are vastly different. Everything from transforming coal mines in Poland to concert halls to installing solar panels on private homes in Lithuania. In this way, all the EU funded projects to green the economy are under the umbrella of The European Green Deal.²⁴

2.4 Action Plan: Financing Sustainable Growth

The action plan aims to set out a comprehensive strategy in order to connect finance with sustainability further. The plan presents ten key actions that can be further divided into three categories.

In 2016, the Commission appointed a High-level Expert Group²⁵ on sustainable finance. The result was a final report presented at the beginning of 2018. The Report's content has a comprehensive vision of building a sustainable finance strategy for the EU. The Report argues that sustainable finance is considered two urgent imperatives. Firstly, the importance of improving the contribution of finance to sustainable and inclusive growth by funding society's long-term needs. Secondly, the strengthening of financial stability by incorporating ESG factors into investment decision-making.²⁶

The Commission recognises that the financial sector will play a key role in striving and reaching the fundamental environmental and social goals since there is a need

²³ D, Keating "EU raises 2030 Climate target to 55%" (2020) Forbes <[EU Raises 2030 Climate Target To 55% \(forbes.com\)](https://www.forbes.com)> Accessed 2021-04-27.

²⁴ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions 'The European Green Deal' Brussels, 11.12.2019 COM (2019) 640 final.

²⁵ HLEG High-Level Expert Group on sustainable finance: The HLEG comprised 20 senior experts from civil society, the finance sector, academia and observers from European and international institutions.

²⁶ Communication from the Commission 'Action Plan: Financing Sustainable Growth' Brussels, 8.3.2018 COM (2018) 97 final.

for large amounts of private capital needed to be mobilised for such a change. The comprehensive plans for the Action Plan are to be used as a blueprint for future discussions on an international level. The Commission sets out to level the topic in the existing fora, such as the G70, the G7 and the Financial Stability Board, and the United Nations and the International Organisation of Securities Commission (IOSCO).²⁷

The concept of "sustainable finance" is defined within the Report, revolving around the process of addressing and taking account of social and environmental considerations in investment decision-making since this would lead to an increment in long-term investments and sustainable activities.²⁸

The Action plan developed by the expert group and presented by the Commission is part of the broader efforts presented in this Report that aims to connect finance with the specific needs of the European and global economy, with a primary focus towards the transition within Europe. More specifically, the Action Plan aims to:

1. reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth.
2. manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and
3. foster transparency and long-termism in financial and economic activity.²⁹

The Action plan presents the establishment of the EU taxonomy, a classification system for sustainable activities, elaborated under chapter 3.4. as well as creating an EU Green bond Standard, elaborated in the following chapter 2.4, and corporate disclosure presented under chapter 3.3.³⁰

²⁷ Communication from the Commission 'Action Plan: Financing Sustainable Growth' Brussels, 8.3.2018 COM(2018) 97 final.

²⁸ Communication from the Commission 'Action Plan: Financing Sustainable Growth' Brussels, 8.3.2018 COM(2018) 97 final.

²⁹ Communication from the Commission 'Action Plan: Financing Sustainable Growth' Brussels, 8.3.2018 COM(2018) 97 final.

³⁰ European Commission (2020). Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth <[Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth | European Commission \(europa.eu\)](#)> Accessed at 2021-05-10.

2.5 EU Green Bond Standard

Green bond has turned out to play an increasingly important role when it comes to how industries and countries are financing the assists needed to lower the carbon transition. However, there have not been any standard guidelines or uniformity regarding how the bonds are to be constructed. Therefore, establishing the standards for green bonds could be a tool to fulfil Europe's climate goals and long-term goals for the environmental challenges and objectives.

It has become apparent that the need for "green" investments and the financial instrument has been something that the European Commission has been pursuing for the last decade. The European Green Deal presented on 11 December 2019 touched upon the need for long-term action when it comes to capital will move in the direction towards green investments. The reasoning by the Commission was to be able to present several actions that made it easier for investors to 1. identifying sustainable investments and 2. A qualification system to verify and ensure that such investments are credible. Emerging from this, the European Commission announced by the beginning of 2020 that the Commission would establish an EU Green Bond Standard (GBS). Ultimately the Green Bond Standard can be seen as the EU's way of saying that the EU should be founding green financial activities just as those defined by the EU Taxonomy.³¹

Green bonds are often referred to as a bond instrument where the proceeds aim to be solely applied to finance Green Projects. The Green Bond Principles (GBP), presented by the International Capital market Association (ICMA), are one of the voluntary process guidelines that aim to recommend transparency and disclosure to promote integrity to the development of the Green Bond market.³² The GBP presents four essential components: Use of Proceeds, Project Evaluation and Selection, Management of Proceeds and Reporting.

³¹ "TEG 101- EU Green Bond Standard – A bedrock for market rules and integrity" NATIXIS (2020) <[EU Green Bond Standard \(natixis.com\)](https://www.natixis.com/en/tegs/101-eu-green-bond-standard)> Accessed 2021-05-04.

³² ICMA 'Green Bond Principles'[2018] [Green-Bonds-Principles-June-2018-270520.pdf \(icmagroup.org\)](https://www.icmagroup.org/standards/green-bonds-principles).

The suggestion for common standards is to be the result of a report from the Commission High-level Expert Group on sustainable finance (TEG). Furthermore, after that, it included one of the "actions" from the aforementioned decision by the Commission. It is not yet decided on how the legality of this initiative will play out, and the decisions on the matter will be based upon the outcome of the "targeted consultation" on the EU GBS and the Renewed Sustainable Finance Strategy.³³

2.5.1 The Progression for the EU Green Bond Standard

The TEG published its Report in mid-2019. The outcome of the Report was some key recommendations. The suggestions were based on the Commission creating a voluntary EU Green bond standard to achieve transparency, effectiveness, and credibility in the bond market. Nevertheless, also make the EU green bonds attractive to the market. Over 100 organisations (Issuer, investors, NGOs, Public authority or other Trade or Industry organisations) provided crucial feedback on the effect of a potential implementation. Having further questions and seeking new answers, organisations acting as stakeholders has, however, often been referred to a publication regarding "frequently asked questions."³⁴

In another TEG publication, usability guide for the EU Green Bond Standard³⁵, the TEG provides the actors in the market with facts regarding how implementation will plan out and a sheet for registration via external verifiers.

The next step for the European Commission is the technicalities of the legislative initiatives related to the EU Green Bond Standard. Such reasoning will be in the context of the consultation regarding the renewed sustainable finance strategy. Based on bilateral stakeholder consultations and the consultations within the EU instruments, the Commission was set out to decide in late 2020 how the next steps required to further the EU Green Bond Standard. Looking at Green Bonds on a

³³ European Commission (2020) 'Targeted consultation on the establishment of an EU Green Bond Standard' <[Targeted consultation on the establishment of an EU Green Bond Standard | European Commission \(europa.eu\)](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en.pdf)> Accessed 2021-04-19.

³⁴ TEG PROPOSAL FOR AN EU GREEN BOND STANDARD 'Usability Guide' (2020) EU Technical expert Group on Sustainable Finance <https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en.pdf> Accessed 2021-04-27.

global scale, there has been a spike over the last decade. However, they currently account for ca 1% of the global market.³⁶

On 19 October 2020, the European Commission presented a report regarding the Commission Work Programme 2021. Regarding the timeframe, the legislative proposal seems to be delivered in the second quarter of 2021.³⁷

2.6 Summary

In 2015, the UN General Assembly adopted the 2030 Agenda for Sustainable Development, deriving from the 2030 Agenda is the Sustainable Development Goals. The Council of the European Union adopted the 2030 Agenda in total as of 20 June 2017. Over the following years, the Commission introduced the idea of "a climate-neutral Union by 2050", and on 11 December 2019, the Commission published "The European Green Deal". The overarching climate and sustainability initiative has given rise to strategies on sustainable finance and action plans for financing sustainable growth. That, in turn, has fostered sustainability actions, among them a common Green Bond Standard for the EU.

The initiatives presented throughout this chapter addresses the concept of sustainability from a broad point of view. Such an angle is imperative when it comes to the idea of introducing legislative acts. On an EU level, drafting guidelines, standards, or other commonalities would facilitate the implementation and acceptance of legal acts addressing the same areas. While at the same time facilitating a transition for the financial market participants.

³⁶ T, Shirley, "Investors are pouring billions into bonds that aim to do good. That may not be for the best" (2019) CNBC <[Investors are pouring into green bonds. That may not be for the best \(cnbc.com\)](https://www.cnbc.com/2019/04/28/investors-are-pouring-billions-into-green-bonds-that-may-not-be-for-the-best.html) >Accessed 2021-04-28.

³⁷ TEG PROPOSAL FOR AN EU GREEN BOND STANDARD "Usability Guide"(2020) EU Technical expert Group on Sustainable Finance <https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en.pdf >Accessed 2021-05-03.

3. Regulations of the EU

3.1 Chapter outline

This chapter aims to provide the reader with the legislative perspective on the concept of sustainability in relation to the financial market. Here, the regulations, directives and guidelines put forward by the Commission will be presented. Firstly, the NFRD and the Commission's guidelines on non-financial reporting, being the Directive and leading up to the following chapters regarding the Taxonomy regulation and the Disclosure Regulation.

3.2 Non-Financial Reporting Directive

It has become apparent that the EU law requires large companies to be transparent and disclose specific information concerning their operations and management of social and environmental changes. According to the Commission, this would help consumers, investors, policymakers, and other stakeholders evaluate large undertakings' non-financial performance. At the same time, promote and encourage their companies to develop a responsible approach to business.³⁸

Directive 2014/95/EU – known as the non-financial reporting directive (NFRD) aims to portray rules regarding disclosure of non-financial information by large companies. The directive 2014/95 is an amending act of the Directive 2013/34/EU on the topic of disclosure by non-financial and diversity information by certain large undertakings and groups. This Directive made sure that certain companies are obliged to include non-financial statements in their annual reports from 2018 onwards.

³⁸ European Commission, (2020) 'Corporate sustainability reporting' Overview <[Non-financial reporting | European Commission \(europa.eu\)](#)> Accessed 2021-04-27.

In the 3rd point of the preamble, it is stated that this legislative proposal on the disclosure of non-financial information for undertakings stems from the notion to consider the nature of corporate social responsibility (CSR).³⁹

According to paragraph 14 in the Directive, a particular type of undertaking seems to be in the scope of the non-financial disclosure requirements. The scope seems to be determined by a variety of factors. Among them are the balance sheet, net turnover and the average number of employees. Small and medium-sized enterprises are exempted from additional requirements. In contrast, the obligation to disclose non-financial statements applies only to large undertakings, which are public-interest entities and entities that are parent undertakings of a big group, having an average number of employees amount higher than 500. However, the description of paragraph 14 does not exclude Member states from demanding disclosure of non-financial information from undertakings and groups other than firms being in the scope of this Directive.⁴⁰

Companies that fall under the scope of the following categories have to comply and disclose the information mentioned above.⁴¹

- Listed companies
- Banks
- Insurance companies
- Other companies designated by national authorities as public interest entities

Regarding the concept of "Non-financial statement", there is an explanation given in Article 19a of the Directive—stating that a large undertaking which is public - interest entities having more than 500 employees during the financial year. Shall include in their Report a non-financial statement, meaning the inclusion of the core activities needed to understand the undertakings development, performance, position and impact of its activity, relating to, as a minimum, environmental,

³⁹ Council Directive 2014/95/EU Amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups [2014] OJ 2 330/1 Point 3, Preamble.

⁴⁰ Council Directive 2014/95/EU Amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups [2014] OJ 2 330/1 Point 3, Preamble and article 14 and 19a.

⁴¹ European Commission, (2020) 'Corporate sustainability Companies that must comply [≥](#) Accessed 2021-04-27.

performance, social and employee matters, respect for human rights, anti-corruption and bribery matters, including the description of the undertaking's business model. This followed by a description regarding the policies pursued by the undertaking concerning these matters and the due diligence processes implemented. As well as the actual outcomes of these policies. While also presenting the principal risk related to those matters linked to the undertaking's operations, business relationships, products and services that might cause adverse impacts in these areas and how the undertaking works with risk management. The undertaking would also present non-financial key performance indicators relevant to the business.⁴²

Concerning the explanation mentioned above and criterion of "non-financial information", it is crucial to highlight that an undertaking is not by the Directive 2014/95/EU forced to pursue the activities described in a-e. However, if one or several activities is not pursued, the non-financial shall provide a clear and reasoned explanation for not doing so.

Article 2 of directive 2014/95/EU regards guidance on reporting, and here it is stated that the Commission will prepare non-binding guidelines on methodology for reporting non-financial information.⁴³ These guidelines will be addressed in chapter 3.2.2

3.2.1 Future transformation of the NFRD

Since the NFRD was introduced, the Commission has had plans to review the Directive to bring in consultation. At the start of 2020, the Commission launched a public consultation, intending to include the view of stakeholders for possible revision of the provisions of the NFRD. In June the same year, the Commission requested technical advice from the European Financial Reporting Advisory Group (EFRAG) to undertake preparatory work on the possibility of having EU non-financial reporting standards in the revised NFRD. The EFRAG responded through

⁴² Council Directive 2014/95/EU Amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups [2014] OJ 2 330/ Article 1.

⁴³ Council Directive 2014/95/EU Amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups [2014] OJ 2 330/1.

two reports, recommending the elaboration of possible EU sustainability reporting standards. It was further suggested that the ERFAGs could, with the propped funding, become the EU sustainability reporting standard setter.⁴⁴

The result of the revisions was a proposal from the Commission for a Corporate Sustainability Reporting Directive (CSRD). The CSRD would aim to revise, complement and strengthen the already existing rules rolled out by the NFRD. With an overall aim for paring sustainability reporting with financial reporting. This proposal would extend the reporting requirements to every large and every listed company. Resulting in approximately 50 000 firms in the EU would follow the reporting standards, being and drastic increment from the current 11 000 under the current standards.⁴⁵

On a further note, the Commission proposes different standards for SMEs that non-listed SMEs could apply voluntarily. This being a natural step to pursue the aim to ensure that companies reports would rely on comparable sustainability information that would be of need for investors and stakeholders. This would, in turn, according to the Commission, facilitate a consistent flow of sustainability information through the financial system.

3.2.2 Commissions guidelines on non-financial reporting

As required from NFRD, the Commission has published non-binding guidelines that aim to help companies disclose relevant information regarding the non-financial aspects.⁴⁶ Here more consistently and comparably than in the NFRD.

The aims of these guidelines revolve around helping companies disclose high quality, relevant, useful, consistent and more comparable non-financial information that could foster resilient and sustainable growth and employment. At the same time, at the preamble point 22, provide transparency to stakeholders. The guiding

⁴⁴ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting COM/2021/189 final.

⁴⁵ Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting COM/2021/189 final.

⁴⁶ Communication from the Commission Guidelines on non-financial reporting (Methodology for reporting non-financial reporting: 2017/C 215/01).

principles state the following lead words; Fair, Balanced, and understandable as the guiding concepts in the presented information. This is recognised because the non-financial statement should give fair consideration to favourable and unfavourable aspects. Due to that, the information should be presented and assessed in an unbiased way.

Further, the non-financial statement should identify and distinguish facts from other views or specific interpretations. The Commission states the following examples for "fair information":

- Appropriate corporate governance arrangements (for instance, certain independent board members or a board committee entrusted with responsibility for sustainability and/or transparency matters)
- Robust and reliable evidence, internal control and reporting systems
- Effective stakeholder engagement
- Independent external assurance.⁴⁷

The Guidelines further states that the information being disclosed should be in a "Customary business language"⁴⁸ in addition to the firm's national language. This would increase transparency and help investors and stakeholders assess the information.

The Guidelines on non-financial reporting is further referenced in the Taxonomy Regulation, stating that; Large companies report specific climate-related key performance indicators (KPIs) that should be based on the framework put out by the Taxonomy regulation.⁴⁹ Specifically, information regarding turnover, capital expenditure (CapEx) or operating expenditure (OpEx) from companies associated with environmentally sustainable activities.

⁴⁷ Communication from the Commission — Guidelines on non-financial reporting (methodology for reporting non-financial information) C/2017/4234 Chapter 3.2.

⁴⁸ The Customary Business language could be exemplified by disclosing certain KPIs, through trends, targets and qualitative explanations of past and expected performance: Communication from the Commission — Guidelines on non-financial reporting (methodology for reporting non-financial information) C/2017/4234.

⁴⁹ ⁴⁹ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13, preamble point 22.

3.3 Disclosure Regulation

Looking over the directives and guidelines presented so far, it becomes apparent that there have been several sustainability regulations on an EU lever regarding the aspect of financial instruments. The following text regards the Disclosure Regulation EU 2019/2088,⁵⁰ being a broad regulation focusing on the increment of transparency regarding sustainability regarding financial markets. The Disclosure Regulation compels actors on the financial market and the financial advisors to disclose certain information regarding sustainable activities or the lack of. This Regulation applies from 10 March 2021, according to article 20 of the same Regulation.⁵¹

The Disclosure Regulation presents harmonised rules for the advisors and participants on the financial market on the concept of transparency concerning the integration of sustainability risks. While simultaneously addressing the consideration of adverse sustainability impacts in the firm's processes and the provision of sustainability-related information regarding financial products.⁵²

The objective of this Regulation is pinpointed in point 35 of the preamble, namely to strengthen protection for end investors and improve disclosure to them. This includes cases of cross-border purchases by end investors that cannot be optimally achieved by the Member States alone. There is there for a need to lay down uniform disclosure requirement at a Union level. Therefore, in accordance with the principle of subsidiarity as described in Article 5 of the TEU, while at the same time living up to the principle of proportionality, as set out in the same Article, to make sure that this specific Regulation does not go beyond what is necessary in order to achieve those objectives.⁵³

The definitions relevant to the Regulation are presented in the second Article; 24 terms are defined and explained in the light of the Regulation. Looking over the

⁵⁰ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1.

⁵¹ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1 Article 20.

⁵² Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1 Article 1.

⁵³ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1 Point 35 preamble.

terms presented and explained by the second Article, it becomes apparent that the terminology explained originates primarily from Directive 2013/34/EU,⁵⁴ being one of the first directives addressing the disclosure of similar information.

Article 3-11 regards the transparency of different factors; among them are sustainability risk policies, impacts at entry-level and integration of sustainability risks.⁵⁵ Further articles regard the review of disclosures, market communications, Competent authorities, Exemptions, Report, evaluation and lastly, an article regarding entry force and application.

Regarding the competent authorities, article 14 states that:

- "1. Member States shall ensure that the competent authorities designated in accordance with sectoral legislation, in particular, the sectoral legislation referred to in Article 6(3) of this Regulation, and in accordance with Directive 2013/36/EU, monitor the compliance of financial market participants and financial advisers with the requirements of this Regulation. The competent authorities shall have all the supervisory and investigatory powers that are necessary for the exercise of their functions under this Regulation.*
- 2. For the purposes of this Regulation, the competent authorities shall cooperate with each other and shall provide each other, without undue delay, with such information as is relevant for the purposes of carrying out their duties under this Regulation."*

From a Swedish perspective, the competent authority that acts according to sectoral legislation is the Swedish Financial Supervisory Authority, which is addressed in chapter 4.4.

Regarding the definitions in the previous section when addressing the second Article in the Regulation, it is worth mentioning that even though the concept of "transparency" was the lead word for articles 3-11, the concept of "transparency" itself was not defined according to the second Article. Although reading and analysing the articles in their entirety, the idea of transparency becomes clearer.

⁵⁴ Council Directive 2013/34/EU 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 [2013] OJ 2 182/19.

⁵⁵ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1 Article 3-11.

3.4 Taxonomy regulation

To meet the requirements for the EU's climate and energy targets for 2030, presented through the European Green deal, there have been efforts made to ensure that the goals can be obtained. To achieve these goals, it is crucial to ensure direct investments towards sustainable projects and activities. On that note, the European Commission frequently exemplifies the need for these direct investments by using the COVID-19 pandemic as a phenomenon that shows the need for shifting capital flows. The Action plan, presented in chapter 2.3, introduces a standard classification system for sustainable economic activities, known as the EU taxonomy."⁵⁶

The EU taxonomy aims to work as a classification system to list and rank environmentally sustainable economic activities. To provide definitions and explanations for investors, companies and policymakers, on the topic of how/what economic activities are to be deemed to be environmentally sustainable. The work towards a common classification system, resulted in a standard system in the form of an IT tool to facilitate the use of the taxonomy. This tool will be rolled out at the beginning of 2021.⁵⁷ The work towards an EU taxonomy resulted in the Taxonomy Regulation⁵⁸ presented in the following chapter.

3.4.1 The legality of the taxonomy regulation

The taxonomy Regulation contains rules to determine when an economic activity is to be viewed as environmentally sustainable, as stated by Article 1 of the Regulation, regarding subject matter and scope.⁵⁹ It is further stated that the Taxonomy regulation applies to financial market participants dealing with financial products or corporate bonds that are produced as "environmentally sustainable" or financial market participants that make available financial products in general. The

⁵⁶ European Commission (2020) "EU taxonomy for sustainable activities <[EU taxonomy for sustainable activities | European Commission \(europa.eu\)](#) >Accessed at 2021-05-04.

⁵⁷ European Commission (2020) "EU taxonomy for sustainable activities <[EU taxonomy for sustainable activities | European Commission \(europa.eu\)](#) >Accessed at 2021-04-28.

⁵⁸ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13.

⁵⁹ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 Article 1.

Taxonomy regulation further applies to those undertakings that are obligated to disclose information in accordance with the NFRD.⁶⁰

The second Article covers the definitions regarding the purpose of this Regulation. The definitions presented to correspond with the definitions presented in the second Article of the Disclosure Regulation⁶¹, presented in the previous chapter.

Article 3 covers the criteria for environmentally sustainable economic activities and addresses the question of the extent to which an investment is environmentally sustainable. It has to qualify for the criteria stated in Article 3 A-D. Article 3 states that an activity should do any harm that is significant for the environmental objectives set out in Article 9 following Article 17—referring to the environmental objectives. Two articles 9 and 17 aims to define the environmental objectives and explain the concept of "Significant harm" to the environmental objectives.⁶²

Article 19 covers the requirements for technical screening criteria. Since the regulation tasks, the Commission of an actual list of environmentally sustainable activities, the technical screening criteria specified in article 19 aims to define the technical screening criteria for each environmental objective. Whereas Article 20 elaborates on the platform on sustainable finance. To have representatives establish a platform on sustainable finance, with different experts, representatives, and the European Environment Agency, the ESAs, the European Investment Bank, the European Investment Fund, and the European Union Agency for Fundamental Rights.⁶³

This Regulation also refers to the "Member State Expert Group". That according to Article 24, the Commission on the appropriateness of the technical screening

⁶⁰ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13.

⁶¹ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1 Article 2.

⁶² Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 Article 9 and 17.

⁶³ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 Article 19 and 20.

criteria regarding the approach taken by the platform regarding the development of these criteria listed in Article 19.⁶⁴

In the preamble of the taxonomy regulation, the concept of "disclosure" is addressed. It was stated that fund managers and institutional investors that make financial products ought to disclose how and to which degree environmentally sustainable economic activities are used to determine their investments' sustainability. For investors to understand to what extent the investment is to be deemed sustainable and the measures used to determine such a fact.⁶⁵ It is further stated that the disclosure obligation presented in the taxonomy regulation supplement the rules regarding sustainability-related disclosures put forward by the Disclosure regulation,⁶⁶ mentioned in chapter 3.4. The Commission argues that it is reasonable to require an annual publication with relevant KPIs by larger firms. At the same time, further define the requirements in delegated acts, with a focus on large financial firms. The Commission further states, in the preamble of the Taxonomy regulation, that it could be disproportionately burdensome to have the exact requirement for smaller firms but encourages the publication of such information on a voluntary basis.⁶⁷

3.5 Summary

Partly stemming from the concept of CSR, the NFRD lays out the requirement for firms to produce a sustainability report in conjunction with a yearly report. Supplementing the NFRD is the Disclosure Regulation and Taxonomy Regulation, aiming to create a structure for the sustainability disclosures.

Having viewed the legal initiatives put forward by the Commission, several areas of interest have been addressed. Among them are the concept of disclosure,

⁶⁴ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 Article 19 and 24.

⁶⁵ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 point 18, Preamble.

⁶⁶ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 Point 19, Preamble.

⁶⁷ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 Point 22, Preamble.

environmentally sustainable economic activities, non-financial information, KPIs and sustainable investment. It becomes apparent that some of these concepts might have to be considered from a broader range of firms. A wider variety of firms are to be covered by the newer legislative acts during the legal course.

Since the CSRD would complement the current rules of NFRD, it would now be required for every large and listed company to apply the rules regarding sustainable reporting. Resulting in approximately 50 000 firms in the EU would follow the reporting standards, being a drastic increment from the current 11 000 under the current standards. For SMEs, more specific guidelines are to be expected. Having viewed the legal procedure from the Commission, it might be a reason for SMEs to adopt the voluntary guidelines in preparation for potential binding rules to come.

4. Implementation in Sweden

4.1 Chapter outline

The content of this chapter aims to shift the stance from the EU perspective being prominent in the previous chapter. Through this chapter, there will be a national scope, focusing on the initiatives and legislative acts and their implementation on the Swedish capital market. The focus derives slightly from the previous chapters. This is prominent for two reasons: Firstly, this chapter elaborates on Swedish legislation, investigations and reports. Secondly, this chapter introduces a more technical aspect when elaborating on scenario analysis and carbon pricing.

4.2 Report of the Inquiry into Green Bonds

In 2016 the Swedish government decided to appoint a special investigator to analyse and suggest initiatives on how the market for green bonds could be favoured. The investigation resulted in a reasoning: "To favour green bonds" (SOU 2017:115).⁶⁸

The Report stated three actions to be taken to favour green bonds. Firstly, it is essential to view the market for green bonds from the current perspective. From a ten-year perspective, this market has been growing from practically zero to approximately 300 billion dollars. Secondly, to create green bonds with partially new qualities, i.e., lower credit risk, thus having lower financing cost. Thirdly, eliminate some of the extra cost and obstacles that seem to halt issuers from issuing green bonds, even if they meet the requirements.⁶⁹

The investigation had the mandate to propose legal changes, but the investigation resulted in that no such measurements were required due to the market's self-regulation. It was further stated that Swedish national legislation could act as a hinder to the global market. Moreover, that if legislation should be decided upon, it

⁶⁸ SOU 2017:115 Promoting green bonds.

⁶⁹ SOU 2017:115 Promoting green bonds, page. 12.

should be done on an EU level. Another reason for the withholding of Swedish legislation is the Commission's proposal regarding investments for the capital market within the Union 2018⁷⁰—resulting partly in the Green bond standard presented in chapter 3.5.

The Report resulted in highlighting the importance of organic and independent growth of the green bond market. Since the market for green bonds has been growing to a level of "self-sustainment",. Some of the supportive programs will be revised, and they are likely to be removed.

4.3 The Annual Accounts Act

According to the Swedish Annual Accounts Act, there are paragraphs regarding the disclosure of sustainability-related information. The paragraph in question is primarily 6:10-12§§ of the Annual Accounts Act.⁷¹

There are, however, specific criteria for the companies that have to present such information. The criteria's are expressed in 6:10§, stating that: during the last two financial year, the average number of employees amounts to 250, the company's balance sheet amount to 175 million Swedish kronor (approx. 17 281 687,50 Euro). Alternatively, the net sales have amounted to 350 million Swedish kronor (approx. 34 543 260,72 Euro). A company that has more than one of those criteria must provide a sustainability rapport. The criteria do not apply to a subsidiary if a parent company provides a sustainability report to the entire group. It has to be referenced and made clear in the annual Report that such a sustainability report exists. According to 6:11§, the sustainability report does not have to be a part of the Annual Report and can be a separate document but be presented within the same time frame as the company auditor.

When it comes to the actual content of the sustainability report, those criteria are presented in 6:12§—stating that the sustainability report needs to present

⁷⁰ COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS A Capital Markets Union for people and businesses-new action plan COM/2020/590 final.

⁷¹ Årsredovisningslag (1995:1554) Svensk författningssamling SFS 2020:1033

information that is needed to understand the development of the company, their position on the market, result and the consequences of the business. The information should include environment, social impact, employee, human rights and work towards corruption. 6:12§ present six points for the Report to highlight,

1. The company business model,
2. The policy the company applies in these questions, and the investigations that has been made,
3. The result of the policy,
4. Relevant risks that have to do with the questions, and when it is relevant, the products or services that might be subject for negative consequences,
5. The companies risk management,
6. Central result indicators that are relevant for the business,⁷²

When it seems appropriate, the Report should include specific guidelines, provided that specific guidelines have been used when conducting the Report. If a company does not implement a policy in one or several points highlighted in the same paragraph, a reason for this must be presented within the Report.

The final remarks regarding the sustainability reporting are presented in 6:13§. Regarding that specific questions that are being negotiated and might be sensitive does not have to be presented in the Report. Provided that such information could hurt the company if brought public and that such information does not hinder the business's general perception of the business.

⁷² Årsredovisningslag (1995:1554) Svensk författningssamling SFS 2020:1033.

4.4 Sustainability Report 2021

One of the Swedish Financial Supervisory Authority (Finansinspektionen, FI)⁷³ assignments is to promote the financial system's contribution to sustainable development. FI has recently put out a report, "Sustainability Report 2021 – the climate in focus. The Report outlines the current sustainability issues that, in one way or another, are related to the financial sector in one way or another. The Report outlines and lists examples of what FI is working on in the area and the initiatives taken on an EU level.

FI has been delegated the task of promoting a stable financial system that contributes to sustainable development. Thus, it is crucial to make sure that the financial system manages the risks regarding the climate and contributes to the transition. In order to achieve the goals, financial firms need to be able to identify which activities will be impacted positively and negatively by a green structural transformation. As a supervisory authority, FI aims to help facilitate and remove obstacles, where one of the main tasks in the light of recent regulations is related to firms sustainability reporting.

FI does address the new EU regulations entering into force during 2021 and 2022, the EU Disclosure Regulation and the Taxonomy Regulation, stating that there will be a significant impact on the financial market's role when it comes to the area of sustainability. FI realises that the new regulatory framework has been developed quickly and is ambitious in scope. FI also recognises that the rules are complex. It is also the case that the implementation might raise challenges for financial market participants that are affected. FI serves to help facilitate this work by pursuing a dialogue between individual firms and industry representatives, respectively, to answer potential questions and develop best practices.⁷⁴

⁷³ Finansinspektionen is Sweden's financial supervisory authority. Their role is to promote stability and efficiency in the financial system as well as to ensure sustainability and an effective consumer protection. Finansinspektionen supervise and monitor all companies operating in Swedish financial markets. Finansinspektionen is accountable to the Swedish Ministry of Finance.

⁷⁴ Finansinspektionen 'Sustainability Report' (2021), Page 3.

According to FI, it has become increasingly clear that sustainability factors impact a firm's exposure to risks and opportunities, resulting in its value. FI highlights that, despite the firm sustainability disclosures, there is a risk that investors cannot assess how a firm could be impacted or potential exposures that change over time. Furthermore, this is because firms might not express the consequences of sustainability factors in economic terms or the concept of looking backwards when presenting information instead of forward-looking.

Even though there might be little change in the short term, quarter to quarter, there might still be a need for consistent reporting throughout the financial year. This could be done in the interim reports. The overarching aim is to contribute to transparency to a significant extent. To provide investors and other stakeholders with possibilities for applying pressure on firm's exposed to significant transition risks.⁷⁵

During 2020 FI engaged with many insurance undertakings and larger banks and fund management companies in Sweden to review how far Swedish financial firms had come in working and measuring climate risk and climate impact reporting. Resulting in that the firms are working on these matters, but the work is in a start-up phase. The firms highlighted a lack of tools and data as the main reason for not having extensive reports. As a response, FI suggests, according to the Task Force on Climate-related Financial Disclosures (TCFD), that firms should use scenario analyses. This way, firms could engage in a systematic way to analyse and describe different possible outcomes of uncertain future conditions. That kind of risk management should include climate-related risk. An example of this could be the following scenario:

A business model that relies on low carbon prices and emits a high level of carbon dioxide is vulnerable to a potential rise in carbon pricing. This example is a transition risk caused by either the market or societal measures to limiting the negative impact on the climate.⁷⁶

⁷⁵ Finansinspektionen 'Sustainability Report' (2021), Page 11.

⁷⁶ Finansinspektionen 'Sustainability Report' (2021) Scenario analysis pinpoints transition risk.

4.4.1 Adapting and implementing EU regulations

FI has been producing its thoughts on sustainability reporting.⁷⁷ They aim to place the work regarding sustainability reporting into a larger context in the light of the fundamental function and development of financial reporting over time. The Report takes highlights how sustainability reporting has developed in relation to financial reporting. Stating questions like: how can the climate-related risk become part of the financial reporting?

Answering that question, the Report suggests a uniform global standard and the importance of auditing information regarding sustainability. A global standard would, in turn, result in further transparency and comparability when it comes to firms' disclosures.⁷⁸

FI highlights that there is all to gain for firms to work with these questions proactively in preparations for a binding standard.⁷⁹ Working proactively could be the gathering of data, risk analysis and presentation of such information. These measures could ensure a swift transition provided that the Swedish private sector does continue to adapt.⁸⁰ The disclosure of information at this stage could be done in accordance with the TCFD recommendations, which in turn is in line with the Commission's view regarding the NFRD. The TCFD guidelines regard governance, strategy, metrics and targets as well as risk management.⁸¹ TCFD is, as of 2021, voluntary in the EU. However, according to FI, it is likely to become more binding for the specific firm in the future due to the current review of the NFRD. Just as the broader spectra of sustainability, the European Securities and Markets Authority (ESMA) have listed firm's climate reporting, referencing the Commission's recommendation to comply with the TCFD.⁸²

⁷⁷ Finansinspektionen, 'Hållbarhetsrapportering och behoven av ökad transparens och jämförbarhet' (2020).

⁷⁸ Finansinspektionen 'Hållbarhetsrapportering och behoven av ökad transparens och jämförbarhet' (2020) See also T, Strömsten (2021) 'On the interface between financial and sustainability reporting: Climate Related Financial Consequences' Misum Academic Insights.

⁷⁹ Finansinspektionen, 'Sustainability Report' (2021) and Interview with Suzanna Zeitoun Eckerhall, Senior Advisor, Economic Analysis, Finansinspektionen (Lund, Sweden, 6 May 2021).

⁸⁰ Finansinspektionen 'Sustainability Report' (2021) Page 13.

⁸¹ TCFD 'Recommendations of the Task Force on Climate-related Financial Disclosures' (2017).

⁸² ESMA, European common enforcement priorities for 2020 annual financial reports (2020).

FI stated that in Sweden, 19 per cent of the largest firms listed on the Stockholm Stock Exchange (STO) apply parts of the TCFD recommendation when it comes to the information being disclosed.⁸³

4.4.2 Scenario analysis and transition risks

FI elaborated on the importance of conduction scenario analyses for financial firms and authorities conducting supervision and monitoring risks. Stating that TCFD is, in fact, also promoting such types of analyses. The concept of scenario analysis, as FI puts it, inspired by a report published by the Swedish Defence Research Agency (FOI)⁸⁴ it to approach these issues systematically and to analyse and describe different potential outcomes and, in this way, accept uncertainty. Conducting this could help firms and authorities do engage in decision making even when there is considerable uncertainty. Risk management and scenario analysis is already a core activity for several financial firms. To further advance these analytic tools, firms should include climate-related risks. FI elaborates, stating that business models based on low carbon prices that in its activities emit a significant amount of carbon or are dependent on goods that are fossil-intensive are vulnerable to the volatility of the carbon pricing. FI pinpoints this scenario as a transition risk, meaning that the firm needs to calculate the projection and different outcomes of decisions caused by market changes. This way, scenario analysis could facilitate the management of these types of risks. At the same time, promote a redirection of capital to promote investment that is deemed sustainable according to the taxonomy.

Fi has conducted a study among insurance undertakings, measuring the extent to which portfolios with financial assets align with scenarios involving the climate. FI did use the Paris Agreement Capital Transition Assessment (PACTA tool), developed by the 2 Degree Investing Initiative (2DII) and financed partly by the Commission.⁸⁵ The reason for conduction this study on insurance undertakings derives from the fact that they have significant assets and are long-term owners.

⁸³ Data from the consultancy firm 2050's Transparency Index for 2020.

⁸⁴ FOI 'Planering under osäkerhet' (2020) FOI-R--4972—SE.

⁸⁵ PACTA 'Measuring the alignment of financial portfolios with climate scenarios' (2021) <[Paris Agreement Capital Transition Assessment – Transition Monitor](#)> Accessed 2021-05-10 see also PACTA 'Climate Scenario Analysis Program (2021)' <[PACTA / Climate Scenario Analysis Program - 2DII \(2degrees-investing.org\)](#)> Accessed 2021-05-10.

Therefore how they manage capital plays a key role. FI further presents that insurance undertakings recommend cooperation between themselves to take steps towards making sure their investments align with the Paris Agreement.

4.4.3 Scenario analysis with carbon pricing

Conducting scenario analysis in the way that FI describes and TCFD derives from the notion that firms could prepare for higher emission prices—this voluntary incorporation for a higher internal price relative to the market price. There is more than one way of looking at this perspective. FI presents, for example charging an internal fee for the business consumption of fossil fuels and the in-house carbon emission. This would, in turn, add to the taxes and fees the firm pays in other jurisdictions—FI list Microsoft, Delta and Royal Dutch Shell as examples of firms using internal pricing.⁸⁶

Internal pricing could be one way for firms to create better conditions for handling future transitions. This way, firms could steer specific investment decisions in sustainable directions.

In a report published by public pension fund AP7 in cooperation with the International Chamber of Commerce in Sweden, firms are recommended to introduce internal pricing on carbon emissions. Similar recommendation and advocates have been put forward by the UN, TCFD and the CDP (Carbon Disclosure Project).⁸⁷

The IMF estimates that it will be in the range of 10-40 USD 2013 per tonne of carbon when it comes to carbon pricing, rising to the spectra of 40-150 USD in 2050. The current Swedish carbon tax amount to approximately 1,200 SEK per tonne. This price is high in comparison with other countries. There might, however, be different calculations and taxes internationally, leading to a lesser difference within the EU, for example. Since Sweden is part of the EU Emission Trading System (EU ETS), meaning that the EU ETS or tax should cover Carbon emission within Sweden. As seen by the graph presented by FI, the price was low for several

⁸⁶ Finansinspektionen 'Internal price in carbon – what and why?' (2021).

⁸⁷ Finansinspektionen 'Internal price in carbon – what and why?' (2021).

years due to a surplus of emission rights in EU ETS. These emission rights were removed in 2019, resulting in a price stabilisation at a higher level. The timespan from early 2016 to 2021 (as shown by the graph below) indicates a five-fold increase since 2018 and a 26% climb in the current year of 2021.⁸⁸ The current levels apply to the entire EU, and when comparing jurisdictions, these levels are higher than the majority of areas outside the EU.⁸⁹

2. Price of emission allowances within the EU ETS



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In the years to come, in the light of the produced legislation under the Green Deal, the ETS could be subject to revisions. Those revisions would regard the scope and aviation requirements to meet the ambitious climate ambitions on the EU level.⁹¹ More recent activity is to be derived from a report on the functioning of the European carbon market published by the Commission, stating that 2021 will be the timeline for implementing phase 4⁹² of the EU ETS, whereas the following

⁸⁸ W, Mathis 'EU Carbon Price Hits a Record 41 Euros as Rally Speeds Up' (2021) <[EU Carbon Price Hits a Record 41 Euros as Rally Speeds Up - Bloomberg](#)> Accessed 2021-05-19.

⁸⁹ Finansinspektionen 'Internal price in carbon – what and why?' (2021) see also Council Report 'Report on the functioning of the European carbon market' Brussels, 18.11.2020 COM(2020) 740 final.

⁹⁰ Visual representation presented by FI in internal price on carbon – what and why, Price of emission allowances within the EU ETS, see a similar graph in: W, Mathis 'EU Carbon Price Hits a Record 41 Euros as Rally Speeds Up' (2021) Bloomberg <[EU Carbon Price Hits a Record 41 Euros as Rally Speeds Up - Bloomberg](#)> Accessed 2021-05-19 See also, the same graph with a timespan of Q1 20 – Q2 21 in: D, Sheppard and C, Hodgson 'Cost of polluting in EU soars as carbon price hits record €50' (2021) Financial Times <[Cost of polluting in EU soars as carbon price hits record €50 | Financial Times \(ft.com\)](#)> Accessed 2021-05-24.

⁹¹ The aviation scope of the EU ETS was limited to the flights within the EEA, with a timeframe of 2013-2016, and has now been prolonged to 2013. Council Report 'Report on the functioning of the European carbon market' Brussels, 18.11.2020 COM (2020) 740 final Point 6.

⁹² The EU ETS is regulated in phases. Phase 3 covers the period 2013-2020, while phase 4 covers the period 2021-2030.

carbon market report is to be published in late 2021, and aims to evaluate the overview of the ETS implementation of the previous phase.⁹³

4.5 Summary

The Swedish government investigated the legalities surrounding green bonds. The result was aligned with the EU's point of view on the area. Namely, if standard guidelines or legalisation should be adopted, it should be done at an EU level. An area that the Green Bond Standard partly addresses presented in chapter 2.5. The Swedish Annual Accounts Act addresses the concept of sustainable disclosure. Comparing the legal acts on an EU level presented through chapter 3, the notion that Swedish legislation is far-reaching at this stage becomes prominent.

FI has expressed its view on sustainable reporting and its role as mediators, facilitators, and supervisors. The recommendation for financial market participants is to work pre-emptively and adopt guidelines and recommendations early. In doing this, the risk of having a high transition cost is mitigated. For financial firms to adapt and work with scenario analysis would reduce transition risks. Especially those firms having a high reliance on emission heavy activities. In addition, the application of internal carbon pricing could explore scenarios for the times to come, where a higher emission price is decided. For Swedish companies, such preventative work might not be crucial since Sweden has adopted relatively high carbon prices. However, the compiled information suggests that further acceleration of the carbon prices is to await, which means that further analysis and preventative work will recuse the transition risk and the cost.

⁹³ Council Report 'Report on the functioning of the European carbon market' Brussels, 18.11.2020 COM (2020) 740.

5. Summary and conclusions

5.1 Chapter outline

When compiling, revising and analysing the content of this thesis according to the methods presented in the introductory chapter, several thoughts, perspective, similarities and distinctions was brought to light. This chapter aims to disclose, present and further analyse the material concerning the aim and research question presented in the introductory chapter. Focus areas in the chapter revolve around scope, implementation, and a forward-looking approach.

5.2 Identify the scope of the regulations

Looking at the agenda and initiatives promoted by the Commission, it becomes apparent that the initiatives are ambitious and far-reaching. The idea and overall goals are presented in the Green Deal, whereas the approach and strategy are concretised in the action plan for financing sustainable growth. It becomes apparent that the approach is partly regulatory and a more participants-based approach in the sense that the participants on the financial market do play a vital role in the sustainable transition for the economies of the Member States. Such a "financial market participant/actor" is expressed and defined in Article 2 point 1 of the Disclosure Regulation.⁹⁴

This correlates with FI's predictions about how the only possibility of reaching goals is for a large part of the financing stems from the private section through the financial market. However, the regulatory aspect is needed to calculate and facilitate the transition in a rapid manner.

The scope of these legal outputs derives highly from the aims of the sustainable initiatives, namely, to define the concept of sustainable activities according to

⁹⁴ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1.

Article 1 of the EU taxonomy.⁹⁵ The concept of a "financial market participant", as defined by the Disclosure Regulation, is according to Article 2, point 2⁹⁶ of the Taxonomy regulation defined accordingly. The two regulations stem primarily from the requirements set out in the NFRD and the predecessor directive 2013/34/EU. The Disclosure Regulation correlates to a large extent to the NFRD due to the topics being: the improvement of disclosure regarding social and environmental information, as expressed by point 2 of the preambles of Directive 2014/95/EU.

It seems like there are several commonalities through the legislation put forward to buy the Commission. Among them is the potential problem of information asymmetries in the principal-agent relationship. At the same time, these regulations aim to reduce these risks by having the financial market participants and advisers disclose information and concretise the sustainable activities to advisers, both during and at a pre-contractual stage.

In the preamble of NFRD, a point is made regarding the concept of CSR⁹⁷. Here it becomes apparent that the European Parliament called on the Commission that produces legislation that considered the multidimensional concept of CSR. With that notion in mind, the concept of CSR has been considered throughout the process of producing NFRD, which in turn was taken into consideration when producing both the taxonomy regulation and Disclosure Regulation. Even though the concept of CSR is not mentioned or addressed in either of the two regulations, this observation is elaborated on in chapter 5.4.

5.3 The process of EU initiatives to regulatory output

The EU level initiatives regarding sustainability are undoubtedly inspired by the overall global initiatives on the same subject. Among them is the 2030 Agenda, which the Commission made binding on its communication in 2016. Resulting in that the SDGs have to be considered when framing initiatives, legal acts and

⁹⁵ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13.

⁹⁶ Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13.

⁹⁷ Council Directive 2014/95/EU Amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups [2014] OJ 2 330/1 Point 3.

guidelines. While the 2030 Agenda covers several aspects of sustainability, the European Green Deal have a primary focus on the environmental aspect. The scope, aim and goal of the Green Deal go beyond those of the 2030 Agenda. Therefore, the referral to the green deal as Europe's "man on the moon moment" is not beyond reason. The Action plan put forward by the Commission through the High-level Expert Group addresses the role of the financial sector since a large amount of private capital is needed to mobilise for this kind of transition. While at the same time provide the necessary tools for sustainable investments. Among these actions is the concept of a standardised taxonomy as well as the EU Green Bond Standard. The legality of the Taxonomy resulted in a binding act as a regulation put forward by the Commission. In contrast, the legality of the EU Green Bond Standard is yet to specified. It is, however, the case that such a legislative proposal is to be delivered in the second quarter of 2021.

It is apparent that the legislative actions presented through this thesis have been reviewed in the light of two overarching initiatives in the field of sustainability. This is made clear in the preamble, here references to the 2030 Agenda, the SDGs and the Paris Agreement are being made extensively.⁹⁸ Given that context, the Taxonomy regulation further stated:

"This Regulation represents a key step towards the objective of achieving a climate-neutral Union by 2050."⁹⁹

That does not mean that the legislative acts represent, mirror, or reflect directly on these initiatives. Since a regulation might be drafted to the current initiative or agenda, but as the articles are drafted, they stand alone.

⁹⁸ Council Regulation (EU) 2019/2088 of 27 November 2019 On sustainability-related disclosures in the financial services sector [2019] OJ 2 317/1 Point 1-3.

point 1,2 and 3, See also Council Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13 Point 1-3.

⁹⁹ Regulation 2020/852 (EU) On the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 [2020] OJ 2 198/13.

5.4 The Process of implementing EU regulation

The frameworks of the regulations put forward by the Commission have been developed within a narrow timeframe, while at the same time as they have an ambitious scope. From the aspects of market actors, the rules could be viewed as complex, and implementation could give rise to potential challenges, especially for the pioneering firms having to apply to the rules and Regulation without a proper foundation of standards, guidelines and frameworks. These firms would have a particular responsibility for the application of the Regulations. This is where national supervisory institutions could play a crucial role. Fi stated in their sustainability report that:

"FI is helping to facilitate this work by pursuing a dialogue with both individual firms and industry representatives to answer questions and develop best practices."¹⁰⁰

FI's strive became prominent in an interview with one of the authors of this Report,¹⁰¹ as FI would assist in the transition and function as an entity removing obstacles. FI understands that it must be more accessible for stakeholders to both understand and compare the information presented. The Commission also expressed a standpoint and elaborated on in chapter 5.1, resulting in the coming CSRD, a point being elaborated on in chapter 5.4.

As stated in the sustainability report, FI has been taking an active part in developing global standards based on the recommendations from TCFD. While at the same time, it recommends that firms be proactive in their reporting in accordance with the TCFD.

5.5 Next steps in terms of legal acts and preparations

To address the notion of CSR that was mentioned in chapter 5.1, the Commission has, as stated in 3.2.1, presented the proposal for the CSRD. An amending and revision of the NFRD would extend the EU's sustainability reporting requirements to apply to a broader spectrum of companies. It results in a total of 50 000 companies being asked to follow the detailed EU sustainability reporting standards,

¹⁰⁰ Finansinspektionen, *Sustainability Report* (2021).

¹⁰¹ Interview with Suzanna Zeitoun Eckerhall, Senior Advisor, Economic Analysis, Finansinspektionen (Lund, Sweden, 6 May 2021).

a total increment of 355% from the current figures. Alongside CSRD, the Commission did propose standards for SMEs that would work as voluntary guidelines. It becomes apparent that these initiatives are an initiative are the natural step towards the "normalisation" of sustainability reporting. The presented proposal could result in companies having an easier time conducting the reporting process itself. Since there would be a broader spectrum of firms conducting the reporting and therefore more standards, templates, and KPIs to be used, this would counter the current argument that companies have fluctuating standards and frameworks. Therefore, this proposal could lead to uniform standards for a wider variety of companies that live up to the expectations and needs of information for investors and stakeholders. The next step for the process of CSRD would be for the Parliament, alongside the Council, to negotiate the legislative text on topics of the proposal stemming from the Commission, resulting in a possible agreement during late 2022, for firms to adopt these standards in the reports being published in 2024.

From an international and EU perspective, it should be of interest to ensure that the various standards get globally aligned. Therefore EU legislation within the EU presented throughout this thesis is being influenced by global initiatives and incorporates the relevant elements for the globally accepted standards. While at the same time go beyond the global standard. In order to comply with the ambitions within the EU and the legal frameworks.¹⁰²

The practice is known as "Scenario analysis", which, could from the market's point of view, work as a facilitating tool when implementing current regulations and speculating regarding the rules to come. In addition to the information disclosed in accordance with the Disclosure Regulation, a firm could disclose its view on potential transition risks. Since scenario analysis could facilitate the management of various risks, new legislation could be calculated similarly. A firm that potentially would fall under the scope of new legislation could work preventively with scenario analysis to calculate the possible risks with the coming implementation.

¹⁰² Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.

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