

# Europe's Green Policy: Towards a Climate Neutral Economy by Way of Investors' Choice

LARA OHNESORGE: IS A PH.D.-FELLOW, HAZELHOFF CENTRE FOR FINANCIAL LAW, LEIDEN UNIVERSITY, THE NETHERLANDS.\*\*

EBBE ROGGE: IS AN ASSISTANT PROFESSOR, HAZELHOFF CENTRE FOR FINANCIAL LAW, LEIDEN UNIVERSITY, THE NETHERLANDS, AND SENIOR POLICY ADVISOR, DUTCH AUTHORITY FOR FINANCIAL MARKETS. THE OPINIONS EXPRESSED HEREIN ARE SOLELY THOSE OF THE AUTHORS AND IN NO WAY REPRESENT THOSE OF THE DUTCH AUTHORITY FOR FINANCIAL MARKETS. THE AUTHORS ARE GRATEFUL FOR THE 2019–2020 LL.M. FINANCIAL LAW STUDENTS AT LEIDEN UNIVERSITY FOR WONDERFUL CLASSROOM DEBATES RELATING TO SOME OF THE MATERIAL DISCUSSED HEREIN, AND WOULD FURTHER LIKE TO THANK MARLOES VAN RIJSBERGEN FOR COMMENTS ON AN EARLIER VERSION.\*\*

*Corporations are primary actors in transitioning to a climate neutral society. This is also reflected in the green policy agenda of the European Union, including the latest ‘Green Deal’, which is seeking to improve and introduce legislation that will control and provide more insight into the impact of corporations on the environment. The focus of some of this legislation, and of this article, is on the reporting by larger corporations on their non-financial impact. In particular, the revision of the Non-Financial Reporting Directive, the new Taxonomy Regulation and the new Sustainable Finance Disclosure Regulation are examined. These will trigger newly available non-financial information which can be used by investors. As this article sets out, the European policy agenda is based on the notion that providing the markets with such information will unlock private investments, ensuring a shift towards a climate neutral economy. This does, however, require some form of ‘enlightened’ shareholdership.*

**Keywords:** European Green Deal, Non-Financial Reporting Directive, Taxonomy Regulation, Sustainable Finance Disclosure Regulation

## 1. INTRODUCTION

On 11 December 2019, the European Commission presented the European Green Deal, a sustainable growth strategy for the coming thirty years.<sup>1</sup> In essence, it spells out a number of reallocation mechanisms which should bring about the shift to a climate neutral Europe.<sup>2</sup> For this, the Green Deal contains around twenty different proposals, ranging from sustainable transportation, over biodiversity restoration and the ‘Farm to Fork’ project, to funding plans.<sup>3</sup> Even though the Deal is contained in a communication document and thus does not bring about enforceable legal obligations, its importance should not be underestimated.<sup>4</sup> It sets out the general direction for the European Commission college of 2019–2024. Therefore, it is likely that at least some of the initiatives and ideas from the Green Deal will become EU law, albeit with modification and compromise. All of the proposals set out in the Green Deal fall into two categories: (1) promote a sustainable, clean, and circular economy, and (2) cut polluting and unsustainable activities. Pursuing both economic growth and a sustainable future,

the Green Deal touches upon the role of corporations – as polluters, innovators, educators, and in many other capacities. By this, the EU recognizes that corporations are primary actors in transitioning to a climate neutral society. This transition will depend to a large extent on (a shift in) private investments.

The remainder of this article sets out the relevant details of the EU’s policy agenda on enhancing private investments in sustainable activities on the one hand, and improve corporate responsibility and accountability on the other hand. In particular, this article discusses: improving the existing Non-Financial Reporting Directive under which corporations need to disclose non-financial information; the Taxonomy Regulation, which facilitates making investment choices in sustainable projects by standardization; the Sustainable Finance Disclosures Regulation, which includes requiring financial market participants to disclose their investments in sustainable projects; and other related initiatives such as climate related benchmarks which provide even more choice for investors. Especially the linkage between these initiatives will be discussed, and how they provide a choice for investors.

\* Email: l.g.l.ohnesorge@law.leidenuniv.nl.

\*\* Email: e.rogge@law.leidenuniv.nl.

1 European Commission, *Communication on the European Green Deal* (2019), [https://ec.europa.eu/info/publications/communication-european-green-deal\\_en](https://ec.europa.eu/info/publications/communication-european-green-deal_en).

2 Grégory Claeyss et al., *How to make the European Green Deal work*, Bruegel Policy Contribution Issue 1 (2019); Ludwig Krämer, *Planning for Climate and the Environment: the EU Green Deal*, 17(3) J. Eur. Envtl. & Plan. L. 267, at 269 (2020).

3 European Commission, *The European Green Deal*, COM(2019) 640 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52019DC0640&from=EN>.

4 *EU Legal Instruments*, EUR-Lex home, Summaries of EU Legislation (4 Sept. 2020, 15:47), [https://eur-lex.europa.eu/summary/glossary/community\\_legal\\_instruments.html](https://eur-lex.europa.eu/summary/glossary/community_legal_instruments.html); *Communication*, EU Monitor (4 Sept. 2020, 15:48), <https://www.eumonitor.eu/9353000/1/j9vvik7m1c3gyxp/vh7dptp45uyn>; European Commission, *supra* n. 3, at 2.

## 2. FINANCING THE TRANSITION

### 2.1. Stimulating Private Investments

The financing of the Green Deal is laid out in the Sustainable Europe Investment Plan.<sup>5</sup> It sets out how the estimated 1 trillion EUR necessary for the transition to a climate neutral EU will be mobilized. The Plan stipulates that funding has to come from all sources, including the private sector.<sup>6</sup> For this, the Plan sets out ideas for legislation that should stimulate an increase in sustainable investment, in particular in paragraph 4 and 4.1.<sup>7</sup> Note the wording here: the aim is to ‘enable’ and ‘facilitate’ sustainable investment.<sup>8</sup> To reach this goal, the EU plans to provide an infrastructure which makes sustainable investment attractive to private parties, but which does not force them to incorporate sustainability considerations into their investment decision. Essential in this infrastructure is that parties can inform themselves, compare information, and identify which investment would fit their needs best.<sup>9</sup> The Green Deal thus relies on a market-based solution to raise private investments. Currently, market-based mechanisms are insufficient to raise the amounts of capital needed to bring about a timely transition. One of the obstacles to raising sustainable investments via financial markets, and addressed by the Green Deal, is information asymmetries.

### 2.2. Information Asymmetries

Whether and how much an investor is willing to pay for a particular sustainable instrument, depends on the expected future return on the investment.<sup>10</sup> In the case of market participants aiming to invest sustainably, the expected sustainability of the product will also play a role. However, both future return and the degree of sustainability can only be valued if sufficient relevant information on the product is available, in intelligible form, and standardized so that it can be compared.<sup>11</sup> If this is not the case, substantial information asymmetry between organizations and investors is likely to exist. This information asymmetry hinders proper pricing of the financial instrument and even discourages investors to put their money toward that organization. Decades of (self-)regulation of financial markets have been aimed at decreasing information asymmetries regarding the financial aspects of investments. Examples include

MiFID,<sup>12</sup> which enhances transparency on financial markets by standardizing transparency and disclosure requirements, and the International Financial Reporting Standards (IFRS),<sup>13</sup> which are developed by the International Accounting Standards Committee and have gained traction around the globe.

### 2.3. The 2014 Approach

If sustainability is to play a role in investment decisions, the information asymmetries on that subject need to be overcome. The framework regarding non-financial information is relatively new: in 2014, the EU introduced the Non-Financial Reporting Directive, which was incorporated into the Accounting Directive. The 2014 NFRD applies to ‘large undertakings that are public interest entities with more than 500 employees’.<sup>14</sup> ‘Large undertakings that are public interest entities’ are, according to the combined reading of Articles 3(4) and 2(1) of the Accounting Directive, corporations with a balance sheet total of EUR 20 million and a net turnover of EUR 40 million, and listed corporations, credit institutions, insurance undertakings, and those designated as public-interest entities by a Member State.<sup>15</sup> The result of this limited scope of application, is that only approximately 6,000 corporations in the EU are subject to the NFRD requirements.<sup>16</sup>

The corporations which fall within the scope of the NFRD report on the basis of Article 19a, which prescribes that information about ‘environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters’ should be included in the management report or a separate report.<sup>17</sup> The NFRD only establishes a general framework: it does not include any details on what and how matters should be reported exactly. This leaves discretion to both Member States and individual corporations, which may lead to the fragmentation of reporting practices.

### 2.4. Shortcomings in the 2014 Approach

Given the very general obligation contained in Article 19a, it is not surprising that the initial approach chosen in the NFRD did not overcome the problem of information asymmetries. Although it prescribed reporting non-financial issues for a limited number of organizations, there were two overarching categories of

5 European Commission, *Sustainable Europe Investment Plan – European Green Deal Investment Plan*, COM(2020) 21 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52020DC0021&from=EN>.

6 *Ibid.*, at 1, 4.

7 *Ibid.*, at 9–10.

8 *Ibid.*

9 *Ibid.*, at 10.

10 John Armour et al., *Principles of Financial Regulation* 102 (Oxford University Press 2016).

11 *Ibid.*

12 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

13 International Financial Reporting Standards, *List of IFRS Standards*, <https://www.ifrs.org/issued-standards/list-of-standards/>.

14 Article 19a(1) Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

15 Credit institutions as defined in point (1) of Art. 4 of Directive 2006/48/EC, insurance undertakings within the meaning of Art. 2(1) of Council Directive 91/674/EEC.

16 European Commission, *Non-Financial Reporting – EU Rules Require Large Companies to Publish Regular Reports on the Social and Environmental Impacts of Their Activities* (8 Sept. 2020, 10:29), [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en).

17 Article 19a(1) Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

shortcomings,<sup>18</sup> which have also been discussed in the Inception Impact Assessment of the Commission.<sup>19</sup>

The first category of deficiency of the 2014 approach of the NFRD concerns the amount and quality of information. In this regard, four problems have been highlighted in the Impact Assessment. First, that information is insufficiently comparable or reliable.<sup>20</sup> Second, that the information reported by organizations does not match the information needed by the users.<sup>21</sup> Third, that some organizations do not report at all, and fourth, that it sometimes is difficult to find the information.<sup>22</sup> The primary reason for these information deficiencies, is that Article 19a NFRD contains only a general obligation, not specific guidelines. Diverging rules and practices on Member State level have only exacerbated this problem.

Second, information deficiencies create opportunities for greenwashing: making a product appear more sustainable than it actually is.<sup>23</sup> One of the consequences of greenwashing is that it undermines market trust, which can result in decreased willingness to put money toward sustainable projects. For this reason, the EU Green Deal proposes that measures be taken to provide the market with 'reliable, comparable and verifiable information' as to enable investors to choose more sustainable products.<sup>24</sup>

Several legislative proposals are made to overcome these information problems and create a solid market infrastructure on the basis of which private investments can flow toward sustainable initiatives. These will be discussed in the next part of this article.

### 3. LEGISLATIVE INITIATIVES

#### 3.1. Improving the Non-Financial Reporting Directive

As part of the Green Deal, the Commission seeks to revisit the NFRD 2014 by ensuring investors, civil society, and other interested parties have the information they need. There were, however, some additions made already preceding the Green Deal. The first addition to the NFRD 2014 were the non-binding guidelines published by the

Commission in 2017.<sup>25</sup> These guidelines were mandated by NFRD 2014 Article 2 and recital 17. Their purpose is to provide more details on drawing up non-financial statements as intended by the Directive. It ensures a consistent and comparable approach on the broad spectrum of ESG reporting, although given their non-binding nature, it is in essence little more than a best practice approach. This was followed by the publication of additional guidelines in 2019 on the reporting of climate-related information.<sup>26</sup> These are a supplement to the previously discussed, more generic, 2017 guidelines. One of the main features is that these guidelines integrate the recommendations made by the Financial Stability Board's Task Force on Climate-related Financial Disclosures. These recommendations cover information on climate-related risks and opportunities.

The Green Deal introduces two further elements. First, a revised NFRD<sup>27</sup> would address inadequate reporting regarding the impact of sustainable issues and corporations, and the impact of corporations on society as well as the environment.<sup>28</sup> Note that two aspects are covered: the risks of adverse climate changes on the corporation, and the risks posed by the corporation towards adverse climate changes. Second, due to the complexity and uncertainty around the reporting of non-financial information, corporations are faced with unnecessary costs, and uncertainty what to report where and when.<sup>29</sup>

The Commission has consulted on the revised NFRD, with feedback closing 11 June 2020.<sup>30</sup> Based on this feedback, one of the main targeted benefits of the revised NFRD would be to improve comparability between different corporations. This could be aided further by the Taxonomy Regulation, as discussed in the next section. Common standards could facilitate resolving such issues of comparability. That said, there should be some proportionality to make it work: small- and medium enterprises (SMEs) could be captured by a simplified regime, to ensure that these corporations do report the relevant information without creating a burden which is unnecessarily onerous.

18 See e.g., Deirdre Ahern, *Turning Up the Heat? EU Sustainability Goals and the Role of Reporting Under the Non-Financial Reporting Directive*, 13(4) Eur. Co. & Fin. L. Rev. (2016).

19 European Commission, *Inception Impact Assessment*, Ares(2020)580716, [https://eur-lex.europa.eu/legal-content/EN/PIN/?uri=PI\\_COM:Ares\(2020\)580716](https://eur-lex.europa.eu/legal-content/EN/PIN/?uri=PI_COM:Ares(2020)580716).

20 *Ibid.*, at 2.

21 *Ibid.*

22 *Ibid.*

23 See e.g., M. A. Delmas & D. Colgan, *The Green Bundle: Paring the Market with the Planet* (Stanford: Stanford Business Books 2018), Ch. 8.

24 European Commission, *supra* n. 3, at 8.

25 Communication from the Commission, *Guidelines on Non-Financial Reporting (Methodology for Reporting Non-Financial Information)* (2017/C 215/01), [https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52017XC0705\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52017XC0705(01)&from=EN).

26 Communication from the Commission, *Guidelines on Non-Financial Reporting: Supplement on Reporting Climate-Related Information* (2019/C 209/01), [https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52019XC0620\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52019XC0620(01)&from=EN).

27 European Commission, *Non-Financial Reporting by Large Companies (Updated Rules)* (2020), <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive>.

28 European Commission, *supra* n. 21.

29 *Ibid.*

30 European Commission, *Non-financial Reporting by Large Companies (Updated Rules) – Public Consultation*, (2020), <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive/public-consultation>.

### 3.2. Taxonomy Regulation

On the 18 June 2020, the European Parliament adopted the Taxonomy Regulation as part of the earlier Action Plan on Financing Sustainable Growth.<sup>31</sup> As per Article 1, it sets out the criteria for determining whether an economic activity is environmentally sustainable for the purposes of establishing the degree of environmental sustainability of an investment. In this lies its main benefit: it defines which economic activities can be considered environmentally sustainable. If this is not prescribed by way of regulation, how else should one uniformly determine what is ethical?<sup>32</sup> It would make reporting difficult and ambiguous, hindering corporate accountability. Additionally, such standards are an important tool in preventing so-called greenwashing, or the marketing of products as environmentally friendly when in fact they are not. Note that these standards are set by way of a Regulation, thus removing the need for transposition and, generally, for national labelling, thus creating uniformity throughout the EU.

The Regulation further specifies several environmental objectives (Article 5), as well as several requirements economic activities need to comply with to make them qualify as environmentally sustainable (Article 3). There will be different categories of users within the scope of this Regulation (Article 4): first, the Regulation applies to financial market participants who are offering financial products. They will need to report to what extent the products support economic activities which can be considered environmentally sustainable. This means that products such as 'Green Bonds' will need to adhere to the provisions laid out in the Regulation, creating a consistent framework for such instruments and preventing Greenwashing. Second, the EU and its Member States must adhere to the Regulation whenever the state measures, standards, financial products, etc. are environmentally sustainable.

### 3.3. Sustainable Finance Disclosure Regulation

As part of the Action Plan on Financing Sustainable Growth, financial market participants have specific disclosure requirements

by way of the Regulation (EU) 2019/2088 on sustainability disclosures in the financial services sector (SFDR).<sup>33</sup> The majority of the provisions will only come into force on 10 March 2021. This forms part of the June 2019 EBA action plan on sustainable finance. This Regulation applies to financial market participants including banks and investments firms which provide portfolio management. The key element of the Regulation is that these firms are required to make public how sustainability risks are integrated in their decision making process, and what sustainability impacts are arising from their investment decisions. They are also required to make public the relation between their sustainable risks and their remuneration policies. Further Regulatory Technical Standards are being drafted in support of this Regulation.<sup>34</sup>

The revised NFRD, the Taxonomy Regulation, and the SFDR could thus be seen as three pillars underlying the financing of corporations which are run in a sustainable and environmental friendly manner. The NFRD requires corporations to publish ESG information. The Taxonomy Regulation will allow for this data to be analysed and compared by financial market participants whether or not activities are sustainable and environmentally friendly. Finally, under the SFDR, these financial market participants have to disclose the sustainable and environmental impact of their investments in aforementioned corporations.

### 3.4. Connection with Other European Regulation

Another Regulation worth mentioning is the one amending the Benchmark Regulation regarding climate-related benchmarks.<sup>35</sup> This amendment is based on the Report on Benchmarks of June 2019.<sup>36</sup> It introduces two new types of benchmarks: 1) an EU Climate Transition Benchmark; and 2) an EU Paris-aligned Benchmark. Put simply, the former implies the underlying assets are merely on a decarbonization trajectory, whilst the latter indicates that the underlying assets constitute greenhouse gas emissions aligned with the long-term goals of the Paris Agreement. Of course, this regulation is further supplemented by Delegated Acts filling out

31 European Commission, *Sustainable Finance: Commission Welcomes the Adoption by the European Parliament of the Taxonomy Regulation* (Press Release 18 June 2020), [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1112](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1112); and European Commission, *Proposal for Regulation of the European Parliament and of the Council on the Establishment of a Framework to Facilitate Sustainable Investment*, COM(2018) 353 FINAL, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52018PC0353&from=EN>; Ms Joanna Valentine, Michael Sholem & Christopher Smith, *Overview Of The European Sustainability Taxonomy Regulation*, Mondaq Business Briefing (13 May 2020); Matthieu Duplat et al., *Key Pillar Of EU Green Deal Nears Completion As Taxonomy Regulation Moves Forward*, Mondaq Business Briefing (15 May 2020).

32 Russell Sparkes, *Ethical Investment: Whose Ethics, Which Investment?*, 10(3) Bus. Ethics: Eur. Rev. 199–200 (2008), <https://doi.org/10.1111/1467-8608.00233>; Georg Inderst, Christopher Kaminker & Fiona Stewart, *Defining and Measuring Green Investments*, OECD Working Papers on Finance Insurance and Private Pensions No 24, at 13–14 (2012), [https://www.oecd.org/finance/WP\\_24\\_Defining\\_and\\_Measuring\\_Green\\_Investments.pdf](https://www.oecd.org/finance/WP_24_Defining_and_Measuring_Green_Investments.pdf); Anastasia O'Rourke, *The Message and Methods of Ethical Investment*, 11(6) J. Cleaner Production 684–685 (2003).

33 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 Nov. 2019 on sustainability-related disclosures in the financial services sector, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R2088&from=EN>.

34 Joint Committee of the European Supervisory Authorities, *Joint Consultation Paper – ESG Disclosures* (23 Apr. 2020), [https://www.esma.europa.eu/sites/default/files/jc\\_2020\\_16\\_-\\_joint\\_consultation\\_paper\\_on\\_esg\\_disclosures.pdf](https://www.esma.europa.eu/sites/default/files/jc_2020_16_-_joint_consultation_paper_on_esg_disclosures.pdf).

35 Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 Nov. 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R2089&from=EN>.

36 EU Technical Expert Group on Sustainable Finance, *Report on Benchmarks, TEG Interim Report on Climate Benchmarks and Benchmarks' ESG Disclosures* (June 2019), [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190618-sustainable-finance-teg-report-climate-benchmarks-and-disclosures\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-climate-benchmarks-and-disclosures_en.pdf).



specific requirements. The idea behind these benchmarks is to provide some level of comparability, to improve transparency, and to facilitate alignment with investors' strategy on sustainability risks. These benchmarks thus extend the opportunities for investment from assets of individual corporations to groups of corporations satisfying the relevant criteria. It could furthermore create an incentive for corporations to satisfy criteria to belong to a benchmark as this will improve demand and liquidity for their assets, making it easier to finance themselves.

Besides measuring how climate neutral or sustainable a corporation is as a whole, another initiative looks only at specific assets or financial products, referred to as Green Bonds, used for the financing of specific 'green' projects. The EU's Technical Expert Group (TEG) Proposals provide for such a European Green Bond Standard<sup>37</sup> which would create a standards and labels for green financial products. Not surprisingly, the TEG's recommendations link the standards for how the proceeds of such Green Bonds are used to the already discussed Taxonomy Regulation. As before, this would allow for increased comparability by investors and provides yet another way for promoting sustainable investments.

#### 4. RISKS AND OPPORTUNITIES

The outcome of the legislation pursued by Europe's Green Deal will, in any event, be that more information reaches the investors. It will give investors more choices and hopefully more clarity.<sup>38</sup> Of course, this is based on the assumption that the information provided is sufficiently accurate. Verification could become an issue. There is a role for the accountancy firms, but there is also a rise in for example rating agencies evaluating to what extent e.g., ESG factors are integrated.<sup>39</sup> Such external verification will hopefully serve to enhance the accuracy and credibility of the newly reported information.

Producing and disclosing more information inevitably means more costs. Although one may reasonably argue it is a price worth paying, certainly for the larger corporations, a proportional approach for smaller corporations may well be justified. As with many regulatory measures, proportionality is often applied in order not to create an unreasonable and restrictive burden on smaller

businesses. In fact, the European Commission has recently set out a plan to make the Capital Markets Union more attractive for SMEs.<sup>40</sup> It would be in line with such ambitions to apply some form of proportionality for the reporting requirements under the Green Deal to SMEs as well.

Notwithstanding any of the potential issues noted above, the measures set out are no doubt a step in the right direction. Whether they are going to have an impact depends to a large degree on those who make their decisions based on this newly available information. Investors, the shareholders, appear to be the primary target of the information. This assumes some form of 'enlightened stakeholder' approach which places long-term sustainable growth above shorter term financial gains.<sup>41</sup> Part of this assumption rests with corporate governance and stewardship codes, which have so far remained largely national affairs. By way of example, the Dutch Stewardship Code is very explicit about looking after the long-term performance of investees.<sup>42</sup> However, there are European initiatives in this area as well: the Shareholder Rights Directive II ((EU) 2017/828) seeks to ensure that decisions by shareholders are made with the long-term interests of the corporation in mind. In particular, asset managers and institutional investors are required to disclose the alignment between their equity investment strategy and the duration of their liabilities. They further need to disclose how it contributes to the long-term performance of their assets held. By having to disclose this information, it is hoped that an important category of shareholders behaves in an 'enlightened' way. Of course, the other side of the coin is that these institutional investors will be held accountable for the performance of their portfolios, resulting in a search for yield with institutional investors particularly in the current low interest rate environments.<sup>43</sup>

One should not forget another important category of information recipients: consumers, either directly or perhaps indirectly through NGOs, newspapers or other (online) media. The impact of the individual on climate change is well known,<sup>44</sup> yet how will they respond to receiving such non-financial information remains unclear. Some research shows that, for example, consumers are influenced by ethical and social factors.<sup>45</sup> However, other studies show carbon labelling of groceries had little effect on the purchasing pattern unless green-labelled products were also cheapest.<sup>46</sup> It is not

37 EU Technical Expert Group on Sustainable Finance, *Usability Guide EU Green Bond Standard, Usability Guide, TEG Proposal for an EU Green Bond Standard* (Mar. 2020), [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](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).

38 Paulina Pielichata, *Investors Relish Opportunities EU 'Green Deal' Will Kickstart*, 48(4) *Pensions & Inv.* 3 (24 Feb. 2020).

39 See e.g., Elena Escrig-Olmedo et al., *Rating the Raters: Evaluating How ESG Rating Agencies Integrate Sustainability Principles*, 11(3) *Sustainability* (2019), <https://www.mdpi.com/2071-1050/11/3/915/htm>, [https://www.researchgate.net/publication/331036441\\_Rating\\_the\\_Raters\\_Evaluating\\_how\\_ESG\\_Rating\\_Agencies\\_Integrate\\_Sustainability\\_Principles](https://www.researchgate.net/publication/331036441_Rating_the_Raters_Evaluating_how_ESG_Rating_Agencies_Integrate_Sustainability_Principles); Billy Nauman, *Credit Rating Agencies Join Battle for ESG Supremacy* (17 Sept. 2019) *Financial Times*, <https://www.ft.com/content/59f60306-d671-11e9-8367-807ebd53ab77>.

40 [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_19\\_1568](https://ec.europa.eu/commission/presscorner/detail/en/IP_19_1568).

41 Michael C. Jensen, *Value Maximization, Stakeholder Theory, and the Corporate Objective Function*, 12(2) *Bus. Ethics Q.* 235 (2002).

42 Eumedion, *Dutch Stewardship Code* (2018), <https://www.eumedion.nl/en/public/knowledgenetwerk/best-practices/2018-07-dutch-stewardship-code-final-version.pdf>.

43 Bo Becker & Victoria Ivashina, *Reaching for Yield in the Bond Market*, 70(5) *J. Fin.* 1863 (2015).

44 Michael P. Vandenbergh & Anne C. Steinemann, *The Carbon Neutral Individual*, 82(6) *N. Y. U. L. Rev.* 1673 (2007).

45 Phil Megicks, Juliet Memery & Jasmine Williams, *Influences on Ethical and Socially Responsible Shopping: Evidence from the UK Grocery Sector*, 24 *J. Mktg. Mgmt.* 637 (2008).

46 Jerome K. Vanclay et. al., *Customer Response to Carbon Labelling of Groceries*, 34 *J. Consumer Pol'y* 153 (2014).

unthinkable that there is going to be a shift in what sort of corporation people, certainly the younger generation, want to work for. In short, the disclosure of non-financial information may well have an impact beyond shareholders to other stakeholders. All of this will become more evident in the near future, but for the moment, the legislative initiatives discussed in this article appear to provide the information needed for these sort of changes to happen.

## 5. CONCLUSION

This article has provided an overview of Europe's policy agenda on progressing towards a sustainable economy. As this transition will depend to a large extent on (a shift in) private investments, many of

the policy initiatives seek to ensure corporations disclose non-financial information in a consistent and comparable way. Importantly, this will include information relating to the impact these corporations have on climate change, but also the impact of climate change on them. The policy agenda thus relies to a large degree on investors' behaviour and their willingness, based on this new information, to invest in sustainable growth, even if this results in lower financial returns. It is now important to focus on what to do with the new information disclosed. To succeed, the idea of 'enlightend' shareholdership and, above all, a responsibility with investors and stakeholders to act upon the new information available, has become a prerequisite.