Sustainable investments
– Transparency regulation as a tool to influence investors to choose sustainable investment funds

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Abstract

In March 2018 the European Commission published the Action Plan on Financing Sustainable Growth. One of the main objectives with the actions presented in the action plan is to reorient capital flows towards sustainable investments, i.e. to influence more investors to invest sustainably. The action plan was followed by three proposals for transparency regulation regarding an EU taxonomy on sustainability, sustainability benchmarks and sustainability disclosures. Furthermore, the action plan included actions regarding two other transparency measures – sustainability labels and sustainability ratings.

The purpose of the thesis is to investigate if transparency regulation in the EU can be used as a tool to influence investors to choose sustainable investment funds. The Commission’s three proposed transparency regulations, as well as the concept of sustainability labels and ratings, are used as a basis for the investigation. Another purpose is therefore to critically review the three regulation proposals and the concepts of sustainability labels and ratings in order to gain an understanding of how different transparency measures can influence investor behaviour.

The transparency regulations and measures are analysed and critically reviewed in light of their objective to influence more investors to invest sustainably. A behavioural economics perspective, as well as consumer behaviour theories and decision-making models, are applied in order to analyse the transparency regulations and measures from an external perspective.

Based on the analysis there are many indicators that transparency regulation can be used as a tool to influence investors to choose sustainable investment funds. However, to what extent transparency regulation can influence investor behaviour varies depending on which transparency measures are used and how they are designed. Sustainability benchmarks seem to have the least potential to influence investor behaviour, while the EU taxonomy on sustainability and sustainability labels seem to have the best potential to influence investor behaviour.
List of Abbreviations

AIF                   Alternative Investment Fund
Commission           European Commission
CJEU                 Court of Justice of the European Union
EU                   European Union
Eurosif              European Sustainable Investment Forum
EuSEF                European social entrepreneurship funds
EFAMA                European Fund and Asset Management Association
ESG                  Environmental, social and governance
GHG                  Greenhouse gas
IBIP                  Insurance-Based Investment Product
IORP                 Institutions for Occupational Retirement Provision
ILO                  International Labour Organisation
LCB                  Low-carbon benchmark
LGBTQ                An umbrella term for lesbian, gay, bisexual, transgender and queer people
PCIB                 Positive carbon impact benchmark
NGO                  Non-Governmental Organisation
OECD                 Organisation for Economic Co-operation and Development
PRI                  Principles for Responsible Investments
SRI                  Socially Responsible Investment/Sustainable and Responsible Investment
TEGSF               Technical Expert Group on Sustainable Finance
TPB                  Theory of Planned Behaviour
TRA                  Theory of Reasoned Action
UCITS               Undertaking for Collective Investments in Transferable Securities
UN                   United Nations
UNEP-FI             United Nations Environment Programme – Finance Initiative
WCED                World Commission on Environment and Development
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1 Introduction

1.1 Background

Climate change, environmental degradation, decreasing natural resources, social injustices, poverty, war and conflicts. The world is facing many global challenges. In light of the financial sector’s power to direct capital to sustainable investments it has an essential role in addressing those challenges. It is therefore necessary that the financial sector, including the investment fund sector, takes part in the journey towards a sustainable future. Not only is it in the best interest of our planet, but also in the best interest of the financial sector itself. The effects of climate change threaten the financial stability and climate disasters are causing large economic losses.\(^1\) The global challenges have a direct effect on businesses, either posing business risks or offering business opportunities.\(^2\) Moreover, in recent years it has become clear that inadequate environmental risk assessments can have a large impact on a company’s value.\(^3\)

Considering the many financial crises throughout the years, the financial market may be associated with greed and short-termism, but lately another side of market has slowly become more and more visible. A side where the emphasis is placed on long-termism and sustainability, and where the focus is ownership and administration rather than speculative trade. A growing number of investors are no longer solely interested in making a profit, but care about the way in which the profit is made. The profit should be made with the need, demand and interest of the surrounding society in mind, rather than at the expense of the surrounding society.\(^4\) However, the majority of investors still seem to be stuck in the old mindset, being more interested in making a profit than in how the profit is made.\(^5\) This is why the United Nations (UN) has been trying to influence more investors to embrace sustainability.\(^6\) For example, in 2016, the UN Global Compact\(^7\) and the United Nations Environment Programme – Finance

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\(^1\) European Commission, ‘Sustainable finance: Making the financial sector a powerful actor in fighting climate change’ (Press release, 24 May 2018).


\(^3\) For example, in 2010, an oil-platform, operated by the oil company BP, exploded and sank outside the south coast of the US. Consequently, almost five million barrels of oil leaked into the ocean, which caused extensive damage to the marine, wildlife, fishing and tourism. The costs to stop the leakage and to clean up the emissions were record high and the stock value of BP dropped almost fifty percent. Another example is the bankruptcy of the coal company Peabody Energy Corp in 2016, which was partially caused by inadequate, or rather non-existent, environmental risk assessments. By refusing to consider how environmental aspects could affect the company’s activities, Peabody was not prepared for stricter environmental regulation, a decrease in the demand for steel and the shift in the industry from coal to gas. (Tommy Borglund, Hans De Geer, Magnus Frostensson, Lin Lerpol, Sara Nordbrand, Emma Sjöström, Susanne Sweet & Karolina Windell, *CSR och hållbart företagande* (2nd edn, Sanoma Utbildning 2017), pp. 258-259).


\(^7\) UN Global Compact is a voluntary initiative encouraging businesses to implement universal sustainability principles and to take steps to support UN goals.
Initiative\(^8\) (UNEP-FI) launched a voluntary and aspirational framework with six principles for responsible investment.\(^9\) Other actors on the financial market have started to create sustainability initiatives as well in order to make it easier for investors to form an opinion on whether an investment is sustainable or not. For example, *Morningstar* has created a sustainability rating that evaluates investment funds based on how well the underlying assets perform on sustainability issues.\(^10\) Another example is a tool called *Hållbarhetsprofilen*, which is a standardised information leaflet on the sustainability strategy of a fund, created by the Swedish organisation Swesif.\(^11\)

The European Union (EU) has adopted several measures geared towards the investment sector in order to meet the goals set in the Paris Agreement\(^12\) and the UN Agenda 2030\(^13\). In January 2017, the EU’s *High-Level Expert Group on Sustainable Finance* published a report\(^14\) on the creation of a sustainable financial strategy, which laid the foundation for the *Action Plan on Financing Sustainable Growth*, published by the European Commission (the Commission) in March 2018. Based on ten key actions, the aim of the action plan is to reorient capital flows towards sustainable investments, to manage financial risks stemming from climate change, environmental degradation and social issues, and to foster transparency and long-termism in financial and economic activity.\(^15\) The action plan was followed by three proposals for transparency regulation, in which some of the key actions presented in the action plan are implemented. The first proposal regards the establishment of a harmonised taxonomy\(^16\) for sustainability.\(^17\) The second proposal regards disclosure requirements on how institutional investors and asset managers integrate sustainability risks in their decision-making process. Additionally, the second proposal deals with transparency requirements on financial products.

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\(^8\) UNEP-FI is a partnership between United Nations Environment and the global financial sector with a mission to promote sustainable finance.


\(^12\) The two main aims of the agreement are to decrease greenhouse gas (GHG) emissions and to support the people who are affected by climate change. (Paris Agreement, 2015).

\(^13\) The aim of the UN Agenda 2030 is to reach thirty global goals related to environmental, economic and social sustainability by 2030. (Resolution 70/1, ‘Transforming our world: the 2030 Agenda for Sustainable Development’).


\(^16\) A unified classification system with criteria to determine whether an economic activity is environmentally sustainable or not.

with a focus on sustainable investments. The third proposal regards the creation of two new categories of sustainability benchmarks - low-carbon and positive carbon impact benchmarks.

### 1.2 Purpose

The first purpose of this thesis is to investigate if transparency regulation in the EU can be used as a tool to influence investors to choose sustainable investment funds. One of the main aims of the actions presented in the *Action Plan on Financing Sustainable Growth*, as well as the accompanying regulation proposals, is to reorient capital flows towards sustainable investments, i.e. to influence more investors to invest sustainably. In light of this, the Commission’s three proposed transparency regulations, as well as the concept of sustainability labels and ratings, are used as a basis for the investigation. The second purpose of this thesis is therefore to critically review the three regulation proposals and the concept of sustainability labels and ratings in order to gain an understanding of how different transparency measures can influence investors to choose sustainable investment funds.

### 1.3 Research questions

The primary research question is: Can transparency regulation in the EU be used as a tool to influence investors to choose sustainable investment funds?

In order to answer the primary research questions, the following sub-questions are relevant:

- Can the EU taxonomy on sustainability influence investors to choose sustainable investment funds?
- Can sustainability benchmarks influence investors to choose sustainable investment funds?
- Can disclosure requirements on the integration of sustainability in the investment process influence investors to choose sustainable investment funds?
- Can sustainability labels influence investors to choose sustainable investment funds?
- Can sustainability ratings influence investors to choose sustainable investment funds?

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21 EU proposal taxonomy, EU proposal disclosures and EU proposal benchmarks.
1.4 Method and material

The concept of sustainability and sustainable investment is a fundamental part of the purpose and research questions of this thesis. In light of sustainability not being a traditional feature in the field of law, the second chapter consists of a description of the concept of sustainability and sustainable investment. There is a vast amount of literature on sustainability from a variety of disciplines and it is not possible to do a comprehensive review of the concept in this thesis. Thus, the aim is to provide a basic understanding of what sustainability means in the context of investments, in order to lay the foundation for the subsequent analysis. Since there is no universal definition of neither sustainability nor sustainable investment, the literature has been selected based on the ambition to reflect the diversity in the field. The selected literature has been reviewed and analysed in order to provide a compilation of the most commonly used definitions and to discern similarities and differences among the definitions.

Beyond the concept of sustainability and sustainable investment, investor behaviour is a fundamental part of this thesis, as the purpose is to investigate if transparency regulation can influence investors to choose sustainable investment funds. Therefore, in chapter 3, consumer behaviour literature is used to gain an understanding of investor behaviour and what challenges investors face in regard to sustainable investing. Additionally, decision-making models from the consumer field, primarily the Theory of Planned Behaviour\(^{23}\), are used to gain an understanding of the decision-making process of investors, as it gives an important insight to how investors can be influenced to act in a certain way. The use of consumer literature is supported by the fact that the fund industry today holds many similarities with traditional consumer industries. For example, companies compete to develop new investment products targeted at different types of investors and marketing campaigns for investment product and the practice of hard selling are not uncommon. As a consequence of this, the fund industry increasingly views investors as consumers.\(^{24}\) The findings from chapter 3, as well as the decision-making models described in the same chapter, are applied as an external perspective in the analysis in order to answer the research questions.

In order to answer the primary research question, it is not enough to consider transparency regulation in general or to consider transparency regulation as a homogenous regulatory tool. In order to give depth to the analysis, it is necessary to use actual transparency regulation in the EU as objects of study, hence the sub-questions. Since the regulation in the field of sustainable investments in the EU is in an evolutionary state, little established transparency regulation exists. Therefore, transparency regulation proposals originating from the Action Plan on Financing Sustainable Growth, as well as transparency measures proposed in the

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\(^{23}\) See chapter 3.2 for an in-depth description of the Theory of Planned Behaviour and the other decision-making models used in this thesis.

action plan, are used as objects of study.\textsuperscript{25} Not very long ago, regulation proposals and other preparatory works were not recognized as sources of law, but lately the Court of Justice of the European Union (CJEU) has begun to use preparatory works in its interpretation of EU law. Additionally, the regulation proposals published by the Commission today is carefully motivated and they often contain extensive statute comments.\textsuperscript{26} This, in addition to the fact that there is yet no established law, ought to give grounds for the use of preparatory works as objects of study in this thesis. The proposed transparency regulations, as well as the concept of sustainability labels and ratings, are reviewed and described in chapter 2.2.7 and 4.2, and a European Legal Method has been applied to manage the sources of law.\textsuperscript{27} The European Legal Method is closely related to the Legal Dogmatic Method but refers to a different doctrine on the sources of law.\textsuperscript{28} Additionally, the European Legal Method refers to different principles of interpretation than the Legal Dogmatic Method. The sources of law are often interpreted according to a European teleological method, i.e. the sources of law are interpreted in light of their objectives and context.\textsuperscript{29} The European teleological method has been applied in chapter 5.1.2-5.1.6, in order to analyse and critically review the proposed transparency regulations and measures in light of their objective to influence more investors to invest sustainably.\textsuperscript{30}

As the purpose of the thesis is to investigate if transparency regulation can be used as a tool to influence investors to choose sustainable investment funds, it is not enough to solely investigate transparency regulations and measures from legal perspective. The regulations must also be viewed from an external perspective. As mentioned previously, the findings from chapter 3, as well as the decision-making models presented in the same chapter, are applied in the analysis as external perspectives. Another external perspective used in the analysis is behavioural economics. Behavioural economic theories and findings from behavioural economic studies are used to further analyse how investors are affected by the transparency regulations and measures presented in chapter 2.2.7 and 4.2. Behavioural economics is a subject that incorporates social science disciplines, especially psychology, to standard economic models in order to not only find optimal solutions to specific problems like traditional economic theories, but also to gain an understanding of how people actually behave; to find the psychological aspects that compose the foundation to economic decisions.\textsuperscript{31} Instead of being based on the assumption that people are rational maximisers of preference satisfaction, behavioural

\textsuperscript{25} The thesis is based on proposals and not established law, why changes may be made, and additional information may follow in the future. This thesis does not take into account changes that were made or information that was added after 2019-02-20.


\textsuperscript{28} Hettne & Otken Eriksson (n 26), p. 36.

\textsuperscript{29} Ibid, pp. 36, 158-159, 168.

\textsuperscript{30} See ch. 1.2.

economics is based on the assumption that people have limited rationality, willpower and self-interest, due to cognitive quirks such as the availability heuristic, framing effects and over optimism. When behavioural economic theories and findings are applied to regulation it is possible to examine what the implications of the law could be based on the behaviour of an actual human. It can give answers to questions such as how the regulation will affect human behaviour and explain how regulation can be used to achieve a specific objective. Consequently, in the context of this thesis, behavioural economic theories and findings are used to understand how transparency regulation can affect investors’ behaviour of investing sustainably, as well as to understand if and how transparency regulation can achieve the objective of influencing investors to choose sustainable investment funds.

1.5 Delimitation
In light of the fact that the largest proportion of sustainable investments derive from Europe, and that the EU has put much emphasis on sustainable investments in its regulatory measures during the last years, the focus in this thesis will be on transparency regulations and measures proposed by the EU. National regulation in EU member states will consequently not be examined.

The thesis only covers transparency regulations and measures which are relevant to the investment fund sector and which target UCITS/mutual funds. Moreover, the thesis does not cover regulation regarding fund structure, as it is not necessary for a discussion on how transparency regulation affects investor behaviour.

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32 According to the availability heuristic theory people are largely influenced by information that they can recall quickly from the memory when they make decisions, e.g. information that has been repeated many times or information that is in front of them at the moment of decision. See e.g. Amos Tversky & Daniel Kahneman, ‘Availability: A heuristic for judging frequency and probability’ (1973) 5 Cognitive Psychology 2017 and Norbert Schwarz, Herbert Bless, Fritz Strack, Gisela Klumpp, Helga Rittenauer-Schatka & Anette Simons, ‘Ease of Retrieval as Information: Another Look at the Availability Heuristic’ (1991) 61 Journal of Personality and Social Psychology 195.

33 According to the framing effects theory the way in which information is presented or framed can affect the conclusions people draw from the information. People are generally more likely to choose an alternative that is presented in a positive way, where emphasis is placed on gains, than an alternative that is presented in a negative way, where the emphasis is placed on losses. See e.g. Amos Tversky & Daniel Kahneman, ‘The Framing of Decisions and the Psychology of Choice’ (1981)211 Science 453.


In general, investors can be divided into two groups – institutional investors and private/retail investors. The possibility for institutional investors to invest sustainably is limited by their fiduciary duty, which is not be covered in this thesis. In light of this, the thesis is mainly focused on private/retail investors. However, this does not imply that the behavioural economics and investor behaviour theories used in the thesis cannot be applied to institutional investors.

The transparency regulations and measures covered in this thesis are solely analysed from an investor perspective. Material and arguments related to the funds’ or fund managers’ perspective, such as the costs for implementing and the willingness to use the proposed transparency regulations and measures has been delimited.

1.6 Disposition

In chapter 2, the many definitions of sustainability are reviewed and analysed. The term is then put into the context of investments in order to define what sustainable investments are, focusing on the most commonly used definitions as well as the proposed EU taxonomy on sustainability.

In chapter 3, sustainable investments are viewed from an investor perspective, in order to gain an understanding of what measures are required to influence investor behaviour. The motives an investor can have for investing sustainably are presented, as well as a framework for investor behaviour. The chapter is concluded with a review of problems and challenges that prevent investors from investing sustainably today.

In chapter 4, the concept of transparency regulation is described. Then follows a review of four different transparency measures - sustainability benchmarks, sustainability disclosures, sustainability labels and sustainability ratings. The review is based on EU regulation proposals on sustainability benchmarks and disclosures, as well as the actions proposed in EU’s Action Plan on Financing Sustainable Growth regarding sustainability labels and ratings.

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40 Private/retail investors are investors who are not institutional, i.e. individuals or organisations who invest for their own account. Unlike institutional investors, private/retail investors do not have a fiduciary duty and are therefore free to invest the money in the manner that suits them best. (Jeffrey G MacIntosh, ‘The Role of Institutional and Retail Investors in Canadian Capital Markets’ (1993) 31 Osgoode Hall Law Journal 371, p. 373; Jonas Nilsson, ‘The preferences of beneficiaries: what can we learn from research on retail investors?’ in James P Hawley, Andreas G F Hoepner, Keith L Johnson, Joakim Sandberg & Edward J Waitzer (eds), Cambridge handbook of institutional investment and fiduciary duty (Cambridge University Press, 2015), p. 378).
In chapter 5, the proposed transparency regulations and measures covered in previous chapters are critically reviewed and analysed from a behavioural economics and consumer theory perspective, in order to determine whether transparency regulation can be used a tool to influence investors to choose sustainable investment funds.
2 Defining sustainable investments

2.1 What is sustainability?

In recent years sustainability has become a popular term and it is used in a variety of contexts and across many different disciplines, from biology, engineering and technology to business, economics and politics. In light of this, one may think that there would be a fairly simple answer to the question - "What is sustainability?". Unfortunately, there is not. Despite the popularity of the term, there is still no universally acknowledge definition of sustainability. Instead, the many attempts to define sustainability has resulted in countless different definitions, all varying by scale and context. In addition to making sustainability seem like a superficial, loose and “catch-it-all” term, which may limit its credibility, the absence of a universal definition also causes problems with practical application, for example a difficulty to compare sustainability activities. However, even though the absence of a universal definition of sustainability is problematic in several ways, one may also argue that the existence of multiple definitions can be considered useful and valuable, especially considering how transcendent the term has become. Additionally, the environment, the economy and the society are complex and dynamic systems in which new problems constantly emerge. One may therefore argue that the concept of sustainability should also be dynamic and flexible to best reflect the current systems and problems.

The notion of sustainability has a long history. For example, it is inherent in many centuries-old belief systems of indigenous peoples and it can be found in forestry management and agricultural practices as far back as to the Middle-Ages. However, the contemporary use of the term sustainability is often tied to the publication of the report Limits to Growth, a study of the carrying capacity of the earth in relation to population growth, in 1972 and the emergence of global environmental issues, such as ozone depletion and climate change in the 1980s and 1990s. The word itself derives from the Latin sustinère, which means to “sustain”, “maintain”, “support”, “endure” or “restrain”. The word then passed to French as soutenir.

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42 For an overview of different definition of sustainability see for example David VJ Bell (ed), ‘Defining Sustainability, Sustainable Development and Sustainable Communities: A working paper for the Sustainable Toronto Project’ (Toronto: York Centre for Applied Sustainability 2001).

43 Vos (n 41) p. 334.


45 Vos (n 41) pp. 335–336.


47 Vos (n 41) p. 334.
before it made an entry into the English language as to sustain and its adjective form, sustainable, which means “capable of being upheld or maintainable” according to the Oxford English Dictionary.\(^{48}\)

The term sustainability has historically been used to describe how humanity has adapted and sustained when the socio-ecological interactions have been damaged or exposed. Today, the term is more often used to describe how the society use and relate to natural resources and the ecosystem, as well as to social justice and stability.\(^{49}\) Sustainability is often divided into different dimensions. The three most recognized dimensions are the environmental dimension, the social dimension and the economic dimension, though the emphasis put on each dimension can vary a lot depending on definition.\(^{50}\) In the social dimension of sustainability emphasis is often put on individuals and the satisfaction of both their basic human needs, such as food, water and shelter, and their more social and cultural needs, such as security, freedom, education, employment and recreation. In the environmental dimension emphasis is instead put on the productivity and functioning of ecosystems, the protection of biodiversity and natural biological processes. Lastly, in the economic dimension the focus is often on the nation and global interactions between national economies.\(^{51}\)

The many different definitions of sustainability can be categorised into groups depending on how broad or narrow they are. The narrowest definitions of sustainability are often solely concerned with the indefinite survival of humanity, while broader definitions also include life qualities beyond biological survival, such as health, productivity and meaningfulness. Furthermore, the broadest definitions include not only the survival and life quality of humanity, but all life on earth, regardless of their benefit to humans.\(^{52}\)

Despite the many different definitions of sustainability, one may discern certain key elements, which are found in most definitions. The first key element is interconnectedness, which relates to the connection and relationship between the environment, the economy and the society, commonly referred to as the three pillars of sustainability. The three pillars should support and reinforce each other in a reciprocal relationship.\(^{53}\) The second key element is intergenerational equity, which is a principle of distributive justice or fairness between past, present and future generations.\(^{54}\) Resources should be used at a rate that do not result in a reduction in future

\(^{48}\) Caradonna (n 44) p. 7; Brown et al (n 41) p. 714.

\(^{49}\) Borglund et al (n 3) p. 76.


\(^{51}\) Brown et al (n 41) pp. 716–718.

\(^{52}\) Ibid p. 717.


\(^{54}\) Brett M. Frischmann, ‘Some Thoughts on Shortsightedness and Intergenerational Equity’ (2005) 36 Loyola University Chicago Law Journal 457, p. 460; Elder (n 53) p. 835; Toman (n 41) p. 4; Vos (n 41) p. 335.
incomes or in a reduction in the diversity of the natural ecosystems and their regenerative capacity.\textsuperscript{55} The second key element also deals with the concept of preservation, nurturing and maintenance of natural resources, ecosystems and social/cultural systems over time, and is closely connected to the scale of human impact relative to global carrying capacity.\textsuperscript{56, 57} Finally, the third key element is \textit{power of initiative}, which refers to the aspiration to do more than to simply comply with existing laws and regulations.\textsuperscript{58}

Sustainability is often expressed in its adjective form, \textit{sustainable}, and connected with other terms in order to put emphasis on one or another aspect of the concept of sustainability. For example, sustainable development, which put emphasis on the idea that sustainability ought to be considered as a journey rather than a fixed destination; a means to achieve human goals rather than an end in itself.\textsuperscript{59} However, due to the fact that sustainable development has become such a popular and widely used term, it is today often treated simply as a synonym to sustainability. The most frequently used definition of sustainable development, which has also been widely accepted and endorsed by many governments, companies and organisations, was introduced by the World Commission on Environment and Development (WCED) in 1987 - “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.\textsuperscript{60, 61}

Although we can find certain patterns and key elements among the definitions of sustainability it seems unlikely that there will ever be a universal definition. Therefore, it is, in every context, important to be explicit about what definition of sustainability one is referring to.\textsuperscript{62} Also, regarding the creation of new definitions, it is important that they are crafted with the time and intended context in mind, in order to make sure that they serve the intended purpose. Moreover, it is important that the definitions are used in practice, since it is only then that they can be refined.\textsuperscript{63}

\textsuperscript{55} Elder (n 53) p. 835.
\textsuperscript{56} From the perspective of human beings, carrying capacity refers to the maximum size of the population that Earth can sustain indefinitely, in other words the maximum rate of resource consumption and waste that can be sustained without damaging the ecosystems we depend on. (William E Rees, ‘Ecological footprints and appropriated carrying capacity: what urban economics leaves out (1992) 4 Environment and Urbanization 121, p. 125).
\textsuperscript{57} Toman (n 41) p. 5.
\textsuperscript{58} Vos (n 41) p. 335.
\textsuperscript{60} World Commission on Environment and Development, “Our Common Future” (Report 1987), section IV point 1.
\textsuperscript{62} Brown et al (n 41) p. 718.
\textsuperscript{63} Vos (n 41) p. 339.
2.2 Sustainability in the context of investments

2.2.1 Introduction
In light of the many definitions of the term sustainability it follows naturally that, throughout the years, several different definitions of sustainable investments have emerged as well. The myriad of definitions can be explained by cultural and ideological differences between regions, differences in values, norms and ideology between the actors involved in the sustainability movement, and the fact that the market setting creates incentives for investment companies to develop their own terms, strategies and criteria in order to differentiate themselves from competitors.64 In general, one may say that all definitions refer to investments that, in one way or another, take sustainability aspects into account. What sets them apart is their interpretation of sustainability and which aspects they consider or put most emphasis on.

The multiple definitions of sustainable investments can, just like the many definitions of sustainability, cause several problems. Firstly, legislators and other initiators of legislative and market-based initiatives that aim to promote and increase sustainable investment, e.g. labelling schemes, standards, benchmarks and disclosure rules, base the initiatives on their own interpretations and definitions of sustainable investments. This, in turn, makes it disproportionately burdensome and difficult for investors to check and compare sustainable investments, which can discourage them from investing both within and across border. Secondly, diverse national rules and market-initiatives raise competition problems and increase the fragmentation of the market, which makes it both more difficult and more expensive for investors to discern what is sustainable and what is not. Thirdly, the divergences can also lead to a lack of investor confidence, which in turn can have a major detrimental effect on the market for sustainable investments.65 Finally, a lack of a mutual definition hampers the sustainable movement in the investment industry and increases the concerns for greenwashing, as it leads to differences in measuring and tracking of sustainable investment.66

In light of the many problems mentioned above, and due to the fact that the terms to describe sustainable investments are sometimes used interchangeably as synonyms, sometimes as separate terms with slightly different meanings, it is motivated to give a short presentation of the most commonly used definitions in order to identify the specific characteristics of each one, as well as to highlight the differences.

65 EU proposal taxonomy, pp. 3-4, preamble 9-10.
66 In this context, greenwashing refers to the practice of gaining unfair competitive advantages by marketing financial products as green or sustainable, when, in reality, they do not meet basic environmental standards. (EU proposal taxonomy, preamble 9).
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<td>Ethical investment</td>
<td>Ethical, religious, social</td>
<td>Exclude investments based on values</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not only interested in financial returns, but also in the source of the returns</td>
</tr>
<tr>
<td>Sustainable investment</td>
<td>Environmental, social, socioeconomic, governance</td>
<td>Combining financial objectives with non-financial concerns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Broad and generic umbrella term</td>
</tr>
<tr>
<td>ESG investment</td>
<td>Environmental, social, governance</td>
<td>Take ESG consideration into account in the investment process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A tool for risk assessment</td>
</tr>
<tr>
<td>SRI</td>
<td>Environmental, social, governance, ethical, religious</td>
<td>Enhance the wealth of the investors and contribute to the construction of a better and more sustainable world</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Umbrella term</td>
</tr>
<tr>
<td>Responsible investment</td>
<td>Environmental, social, governance</td>
<td>Financial returns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Holistic approach that include all ESG aspects that can have an effect on financial returns</td>
</tr>
<tr>
<td>EU taxonomy</td>
<td>Environmental, social (only workers’ rights)</td>
<td>Contribute to a shared view on what sustainability means in the context of investments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regulated definition</td>
</tr>
</tbody>
</table>

Figure 1. A summary of the definitions of sustainable investments presented in chapter 2.2.

2.2.2 Ethical investment
The oldest term for sustainable investments is *ethical investment*. It has historically often been used to describe investments that, on the basis of various values, excluded industries such as tobacco, gambling, pornography and alcohol or investments where a certain percentage of the yearly returns were donated to charity.68 In ethical investment, social and ethical criteria are used to select and manage the investment portfolio. Additionally, the term puts emphasis on the fact that investors are not only interested in the size of their financial returns, but also in the

source of their returns, in other words, the nature of the companies’ products and services, the location of the companies’ businesses and the manner in which the companies conduct their affairs.  

As altruism, self-sacrifice and a normative and systematic code of conduct are embedded in the term ethical, one may argue that ethical investment ought to include a desire to help others even if it means a cost to oneself, and a set of consistent general principles that guide and influence investment behaviour. In light of this, the term ethical investment is best suited to describe investments made by value-based and non-profit organisations, which have detailed ethics codes and principles, and a clear decision-making body that can manage ethical dilemmas, e.g. churches, charities and NGOs. Although the term ethical investment does not accurately describe investments where the main objective is to get high returns, it is still used to describe those investments. However, in recent years it has increasingly been replaced by other terms. This may be due to the fact that the term holds religious and moral overtones or that many people feel uncomfortable to use the term “ethical” in relation to investment and to identify ethical motives.

2.2.3 Sustainable investment

Sustainable investment can be viewed as a broad and generic umbrella term for investments that aim to contribute towards sustainable development by integrating long-term environmental, social, ethical, socioeconomic and governance criteria simultaneously into portfolio selection and management, combining the investors’ financial objectives with primarily non-financial concerns. The umbrella description comes from the fact that the term embraces the concept of other similar terms. The term sustainable investment puts emphasis on the fact that it is not only traditionally ethical considerations that are included, but rather all parts of the sustainability concept. Sustainable investment is not only about exclusion of certain industries, but also a way to complement traditional financial analysis with sustainability considerations.

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70 Sparkes, ‘Ethical investment’ (n 68), pp. 198–199.
2.2.4 ESG investment

ESG, which is an abbreviation for environment, social and governance, is one of the most established terms for investments that take environmental, social and governance aspect into account. Although ESG is divided into three areas, it is important to remember that they are interrelated and that they cannot be considered as separate entities. For example, climate change can hinder the fulfilment of human rights and governance is connected to social and environmental issues through transparency and disclosure.74

The environmental criterion of ESG covers issues such as climate change, greenhouse gas (GHG) emissions, biodiversity, resource depletion, energy, chemicals, pollution and waste management. Not all issues will be equally relevant to all investors, it depends on, for example, which industry or which country the investment refers to. The social criterion of ESG covers issues such as human rights, working conditions, freedom of expression, health, local communities, conflict, humanitarian crisis and poverty. Like the environmental criterion, the relevance the different aspect of the social criterion has for the investors depends on the industry and the country of the investment.75 Governance covers issues about corporate ownership and control, e.g. the board diversity and structure, how the board is appointed, remuneration for board members and management, bribery and corruption, fair tax strategy and transparency. Governance issues are important since the way in which companies are owned and controlled affects the functioning of the market and the trust from the companies’ stakeholders.76 Many countries have guiding rules on corporate ownership and control - Corporate Governance Codes.77 They are mainly issued by stock markets, national authorities or managers’ associations, and are often based on the “comply or explain” approach,78 which means that if a company wants to deviate from a specific code or principle, it may do so if it offers an explanation for the deviation. This approach allows companies to adapt the governance after what is most appropriate for its business.79 The Corporate Governance Codes can include rules on issues such as fairness to all shareholders, transparency in financial and non-financial reporting, the composition and structure of boards and the responsibility for stakeholders’ interests.80

74 European Commission, ‘Delivering on sustainable finance for a greener and cleaner economy: First actions’ (Fact Sheet, 2018); Sjöström, Hållbara investeringar (n 2), p. 17.
75 Sjöström, Hållbara investeringar (n 2), p. 16.
77 For an overview of the Corporate Governance Codes around the world, see OECD, ‘OECD Corporate Governance Factbook 2017 (Report 2017), pp. 22-23.
78 According to a study by OECD, eighty-four percent of the reviewed jurisdictions use the “comply or explain” method, either through law/regulation or listing rule. The rest have either binding law, regulation or listing rule or a mixture of the two approaches (OECD, ‘OECD Corporate Governance Factbook 2017 (Report 2017), pp.15-17).
80 Zattoni & Cuomo (n 79), pp. 3–4.
2.2.5 SRI
SRI, which is an abbreviation for socially responsible investment or sustainable and responsible investment, is another popular term for investments that take sustainability aspects into account. The term originates from ethical investment, but the SRI criteria are more objective and standardised than the hard-defined ethical principles distinguishable for ethical investment. SRI can be described as an umbrella term for investments that take the three pillars of sustainable development, as well as ESG-, ethical- and religious criteria, into account; combining social and environmental motives with the goal of high returns in order to better capture long term returns for investors and to benefit society by influencing company behaviour. Thus, the objectives of SRI investment are partly about enhancing the wealth of the investors, both today and in the long-term, and partly about contributing to the construction of a better and more sustainable world.

As a result of the ESG criteria being more or less embedded in the SRI concept, the two terms are often used interchangeably. However, it is possible to discern certain differences between them. Unlike ESG investment, SRI covers ethical and religious criteria. The ethical and religious criteria are closely related, but while the religious criteria solely and explicitly refer to teachings and indoctrinations of religious organisations, the ethical criteria refer to moral believes, standards and values in general, regardless of their origins. Ethical and religious criteria cover for example weapons, gambling, products that are harmful for human health, LGBTQ+ rights, politics and animal rights. Another difference between ESG investment and SRI is that the latter is not as distinctly concerned with the governance aspect as the first. Additionally, the use of the word responsibility in the SRI term suggest that there is a moral dimension to SRI, something that is not as distinguishable in ESG investment. SRI investments could just as well be motivated by what is “right” and morally defendable, as motivated by financial reasons. ESG investment, on the other hand, is not as a loaded and moral term as SRI. Instead, ESG could be viewed as an objective listing of three aspects that investors can choose to take into consideration as a part of their risk analysis. In conclusion, SRI reflects and encompasses the idea that we ought to work for sustainable development on the basis of values, while ESG is more of a tool for risk assessment.

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81 According to a study, in which 190 academic papers from 1975 to 2009 were reviewed, socially responsible investment was the most used description of investments that take ESG criteria into account. (N. S. Eccles & S. Viviers, ‘The origins and meanings of names describing investment practices that integrate a consideration of ESG issues in the academic literature’ (2011) 104 Journal of Business Ethics 389)
84 Fung et al (n 82), p. 6.
85 Fung et al (n 82), pp. 35, 92.
86 Sjöström, Hållbara investeringar (n 2), p. 20.
2.2.6 Responsible investment
Responsible investment is a rather old term, but it never became as widespread and popular as the terms mentioned above. However, since the release of the UN Principles for Responsible Investment in 2006, the term has gained in popularity. Responsible investment can be described as an investment practice that incorporate ESG criteria in investment decisions in order to manage risk and generate sustainable, long-term returns.

The term is similar to SRI, sustainable investment and ethical investment, but while the other approaches seek to combine financial returns with moral and ethical returns, responsible investment is distinguished by the fact that there is only one objective – financial returns. Thus, putting emphasis on the relation between ESG criteria and financial returns, showing that to ignore ESG is to ignore risks and opportunities that can have a material impact on financial returns. Furthermore, some of the other approaches only target specific aspects of sustainability, for example the environment or corporate governance, while responsible investment embodies a more holistic approach, trying to include all aspects that can have an effect on financial returns.

2.2.7 EU taxonomy on sustainability
In 2018 EU published a proposal for a regulation on a taxonomy on sustainability as a step towards the implementation of the key actions presented in the Action Plan on Financing Sustainable Growth. The shift of capital flows towards sustainable investments have to be underpinned by a shared view on what sustainability means in the context of investments. However, the review of the various definitions of sustainability and sustainable investment in the chapters above has shown that there is great uncertainty and many different opinions regarding what is to be considered sustainable investment. This has resulted in several problems; problems that the EU hope to address with the proposed taxonomy on sustainability.

As the EU wanted direct applicability, full harmonisation and a solution to the problem with divergence of existing national and market-based definitions of sustainable investment, the taxonomy was drafted as a regulation rather than a minimum harmonisation directive or a non-legislative measure, since the last two would have given member states the discretion to define

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87 For example, the term “responsible investment” was used by the Quakers in the late 1970s (Sparkes, ‘Ethical investment’ (n 68), p. 196).
88 Eccles & Viviers (n 81) p. 4
92 EU proposal taxonomy, preamble 6.
sustainable investment. Thus, risking further fragmentation of the market and financial products with poor environmental performance being labelled sustainable.\(^93\)

The central aim of the proposal of the EU taxonomy on sustainability is to integrate ESG considerations into the investment and the advisory processes across sectors in a consistent manner. The taxonomy will be established as a foundation framework which can be embedded in EU law and be used in many different areas, such as standards, labels and sustainability benchmarks. Another aim is to remove and prevent obstacles to the functioning of the internal market.\(^94\) Moreover, the uniform EU taxonomy on sustainability will provide greater clarity for economic actors and investors regarding which economic activities are considered environmentally sustainable, so that they can make more informed investment decisions and compare sustainable investments, both nationally and across the EU.\(^95\) The taxonomy will establish a level playing field for all market participants and ensure that the EU market is not distorted by different interpretations of sustainable investment, which will facilitate the process of attracting capital to sustainable investments across Europe for economic actors.\(^96\) Furthermore the taxonomy will help to ensure that the economic activities assembled within the taxonomy genuinely contribute to the achievement of environmental objectives.\(^97\) Finally, the taxonomy will help tackle the problem of greenwashing, create incentives for investing in sustainable activities without penalising other investments, and make it easier for investors to identify the criteria that have been used to classify a financial product sustainable, as well as the relative environmental sustainability of a given investment.\(^98\)

The proposed taxonomy regulation establishes a framework for a unified EU classification system, based on a set of specific criteria that will be used to determine whether an economic activity\(^99\) is environmentally sustainable or not, in order to establish the degree of environmental sustainability of an investment. In other words, the taxonomy is a standard EU-level definition of which economic activities can be considered as environmentally sustainable.

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\(^{93}\) EU proposal taxonomy, p. 5.

\(^{94}\) EU proposal taxonomy, pp. 1–2, preamble 9.

\(^{95}\) EU proposal taxonomy, pp. 1, 4-5, preamble 10.

\(^{96}\) EU proposal taxonomy, pp. 3–5.

\(^{97}\) EU proposal taxonomy, p. 1.

\(^{98}\) EU proposal taxonomy, pp. 4–5.

\(^{99}\) The term economic activity refers to the combination of resources (capital, labour, manufacturing techniques or intermediary products) to produce specific goods and services. Thus, the characteristics of an economic activity is an input of resources, a production process and an output of goods and services. (Eurostat, ‘NACE Rev. 2: Statistical classification of economic activities in the European Community’ (Methodologies and Working papers, 2008), p. 15). For a list of economic activities under the European classification system NACE, see annex 1 in Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains.
The taxonomy will apply to regulators at national and EU level when they adopt requirements on market actors regarding financial products marketed as environmentally sustainable, and to financial market participants\(^\text{102}\) that are offering products as environmentally sustainable investments.\(^\text{103}\) Financial market participants must disclose information on how and to what extent the criteria for environmentally sustainable economic activities are used to determine the environmental sustainability of the investment and the Commission will, by 31 December 2019, adopt a delegated act that specifies the information required to comply with this disclosure rule.\(^\text{104}\)

The taxonomy refers to economic activities, not assets or companies, but it can be used to determine the degree of sustainability of a given company or asset for the purpose of investment. For example, if a company only performs environmentally sustainable activities then an investment in that company will be considered environmentally sustainable. If a company performs several economic activities, of which only a few are environmentally sustainable, the degree of environmental sustainability can be determined by comparing the proportion of revenue originating from environmentally sustainable activities to revenue originating from other activities. Investments in assets that will only finance environmentally sustainable activities in a company, e.g. green bonds\(^\text{105}\), will automatically be considered environmentally sustainable investments, while a degree of environmental sustainability will have to be determined for investments in assets that not only finance environmentally sustainable activities.\(^\text{106}\) Moreover, the taxonomy regulation does not establish a label for sustainable financial products, but it gives the criteria that will have to be taken into account when labelling schemes are set up at national or EU level. Thus, it does not prevent member states to keep and further develop existing labelling schemes, as long as they comply with the criteria in the taxonomy.\(^\text{107}\) It is also important to stress that the taxonomy includes neither a mandatory list of activities to invest in, nor behavioural requirements. Consequently, financial activities of economic relevance are deemed to have a sufficient degree of environmental sustainability if they contribute to one or more of the environmental objectives of the Regulation. Second, they should not significantly harm any of the environmental objectives. Third, they should be carried out in accordance with the principles and rights in ILO’s Declaration on Fundamental Rights and Principles at Work. Fourth, they should comply with the technical screening criteria. (EU proposal taxonomy, article 3).

\(^\text{100}\) An economic activity is environmentally sustainable if it complies with four criteria. First, it must contribute to one or more of the environmental objectives of the regulation. Second, it should not significantly harm any of the environmental objectives. Third, it should be carried out in accordance with the principles and rights in ILO’s Declaration on Fundamental Rights and Principles at Work. Fourth, it should comply with the technical screening criteria. (EU proposal taxonomy, article 3).

\(^\text{101}\) EU proposal taxonomy, article 1.1, pp. 1, 3, 4, 12.

\(^\text{102}\) The financial market participants include UCITS management companies, AIF managers, EuSEF managers, EuVECA managers, insurance undertakings that make available an IBIP, investment firms that provide portfolio management, IORPs and providers of pension products (EU proposal taxonomy article 2b, EU proposal disclosures, article 2a).

\(^\text{103}\) EU proposal taxonomy, article 1.2.

\(^\text{104}\) EU proposal taxonomy, article 4.

\(^\text{105}\) A green bond is a special bond, which allows companies, banks, governmental organisations etc. to borrow money from investors in order to finance or re-finance “green” projects, assets or business activities. In other words, a bond earmarked for green initiatives. (European Commission, ‘Action Plan: Financing Sustainable Growth’ COM (2018) 97 final, p. 4).

\(^\text{106}\) EU proposal taxonomy, p. 12.

\(^\text{107}\) EU proposal taxonomy, p. 12.
market participants can still invest in activities not covered by the taxonomy, as long as they disclose whether and to what extent their products finance activities under the taxonomy.  

Currently the taxonomy mainly covers the environmental part of the sustainability concept, which really distinguishes it from the other sustainable investment definitions reviewed above. However, the regulation has a review clause that calls for an evaluation of the regulation every three years, opening up the possibility to extend the scope of the regulation to cover other sustainability objectives, in particular social objectives, as well.  

The long-term ambition of the taxonomy is to cover the whole sustainability concept, except governance issues.  

Though, the Commission feels that the current knowledge on how social objectives could be integrated in the taxonomy is not yet developed enough on the market, why the focus is on environmental objectives at present.  

The review clause also offers the flexibility required for the regulation to be dynamic and responsive; it can be updated and changed over time when necessary in light of future scientific, technological and market developments, as well as changes in consumer preferences.  

A Platform on Sustainable Finance consisting of experts will be established to assist and advise the Commission in the progressive development and update of the taxonomy and technical screening criteria.  

Due to the high level of complexity, detail, granularity and resources required, the taxonomy will have to be developed gradually, beginning with the environmental areas that are in most urgent need of action and in which knowledge is most advanced.  

The gradual process also allows for consultations with stakeholders, which create acceptance and a good understanding of the concept among financial market participants.

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109 Governance issues will not be covered by the taxonomy since the Commission feels that those issues are better addressed at company level, rather than at economic activity level. See action 10 in the Action Plan on Financing Sustainable Growth, for examples of planned initiatives regarding governance (Technical Expert Group on Sustainable Finance, ‘Frequently Asked Questions’ (2018), p. 5).  
111 EU proposal taxonomy, p. 7.  
112 EU proposal taxonomy, article 15, pp. 10, 15.  
113 EU proposal taxonomy, p.7.  
114 EU proposal taxonomy, p.13.
3 Sustainable investments from an investor perspective

3.1 What motivates an investor to invest sustainably?

Investors choose to invest sustainably for a variety of reasons, but in general the choice is motivated either by financial or ethical reasons, or a combination of both. According to research a majority of investors seems to be motivated by financial reasons rather than ethical reasons.\textsuperscript{116} This even though studies of the financial performance of sustainable investments have been quite ambiguous. Some studies show that sustainable investments have superior financial performance in comparison to conventional investments,\textsuperscript{117} while others show that sustainable investments underperform compared to conventional investments.\textsuperscript{118} There are also many studies that show that there are no significant differences between the financial performance of sustainable investments and conventional investments.\textsuperscript{119} Though some investors may not be willing to sacrifice financial returns for sustainability, studies show that most investors are actually willing to sacrifice at least a part of their returns for something they believe to be a good cause.\textsuperscript{120} However, it is still unclear when and how much investors are willing to sacrifice for sustainability considerations.\textsuperscript{121} Those investors willing to sacrifice financial returns for sustainability, may do so because they find value in another form of returns – non-wealth returns or psychic returns. In other words, they receive value by feeling that they contribute to a good cause or that they do something to make the world better.\textsuperscript{122}


\textsuperscript{121} Jonas Nilsson, ‘The preferences of beneficiaries’ (n 40), p. 380.

Though fewer, the investors who invest sustainably due to ethical reasons are not a homogenous group, since they have diverse ESG concerns and preferences that are often personal and related to values.¹²³ Some invest in sustainable investments due to a form of moral symbolism – if one believes it to be unethical to extract oil in the Arctic, then it would also be unethical to invest in companies that extract oil in the Arctic.¹²⁴ Others invest sustainably because they want to contribute to a better world by using their power as investors as a tool for social change and to influence companies to do better in regard to sustainability issues.¹²⁵ Studies have shown that investors are more likely to invest sustainably if they believe that their investment can have a real impact towards solving perceived sustainability issues, something that is commonly referred to as perceived consumer effectiveness.¹²⁶ However, just like there is no unambiguous proof that financial performance of sustainable investments is better than that of conventional investments, there is no unambiguous proof that the ethical performance of sustainable investments is better than conventional investments. One study even shows that there does not seem to be any difference in the ethical performance for sustainable investment funds compared to conventional investments, which would suggest that sustainable investments are more of a marketing tool than a guarantee of compliance with ethical principles.¹²⁷ Though, this could partly be explained by the fact that it is difficult to measure the actual impact of sustainable investment strategies.¹²⁸

### 3.2 Investor behaviour – a framework to understand the decision-making process of investors

#### 3.2.1 Theory of Planned Behaviour

There is not yet an established and widely accepted theoretical framework for the decision-making process of ethically minded consumers¹²⁹. Instead, scholars within the field draw on established theoretical frameworks from within the consumer behaviour and social psychology domains, which are usually based on cognitive approaches focusing on the internal process of

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¹²⁶ Nilsson, ‘Segmenting socially responsible mutual fund investors’ (n 122), p. 12.

¹²⁷ Utz et al (n 72), pp. 2, 11.

¹²⁸ Sandberg & Nilsson (n 124), p. 22.

¹²⁹ Ethically minded consumers are consumers who feel that they have a responsibility towards the environment and the society, and who express their concerns for different issues, such as the environment, sustainability, worker’s rights and animal welfare, through their purchasing or boycotting behaviour. (Micheal J Carrington, Nejamin A Neville & Gregory J Whitwell, ‘Why Ethical Consumers Don’t Walk Their Talk: Towards a Framework for Understanding the Gap Between the Ethical Purchase Intentions and Actual Buying Behaviour of Ethically Minded Consumers’ (2010) 97 Journal of Business Ethics 139, p. 140).
One of the most frequently applied and modified models to understand ethically minded consumers’ decision-making process is the theory of planned behaviour (TPB).\textsuperscript{131} It is an extension of the theory of reasoned action (TRA)\textsuperscript{132} and it links individuals’ intentions to their behaviour. Intentions capture the motivational factors that influence our behaviour, as well as give an indication of how hard we are willing to try and how much effort we plan to put in, in order to perform a particular behaviour. The stronger the intention, the more likely it is that the behaviour will be performed. However, intentions can only induce behaviour if the individual has the behaviour under its volitional control, i.e. if the individual has the ability to decide at will whether to perform the behaviour or not. There are two types of control - actual behavioural control and perceived behavioural control. Actual behavioural control refers to opportunities and resources necessary to perform a behaviour, for example time, money, skills and cooperation of others, while perceived behavioural control refers to the individual’s perception of the ease or difficulty of performing the behaviour.\textsuperscript{133}

According to TPB an individual’s intentions are determined by three factors – attitude towards the behaviour, subjective norm and perceived behavioural control – and the importance of each factor may vary depending on the behaviour and situation in question.\textsuperscript{134} Attitude towards the behaviour refers to the degree to which an individual evaluates the behaviour in question to be favourable or unfavourable. Attitudes are influenced by the behavioural beliefs that individuals hold about the objective of the attitude, which are formed in association with certain attributes, such as other objects, characteristics and events. Each belief links the behaviour to a certain outcome, and as the outcome is either positively or negatively valued, the individual will automatically and simultaneously acquire an attitude towards the behaviour. Behaviours that are believed to have desirable outcomes will be favoured, while behaviours believed to have undesirable outcomes will not be favoured.\textsuperscript{135} Subjective norm refers to the perceived social pressure the individual feels to perform or not perform a certain behaviour. Subjective norm is influenced by normative beliefs, which are concerned with the likelihood that important referent groups or individuals approve or disapprove of a particular behaviour.\textsuperscript{136} Perceived behavioural control refers, as mentioned earlier, to the perceived ease or difficulty of performing a certain behaviour and usually varies across behaviours and situations. Perceived behavioural control is based on control beliefs that are concerned with the presence or absence of necessary resources and opportunities, which, in turn, are influenced by past experience, the experience of family, friends and acquaintances, and other factors that increase or reduce the

\textsuperscript{130} Carrington et al (n 129), p. 141.
\textsuperscript{131} Ibid, p. 142.
\textsuperscript{134} Ajzen (n 133), p. 188.
\textsuperscript{135} Ibid, pp. 188, 191.
\textsuperscript{136} Ibid, pp. 188, 195.
perceived ease or difficulty of performing a particular behaviour. The more resources and opportunities individuals believe they possess and the fewer obstacles they anticipate, the greater will their perceived behavioural control be. Also, the more favourable the attitude and subjective norm, the greater will the perceived behavioural control likely be. In order to predict or explain an individual’s behaviour the perceived behavioural control ought to be realistic, but if an individual has little information about the behaviour, if requirements or available resources have changed and if new or unfamiliar elements have entered into a situation their perceived behavioural control may not be realistic.\textsuperscript{137} In order to change behaviour, interventions should be directed towards attitudes, subjective norms or perceptions of behavioural control, as changes in those factors should result in changes in intentions, which in turn influence behaviour.\textsuperscript{138}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{Theory_of_Planed_Behaviour}
\end{figure}

\textsuperscript{137} Ajzen (n 133), pp. 183–185, 188, 196.

3.2.2 The intention-behaviour gap

Throughout the years, the TPB framework has been modified to better reflect the ethical consumerism field and to address shortcomings in the framework. For example, it has been extended with the incorporation of ethics, morals and values. However, those modifications still accept the theoretical assumption that intentions directly determine behaviour, but several studies have shown that there is an intention-behaviour gap, meaning that consumers’ ethical intentions rarely translate into actual ethical buying behaviour.

One explanation for the gap is social desirability, which refers to the fact that, when participating in research studies, many people give answers that they believe to be socially acceptable, consequently overstating the importance of ethical considerations in their buying behaviour. Others have tried to explain the gap by identifying factors, such as knowledge about sustainable products, concern and scepticism towards sustainable products and the perception of the perceived quantity and quality of information about ethical products, that both directly and indirectly can affect the translation of ethical attitudes into intentions and finally behaviour.

Lack of availability of ethical products, disbelief of ethical claims, price, quality, convenience, brand familiarity, habits, trust and low perceived consumer effectiveness are also examples of factors that can affect consumers’ buying decisions.

Implementation intention, which refers to an “if/then” plan that is internally formed by an individual in order to specify when, where and how they are going to translate their ethical intentions into actual ethical behaviour, has

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139 Ethical consumerism is a way for individual consumers to express their feelings of responsibility towards the environment and the society, as well as their appreciation of socially responsible companies and products, by their purchasing behaviour (Patrick De Pelsmacker & Wim Janssens, ‘A Model for Fair Trade Buying Behaviour: The Role of Perceived Quantity and Quality of Information and of Product-specific Attitudes’ (2006) 75 Journal of Business Ethics 361, p. 361).


141 See e.g. Anne Arvola, M Vassallo, M Dean, Pira Lamila, A Saba, Liisa Lähteenmäki & R Shepherd, ‘Predicting intentions to purchase organic food: The role of affective and moral attitudes in the theory of planned behaviour’ (2008) 50 Appetite 443.

142 See e.g. Iris Vermeir & Wim Vereke, ‘Sustainable food consumption among young adults in Belgium: Theory of planned behaviour and the role of confidence and values’ (2008) 64 Ecological Economics 542.

143 Carrington et al (n 129), p. 142.


145 Carrington et al (n 129), p 141. See also e.g Auger & Devinney (n 144); Patrick De Pelsmacker, Liesbeth Driesen & Glenn Rayp, ‘Do Consumers Care about Ethics? Willingness to Pay for Fair-Trade Coffee’ (2005) 39 Journal of Consumer Affairs 363; Boulstridge & Carrigan (n 144).

146 Carrington et al (n 129), p. 141; Shaw & Clarke (140), pp. 113–115; Pelsmacker & Janssens (n 139), pp. 361, 365, 374.

147 Carrigan & Attalla (n 144), pp. 565, 571; Pelsmacker & Janssens (n 139), pp. 365; De Pelsmacker et al (n 145), pp. 364; Vermeir & Vereke (n 142), p. 543.
been suggested as a possible tool to bridge the intention-behaviour gap. By assisting consumers in creating those implementation plans, e.g. by visualising the situation and corresponding behaviour to remind them of their intention, the gap may be reduced. As a gap between perceived behavioural control and actual behavioural control may be one explanation behind the intention-behaviour gap, another possible way to bridge the gap would be to either increase consumers’ actual behavioural control or to help them get a more accurate picture of their perceived behavioural control.148

3.2.3 The Engel-Kollat-Blackwell decision-making model

Another model to understand the decision-making process of SRI-investors is the Engel-Kollat-Blackwell consumer decision-making model,149 which not only look at the pre-purchase and purchase factors but also at post purchase factors. According to this model the purchase process starts with the consumer acknowledging a problem that needs to be solved. The next step is to search for information that can help solve the problem and in an investor context this means reading the disclosed information about different investments and storing the information in the memory for future assessment. The way in which the information is presented can have an impact on the investor’s information acquisition and subsequent behaviour. The information can be either internal, e.g. memory of a previous experience, or external. External information can be impersonal and formal, e.g. advertising and published rankings, but it can also be interpersonal and formal, e.g. recommendation from professional advisors. Additionally, interpersonal information can be informal, in other words information from family and friends.

When the information has been gathered and processed, the different alternatives should be evaluated before the purchase is made. From an investor perspective this means assessing the content of the information, for example risk and return characteristics, and weighting the different investment alternatives. In order to do an assessment, the investor has to develop selection criteria, i.e. the criteria by which the investor will evaluate the alternatives. The selection criteria can be based on individual characteristics, such as demographic and psychographic characteristics, but they can also consist of product characteristics, such as price, quality, management fees, fund manager reputation and performance. The purchase context, i.e. the internal and external framing of the investment decision can also have an impact on the selection criteria. After the purchase has been made, the last step is to evaluate the purchase in a post-purchase setting, as it can have consequences for future purchase decisions.150 In an investment context this could involve evaluating the actual performance of the investment.

3.3 Problems on the market that prevent investors from investing sustainably and challenges investors face in their decision-making process

3.3.1 Complex terminology and information
In order to make appropriate investment decisions, including being able to comprehend and compare fund characteristics, examine funds’ sustainability claims, estimate the outcome of sustainability initiatives and choose funds that align with one’s sustainability preferences, investors must be able to understand and to process information related to investments. Nevertheless, the information and terminology surrounding sustainable fund investment are often complex and difficult, both regarding the traditional financial dimension, e.g. past performance of funds, sharpe ratios and standard deviation, and the sustainability dimension, e.g. the concept of different sustainable investment strategies, definitions of sustainability and thresholds of different kinds. This makes it challenging for investors to understand, interpret, process and evaluate the information available to them.\textsuperscript{151}

3.3.2 A complex investment environment
A complex environment can impact the manner in which a decision is made; the more complex the environment and the investment products are, the more difficult it will be to make an appropriate and enlightened investment decision, even for a more knowledgeable investor.\textsuperscript{152} Due to the complexity and difficulty of the terminology and information surrounding sustainable investment decisions mentioned above, the environment of sustainable investments could probably be categorised as complex. Also, it is challenging for investors to sort through the available information in order to find what is actually relevant for them, and the interrelated nature of investment information is not making it any easier. Furthermore, investment decisions are future oriented, which makes the investment environment even more complex. Investors are purchasing a process, which has not yet begun at the time of the investment decision, which makes it impossible to predict the actual outcome of the investment decision. Instead investors will have to rely on past events and aspects that signal whether an investment is good or bad, e.g. past financial returns and the fund manager’s previous work.\textsuperscript{153}

3.3.3 Low levels of knowledge and a lack of interest in investments among investors
A high level of knowledge and an underlying interest in investments can help investors to make appropriate investment decisions. Though, it should be emphasised that knowledge is not a guarantee for success, as the challenging nature of investment decisions makes it difficult for any investor to make good decisions. Additionally, a successful investment is not only the

\textsuperscript{151} Nilsson, \textit{Consumer Decision Making in a Complex Environment} (n 24), pp. 2, 19, 21, 31; Sandberg & Nilsson (n 124), pp. 6, 19, 26.
product of an investor’s abilities, but also depends on external factors such as the general economic climate.\textsuperscript{154} Regardless, the investment system still requires investors to have a high level of knowledge, regarding both financial and sustainability aspects in the case of sustainable investments. However, research\textsuperscript{155} show that people’s financial knowledge is poor and that they have difficulties answering simple questions about economy, such as questions about interest rates, inflation and risk-diversification, risk and return, and their own savings.\textsuperscript{156} Moreover, many investors seem to be uninformed about their investments, for example they do not know what type of funds they have invested in or the management style of the funds.\textsuperscript{157} Apart from knowledge, it also takes a lot of time, effort and involvement to make investment decisions, but there seem to be a lack of interest in and commitment to investment among the general population. This could partly be explained by the fact that there is usually a quite large time gap between purchase and the benefit of the purchase, which result in less motivation to engage in the investment.\textsuperscript{158}

3.3.4 Reliance on intermediaries

The lack of knowledge and interest among investors mentioned above have resulted in many investors using external advisors to manage their investments.\textsuperscript{159} Furthermore, many investors rely on a variety of intermediaries to process the available information for them. Though this can make the burden on investors easier, relying on intermediaries also brings problems. For example, the investor will have to determine which intermediary provides the best processed information, since the quality of the processing can vary depending on, for example, access to information, available resources, skill and training and the assumptions that are made. Additionally, if not regulated, there is a risk that intermediaries manipulate the information.\textsuperscript{160} Labels and ratings are examples of initiatives that exists to ease the information burden on investors, but a multitude of competing labels and ratings can have the opposite effect and create an even more complex environment. All actors have their view on sustainability and investors may have to examine and compare the different labels and ratings, when it may actually have been more rewarding to just read the disclosed first-hand information instead.\textsuperscript{161}

\textsuperscript{154} Nilsson, \textit{Consumer Decision Making in a Complex Environment} (n 24), pp. 6, 13
\textsuperscript{156} Nilsson, ‘The preferences of beneficiaries’ (n 40), p. 383.
\textsuperscript{157} Capon et al (n 125), p. 68.
\textsuperscript{159} Nilsson, ‘The preferences of beneficiaries’ (n 40), p. 384.
\textsuperscript{161} Sandberg & Nilsson (n 124), p. 20.
3.3.5 Investors do a limited amount of pre-purchase information gathering

According to research, many consumers do a limited amount of pre-purchase information gathering, and sometimes none at all. In the cases when information is collected before a purchase decision, it is in a limited amount and from a limited number of sources. Moreover, investors do not always evaluate the different alternatives available. In a sustainable investment context, apathy and indifference toward pre-purchase information gathering can result in large negative financial consequences and SRI investors risk investing in funds that do not align with their preferences and values. It can also result in a dependency on advisors and other intermediaries, as well as investors becoming more vulnerable to hard selling.

3.3.6 Information overload

Transparency advocates often argue that provided with information, individuals will use it to make appropriate and enlightened decisions. However, research suggests that if people are given too much information in a limited amount of time, the information overload can lead to cognitive strain, confusion and ultimately to individuals making poorer decisions. The financial dimension of an investment decision consists of a vast amount of information, for example about previous returns, risk, fund type, management approach, ratings, manager tenure, regions, industries and the specific assets. Likewise, the sustainability dimension of an investment decision consists of a vast amount of information about, for example, sustainable investment strategies, thresholds and the specific assets. The abundance of information can make it difficult for investors to find information that is relevant to their investment options.

3.3.7 A lack of information

Paradoxically, investors do not only face an overload of information, but also a lack of information in certain areas. For example, investors have access to little information about the management process, which is a rather central part of a fund investment. This especially applies to the process of integrating sustainability and the result of such processes. Though, even if such information were to be disclosed, it is often so intangible, multifaceted and difficult to grasp that it could be difficult for the fund managers to describe it in a way that would make it digestible for investors. Regardless, the lack of transparency into the management process makes it difficult for investors to evaluate the sustainability impact of an investment.

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164 The practice of applying psychological pressure in order to persuade a consumer to make a quick purchase decision.
165 Etzioni (n 160), p. 402.
166 Nilsson, Consumer Decision Making in a Complex Environment (n 24), pp. 15–16.
167 Ibid, p. 41.
investors have access to less information than, for example, the fund manager. It can result in information asymmetries and actors with the information advantage benefiting from it at the cost of the investors. Information asymmetries can reduce market efficiency as they can cause investors, who would have preferred to invest sustainably, to make a sub-optimal investment decision. Information asymmetries can also slow down the sustainable investment market as fewer companies will be inclined to embrace sustainability initiatives if they cannot differentiate themselves from competitors who do not embrace sustainability initiatives. Additionally, even if a company discloses information about its sustainability initiatives, investors may not absorb the information, as they are often wary of information disclosed by companies as there is a risk that the companies exaggerate their sustainability claims or even make untruthful and dishonest claims.

3.3.8 A lack of credible high-quality information, monitoring and standardisation

Although there seem to be an abundance of information regarding some aspects of sustainable investment, there is still a problem with the credibility and quality of the disclosed information. Many funds on the market today claim to be sustainable, but there is no standardisation of what makes a fund sustainable, not even a standardisation of what is to be considered sustainable. Furthermore, there is no standardisation regarding how the sustainability dimension should be incorporated into the management process. This result in the available funds varying considerably in what sustainability questions they engage in and how the sustainability dimension is applied in the management process. The funds also use different investment strategies and have different ambition levels. A great selection of funds claiming to be sustainable makes it easy for investors to invest sustainably. However, it is all the more difficult to ensure how sustainable the fund actually is and if the fund aligns with the investor’s sustainability preferences. To ensure these things the investors have to commit to extensive information gathering. Furthermore there is a lack of independent monitoring and examination of disclosed information, which means that investors have to trust that the disclosed information is accurate as it is unlikely that they will be able to assess the credibility of the information. However, there is always a risk that the information is inaccurate, that it does not present “the whole picture” or that some information is concealed. Without the

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existence of an independent organisation that can evaluate the sustainable investment strategies, and if investors are given little or no insight into how the fund managers work with sustainability strategies, it is almost impossible for investors to evaluate the sustainability of a fund.¹⁷⁶

4 Transparency regulation as a tool to influence investors to choose sustainable investment funds

4.1 What is transparency regulation?

In recent years transparency has become a popular concept and it reflects the idea that, provided with information, people are autonomous and rational choosers who can govern themselves, assess risks and benefits of a transaction and ultimately control the direction of the economy thought their purchasing power. Transparency can be used as a regulatory instrument to promote compliance and to stimulate behaviour in a desired direction. By requiring certain parties, for example companies, to disclose certain information, the stakeholders of the regulated parties are activated and can act as a provider of indirect sanctions and rewards. This is possible since the recipients of the disclosed information control resources which the regulated parties require and if the recipients decide to handle their resources differently in light of the disclosed information, it gives the regulated parties incentives to change their behaviour accordingly. Transparency regulation is a reflexive instrument as it makes the regulated parties aware of their behaviour and gives them incentives to develop better alternatives rather than to mandate how things should be done. Moreover, it provides flexibility, encourages continuous improvement over time and enables regulated parties to come up with solutions tailored to their specific needs, which is why it is a suitable regulatory instrument for sustainability initiatives as they often have a fluid and innovative nature.

Voluntary transparency measures are not uncommon, as it can generate goodwill and is considered good business. Nevertheless, governmental transparency regulation is often required in order to ensure authenticity of disclosed information, to secure that information is released regularly and to promote comprehensible and comparable information. Generally, the degree of compliance with regulation depends on the knowledge, competence, willingness and recklessness of the regulated parties. They need to know of the rules that they have to comply with and also have the competence and willingness to comply. The recklessness refers to the fact that compliance is more unlikely if the regulated party is willing to accept the risk of legal, financial or other negative consequences of non-compliance. Transparency regulation is one way to increase the willingness of regulated parties to comply with rules, since the negative effects of non-compliance are intensified when they are exposed publicly, and their

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177 Etziono (n 160), pp. 392, 404–405.
178 Stakeholders are groups or individuals who benefit from or are harmed by, and whose rights are respected or violated by, a regulated party’s actions, e.g. suppliers, investors, customers, employees, shareholders, the local community and the press. (Edward R. Freeman, ‘Stakeholder Theory of the Modern Corporation’ in Laura Hartman & Abha Chatterjee (eds), Perspectives in Business Ethics (Sie) (3rd edn, Tata McGraw-Hill Education India, 2001); Borglund et al. (n 3), p. 21).
180 Wyeth & Termini (n 53), pp. 697–698, 702.
181 Etziono (n 160), pp. 404–405.
reputation is at stake.\textsuperscript{182} Although the presence of processable and understandable information, as well as recipients who have the willpower and capacity to use it, are important factors for the effectiveness of transparency regulation, they are not crucial. It is possible for transparency regulation to have an impact even though the recipients’ choices are not affected by the disclosed information. Disclosure can in itself foster compliance and change the behaviour of regulated parties due to the fear of damage to their reputation.\textsuperscript{183}

One of the biggest disadvantages with transparency regulation is the assumption that the recipients of the information can process it and then use it to make rational decisions. Studies in behavioural economics indicate that people are not able to process and act on information in the way that is called for in transparency regulation, not even when the disclosed information is relatively simple, due to our inherited and systematic cognitive biases.\textsuperscript{184} However, this does not mean that transparency regulation is ineffective if provided in areas where there is a lack of transparency; it simply means that transparency regulation is not always enough to fulfil the aim of the transparency regulation.\textsuperscript{185} Consequently, transparency regulation sometimes has to be supplemented with other regulatory measures and the extent to which such measures are necessary depends on the ineffectiveness of non-compliance, the education level of the recipients of the information, the culture of compliance and people’s values.\textsuperscript{186} In order to avoid problems with window-dressing\textsuperscript{187} additional regulation may be necessary to ensure that the information disclosed by the regulated parties is authentic. Also, additional regulation may be required to ensure that the disclosed information is understandable and processable for the public. If the recipients of the information cannot process and understand it there is a risk that they will ignore it. Therefore, to be effective, the disclosed information needs to be fair, reliable, timely, complete, consistent and presentable. However, as transparency regulation often only mandate disclosure, not effective communication, disclosures matching those requirements are rare. Moreover, there is a limit on the extent to which information can be simplified as it sometimes contains complex assumptions, probabilities and multiple correlations.\textsuperscript{188} From an economic point of view, there are transaction costs involved in collecting and processing information, which may prevent recipients to process all the available information. However, it is possible to make optimal choices based on sub-optimal processing, since one can reach a point where additional processing and information gathering result in the costs exceeding the expected gains.\textsuperscript{189} Though, it is not easy for a recipient to know when that point is about to be reached.

\textsuperscript{182} Meijer & Homburg (n 179), p. 266.
\textsuperscript{183} Meijer & Homburg (n 179), pp. 276-277.
\textsuperscript{184} Meijer & Homburg (n 179), p. 299; Etziono (n 160), pp. 400, 405. See also ch. 1.4 para. 4.
\textsuperscript{185} Etziono (n 160), p. 400.
\textsuperscript{186} Ibid, p. 404.
\textsuperscript{187} Window-dressing refers to the practice of deceivingly making something look better than it is in reality.
\textsuperscript{188} Meijer & Homburg (n 179), pp. 297–298, 300.
\textsuperscript{189} Etziono (n 160), p. 394.
4.2 Different types of transparency regulations

4.2.1 Sustainability benchmarks for investment funds - EU Proposal on low-carbon and positive carbon impact benchmarks

In 2018 EU published a proposal\textsuperscript{190} for a regulation on low-carbon and positive carbon impact benchmarks as a step towards the implementation of the key actions presented in the Action Plan on Financing Sustainable Growth.\textsuperscript{191} The proposed regulation will amend the Benchmark Regulation\textsuperscript{192}, which has established uniform rules for benchmarks in order to ensure accuracy, reliability and comprehension in the EU.\textsuperscript{193} Benchmarks are indices that are used to measure the performance of an investment fund.\textsuperscript{194} They are extensively used by investors for allocation strategies, to construct financial products, to influence corporate behavioural change, and of course, to measure and monitor their funds’ performance.\textsuperscript{195} The Benchmark Regulation addressed many of the problems related to benchmarks, but the proposed amendment will target sustainability benchmarks especially, since many problems still exist in that category of benchmarks. The absence of harmonised rules has resulted in divergent standards and different levels of ESG transparency in methodologies, which, in turn, has led to investor confusion, greenwashing\textsuperscript{196} and a lack of comparability.\textsuperscript{197} Furthermore, benchmarks are often used cross-border, but existing national benchmarks are tailored to national considerations and therefore they often miss the cross-border dimension.\textsuperscript{198} These problems are addressed in the proposed regulation through enhanced benchmark transparency and minimum requirements for certain sustainability benchmarks, with the aim of creating harmonisation and consistency, reducing the asymmetry of information between investors and benchmark providers, improving quality and comparability of sustainability benchmarks, tackling greenwashing and shifting private capital towards sustainable investments.\textsuperscript{199}

\textsuperscript{193} EU proposal benchmarks, p. 3, preamble 7.
\textsuperscript{194} Benchmark Regulation, article 3.1(3).
\textsuperscript{196} In this context greenwashing refers to the practice of benchmarks with different characteristics all being promoted as environmentally relevant (EU proposal benchmarks, p. 3).
\textsuperscript{197} European Commission, ‘Frequently asked questions: Commission proposals on financing sustainable’; EU proposal benchmarks, pp. 3-4.
\textsuperscript{198} EU proposal benchmarks, pp. 4-5.
\textsuperscript{199} EU Finance, ‘Live Chat on Sustainable Finance’, time: 07.00-07.48; EU proposal benchmarks, pp. 3, 5, 9.
The proposed regulation on sustainability benchmarks will establish two new\(^{200}\) categories of benchmarks - low carbon benchmarks (LCBs) and positive-carbon impact benchmarks (PCIBs).\(^{201}\) The LCB can be described as a decarbonised version of standard indices.\(^{202}\) Its underlying assets are selected so that they have less carbon emissions than the assets in a standard capital-weighted benchmark, referred to as the “parent benchmark”.\(^{203}\) The PCIB is a more ambitious version of the LCB, as only assets of which the emissions savings exceeds the carbon footprint are selected as underlying assets to the benchmark.\(^{204}\) Thus, PCIBs comply with the objective of limiting global warming to below 2° C in the Paris agreement.\(^{205}\) Carbon footprint is a measurement of a company’s, and in consequence, a fund portfolio’s negative impact, while emissions savings is a measurement of positive impact.\(^{206}\) Emissions savings are the difference between the carbon footprint and a reference scenario, and the calculation methodology, as well as the used reference scenario, must be clearly and accurately described by the benchmark provider.\(^{207}\) There are going to be certain key requirements for the methodology for LCBs and PCIBs, and the Commission can adopt delegated acts to further specify those minimum standards.\(^{208}\) This will result in a validation and a significant level of comparability, but the benchmark administrators still have a certain degree of flexibility when it comes to the design of the methodology.\(^{209}\) The TEGSF’s subgroup on benchmarks is currently working on the minimum standards for the methodology for the new benchmarks, including the type of emission to be included in the carbon footprint and thresholds for carbon emissions and carbon intensity.\(^{210}\) As the Commission wants the benchmarks to be tools that can have a real impact, and not tools that investors use for greenwashing, the subgroup on benchmarks are also testing how that can be accomplished through minimum requirements, thresholds for sectorial and activity allocations, tracking and trailing error\(^{211}\), and sectorial exclusion.\(^{212}\)

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\(^{200}\) New in the sense that they have not been part of the Benchmark Regulation. Benchmarks with similar characteristics to the ones proposed in the regulation have been in use in the industry for a long time. (EU proposal benchmarks, p. 6).

\(^{201}\) EU proposal benchmarks, p. 3.

\(^{202}\) European Commission, ‘Sustainable finance: Making the financial sector a powerful actor in fighting climate change’.

\(^{203}\) EU proposal benchmarks, article 1; EU Finance, ‘Live Chat on Sustainable Finance’, time: 16.00-17.22.

\(^{204}\) EU proposal benchmarks, article 1.

\(^{205}\) European Commission, ‘Frequently asked questions: Commission proposals on financing sustainable Growth’.


\(^{207}\) Progress report benchmarks, p. 7.

\(^{208}\) EU proposal benchmarks, article 1.3

\(^{209}\) EU proposal benchmarks, pp. 11–12; European Commission, ‘Delivering on sustainable finance for a greener and cleaner economy: First actions (Fact sheet, 2018).

\(^{210}\) EU Finance, ‘Live Chat on Sustainable Finance’, time: 29.45-31.20; Progress report benchmarks, pp. 3-5.

\(^{211}\) Minimum tracking error will ensure a true deviation from the parent index in terms of financial characteristics and maximum trailing error can prevent significantly underperforming indices from being labelled as LCB (Progress report benchmarks, p. 6).

\(^{212}\) EU Finance, ‘Live Chat on Sustainable Finance’, time: 29.45-32.18; progress report benchmarks, pp. 3-4.
In addition to the new categories of benchmarks, the proposed regulation will also introduce new disclosure rules. Benchmark providers and administrators will, along with the information that they are already obliged to disclose due to the current Benchmark Regulation, have to provide an explanation of how the key elements of the methodology reflects ESG factors for each benchmark that pursue or take into account ESG objectives. Moreover, an explanation of how ESG factors are reflected for each benchmark must be provided in the administrator’s benchmark statement. The commission can further specify the minimum content of the disclosure in delegated acts. The subgroup on benchmarks is currently working on the minimum disclosure requirements and they may come to include overall ESG ratings and the rating provider, as well as environmental, social and governance key performance indicators, such as GHG emissions, compliance with minimum human rights standards, controversial business involvements and alignment with governance standards.

### 4.2.2 Disclosure regulation - EU proposal for a Regulation on disclosures relating to sustainable investments and sustainability risks

In 2018 EU published a proposal for a regulation on disclosures relating to sustainable investments and sustainability risks as a step towards the implementation of the key actions presented in the *Action Plan on Financing Sustainable Growth*. The proposed regulation lays down harmonised transparency requirements on the integration of sustainability risks, that financial market participants, including several fund managers, will have to apply in their investment decision-making processes and their investment advisory processes. The proposed regulation also includes transparency requirements regarding financial products targeting sustainable investments. In the context of the regulation, sustainable investment refers to three different types of investments. First, investments in an economic activity that contributes to an environmental objective, including environmentally sustainable investments as defined in EU taxonomy on sustainability. Second, investments in an economic activity that contributes to social objectives, especially investments that contribute to tackling inequality, fostering social cohesion, social integration and labour relations, and investments that invest in human capital or economically and socially disadvantaged communities. Third, investments in

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213 EU proposal benchmarks, article 1.4.
214 EU proposal benchmarks, article 1.2.
218 The financial market participants include UCITS management companies, AIF managers, EuSEF managers, EuVECA managers, insurance undertakings that makes available an IBIP, investment firms that provide portfolio management, IORPs and providers of pension products (EU proposal disclosures, article 2a).
219 Financial product refers to a UCITS, an AIF, an IBIP, a pension product, a pension schemes and a portfolio management.
220 EU proposal disclosures, article 1.
221 See ch. 2.2.7.
companies following good governance practices, especially companies with sound management structures, employee relations, remunerations and tax compliance.\textsuperscript{222}

According to the proposed regulation, financial market participants\textsuperscript{223} have to publish written policies on how they integrate sustainability risks in their investment decision-making processes and keep the policies up-to-date.\textsuperscript{224} Financial market participants also have to include certain information in their pre-contractual disclosures, in addition to what they are already required to disclose according to applicable sectorial rules.\textsuperscript{225} First, a description of the procedures and conditions they apply when integrating sustainability risks in their investment decisions. Second, a description of the extent to which sustainability risks are expected to have a relevant impact on the returns of the available financial products. Third, a description of how the financial market participants’ remuneration policies are consistent with the integration of sustainability risks and, when relevant, how they are in line with the sustainable investment target of the financial product.\textsuperscript{226} Furthermore, the proposed regulation lays down pre-contractual transparency rules on sustainable investments. Financial market participants will have to include information on how the target of sustainable investments is ensured.\textsuperscript{227} If an index has been designed as a reference benchmark, the financial market participant has to give information on how the designed index align with the target and explain why the weighting and constituents of the benchmarks differ from a broad market index. If no index has been designated the financial market participant should simply explain how the target is reached. If the target of a financial product is reduction in carbon emissions, the financial market participants have to give information on the targeted low carbon emission exposure.\textsuperscript{228} Moreover, the proposed regulation includes requirements regarding transparency of sustainable investments in periodical reports.\textsuperscript{229} Additionally, for each of their financial products, the financial market participants have to publish, and keep up-to-date, certain information on their websites, for example a description of the sustainable investment target and information on the methodology used to assess, measure and monitor the sustainable investments selected for the financial product.\textsuperscript{230}

The proposed regulation is expected to increase overall transparency by reducing the asymmetry of information between investors and fund managers, increase the granularity of investor information and decrease the costs for investors to acquire information.\textsuperscript{231} Moreover,

\textsuperscript{222} EU proposal disclosures, article 2 (o) i-iii.
\textsuperscript{223} Financial participants include insurance undertakings, UCITS management companies, EUveca managers and EuSEF managers (EU proposal taxonomy article 2b, EU proposal disclosures, article 2a).
\textsuperscript{224} EU proposal disclosures, article 3, 8.
\textsuperscript{225} EU proposal disclosures, p. 11.
\textsuperscript{226} EU proposal disclosures, article 4.1.
\textsuperscript{227} EU proposal disclosures, p. 11.
\textsuperscript{228} EU proposal disclosures, article 5
\textsuperscript{229} EU proposal disclosures, article 7.
\textsuperscript{230} EU proposal disclosures, article 6, 8.
\textsuperscript{231} EU proposal disclosures, p. 10.
possible benefits of integrating ESG in the investment decision process are positive impact on financial performance (especially long term), improved risk and return characteristics of the portfolio, reputational benefits and the ability to attract new clients.232

4.2.3 Sustainability labels for investment funds
Due to information asymmetries, it can be difficult for an investor who wants to invest more sustainably to determine whether or not an investment fund is sustainable.233 One approach that can help investors to make informed investment decisions and reduce information asymmetries is sustainability labels for investment funds.234 Sustainability labels are policies and programs designed to signal information to investors about an investment’s sustainability attributes, with the aim to set a certain standard when it comes to sustainable investment funds.235 They can also increase the authenticity of the sustainability information, since many labels rely on external certification, which in turn ensure greater conformance to specific sustainability standards. The purpose of labelling schemes is to review and assess an investment fund’s processes and standard of ESG integration, and then the label can confirm a certain level of transparency, as well as reassure investors about the nature of the fund.236 Based on research on voluntary labelling schemes in the food industry, the success of a labelling scheme depends much on whether leading companies take part, standards apply globally and prevent harmful practices, credibility is promoted through transparency and objectivity, and coherent interpretation is ensured.237

Many labels available today are voluntary one-dimensional labels that indicate that an investment has one or more specific sustainability standard or attribute, but there are also multidimensional labels, which include rankings, percentages and scores. The multidimensional labels can convey complex information more effectively than one-dimensional labels, but they are less common since legislation is often required to make them most effective.238 In Europe, sustainability labels generally have an all-encompassing sustainability approach, but labels can also be thematic, concentrating on certain aspects of sustainability, for example climate, a social issue or the transition to a low-carbon economy.239 Even though labels reduce information asymmetries, they are also limiting in several ways. First, sustainability labels are often constrained by the number of sustainability attributes they can convey. This means that an investment can have additional desirable sustainability qualities

232 EU proposal disclosures, p. 8.
233 Borglund et al. (n 3), p. 263; Darnall & Aragón-Correa (n 173), p. 320.
234 Borglund et al. (n 3), p. 263.
236 Darnall & Aragón-Correa (n 173), p. 320.
239 EFAMA, ‘EFAMA opinion on ESG fund ratings and labels’ (Report 2017), pp. 1–2.
than the ones conveyed by the label, which will remain unknown for investors unless they can acquire the information from another source, for example a company’s self-disclosure. Second, as labels only convey certain sustainability information, investors may be misguided to believe that one investment is more sustainable than another, when, in reality, that is not always the case, since an investment can be sustainable in one area, but less, or not at all, in another.\textsuperscript{240} Third, there are many different sustainability labels available on the market and as the methodology and requirements for labels are not standardised it can be difficult for investors to understand what is offered and to make a comparison across funds.\textsuperscript{241} Some labels have very detailed and extensive requirements, while others are more symbolic. Additionally, industry sponsored labels tend to have weaker standards than labels designed by, for example an NGO or a government.\textsuperscript{242} The complexity of and the high number of competing labelling schemes may undermine credibility and confuse consumers.\textsuperscript{243}

There are several sustainability labels for investments on the market today, most derive from the private sector, but there are some labels promoted by or created by governments or state-owned companies as well, such as the French SRI label\textsuperscript{244}, the Luxembourgian Lux FLAG\textsuperscript{245}, the German FNG label\textsuperscript{246} and the Nordic Swan label\textsuperscript{247,248} In the EU the Commission is currently exploring whether to extend the EU Ecolabel Regulation\textsuperscript{249} framework to also cover certain financial products in the future, in order to create a voluntary EU-wide labelling scheme for sustainable investments. According to the EU, the EU organic label and the EU Ecolabel have proved successful in helping consumers make informed choices, and a sustainable finance label could help raise awareness of sustainable investment products.\textsuperscript{250} However, as the label criteria for financial products could be built on the proposed EU taxonomy on sustainability, it is unlikely that the idea of a financial Ecolabel will be developed further until the taxonomy has been adopted.\textsuperscript{251} If a label for financial products is developed under the Ecolabel Regulation, the already existing national labelling schemes can coexist with that label, as long as they comply with certain conditions in the Ecolabel Regulation.\textsuperscript{252}

\textsuperscript{240} Darnall & Aragón-Correa (n 173), p. 320.  
\textsuperscript{241} EFAMA, ‘EFAMA opinion on ESG fund ratings and labels’ (Report 2017), pp. 1, 3.  
\textsuperscript{242} Darnall & Aragón-Correa (n 173), p. 320.  
\textsuperscript{244} Ministère de l’économie et des finances, ‘Le Label ISR – Dossier d’information’ (Communiqué de press, 2016).  
\textsuperscript{245} LuxFLAG, ‘Who we are’ (Factsheet, 2018).  
\textsuperscript{247} Miljömarknaden Sverige AB, ‘Rådda världen lite grann varje dag: Års- och hållbarhetsnämförelse 2017’ (2017).  
\textsuperscript{249} Regulation EC) No 66/2010 of the European Parliament and the Council of 25 November 2009 on the EU Ecolabel [abbr. Ecolabel Regulation]. The EU Ecolabel regulation is a voluntary labelling scheme with well-established governance rules and convergence tools, which is subject to surveillance and control mechanisms.  
\textsuperscript{252} Ecolabel Regulation, article 11. See also, EU proposal taxonomy, p. 12.
4.2.4 Sustainability ratings for investment funds

Sustainability ratings have been developed alongside sustainability labels and they share the same objectives – to certify and promote sustainable investment and to simplify the process of choosing sustainable investment products for investors. However, there are important differences between them. First, it is the fund manager who takes the initiative to obtain a label for its fund, whereas rating organisations can rate a fund regardless of whether the fund manager wants a rating or not. Second, ratings, unlike labels, do not certify the fund manager’s ESG integration process, but rather evaluate a fund’s portfolio on sustainability with a rating. Thus, labels are usually process-based, meaning that the labels certify that the fund managers actually use the process that they have chosen to use to achieve sustainable investment, while ratings usually are holdings-based, meaning that they only consider the fund’s holdings using values-based judgements that are not disclosed. Additionally, while a label includes both a qualitative and quantitative perspectives, a rating is solely focused on the quantitative perspective.²⁵³

A disadvantage with the holdings-based approach, compared to the process-based approach, is that it does not reflect all sustainable investment strategies equally. For example, a fund portfolio which is managed with an exclusion strategy, may be better rated than a fund portfolio which is managed with a corporate engagement strategy, as the engagements policy of the latter is not reflected in the rating. Consequently, ratings do not always give an accurate description of a fund’s sustainability. However, it is important to note that it is possible for a rating to have a process-based approach as well. Another problem with the rating system is that not all funds can be rated, since their assets are not covered by any ESG rating agencies, which today only covers a small number of securities. Thus, many funds are sustainable in spite of not having a rating. Furthermore, the holdings of an investment fund may be evaluated differently by different rating companies as they do not use the same methodologies, which in turn causes comparability problems.²⁵⁴

There are several sustainability ratings available on the market today. Morningstar was one of the first to rate investment funds and in 2016 the company released a sustainability rating, which measures how well the companies in an investment fund portfolio handle ESG-questions.²⁵⁵ Other examples of ratings are MSCI ESG Fund Metrics²⁵⁶ and FTSE Russel ESG Rating²⁵⁷. There are no EU-level sustainability ratings on the market today, but EFAMA has expressed that it would like to put forward general principles that rating providers should take

²⁵⁶ MSCI ESG Research LLC, ‘MSCI ESG Fund Metrics: Over 100 ESG scores and metrics of 26,00 mutual funds and ETF’s globally’ (2018).
into account when they create ESG ratings, for example comparability, a processed-based approach and transparency.258

5 Analysis

5.1 Can transparency regulation in the EU be used as a tool to influence investors to choose sustainable investment funds?

5.1.1 The possibility of using transparency regulation as a tool to change investor behaviour from a behavioural economics and consumer theory perspective

As mentioned in chapter 1.4, behavioural economics is based on the assumption that people are neither as rational nor as self-interested as standard economic models make them out to be. For example, the availability heuristic theory teaches us that, when people have to make a decision, the decision is largely influenced by the information that they can recall quickly from their memory. It can be information that has been repeated many times or information that is in front of them at the moment of the decision.\footnote{See fn. 32.} From a regulatory perspective, this theory tells us that it is not only important that transparency regulation ensures that investors have access to certain information, but also that the information ought to be presented in a memorable way and that the information ought to be visible at the moment of the decision. Another example is the framing effects theory, which suggests that the way in which information is presented, or framed, affects the conclusion people draw from the information.\footnote{See fn. 33.} Consequently, from a regulatory perspective it is, yet again, not enough to ensure that people have access to information. In order to influence investors in the direction desired by the regulator, in this case to influence investors to choose sustainable investment funds over non-sustainable investment funds, it is important to ensure that the information is presented in a way that will increase the likeliness of investors drawing the conclusion that sustainable investments are the better choice.

Like behavioural economics, the consumer theories discussed in chapter 3.2 can give an insight to where to focus the regulatory measures in order to influence investors to behave in a certain way. For example, according to the TPB, a person’s intentions are linked to their behaviour and the stronger the intention the more likely it is that the behaviour will be performed.\footnote{See ch. 3.2.1.} From a regulatory perspective, this means that in order to influence investor behaviour, the regulation should be focused on measures that could change the intentions of investors. However, intentions can only induce behaviour if the investor has the behaviour in question under their actual behavioural control.\footnote{Ibid.} Thus, the regulation must also ensure that the behaviour of investing sustainably is under the investors’ actual behavioural control. There are aspects of investors’ actual behavioural control that transparency regulation cannot affect, such as investors’ time and money, but it can ensure that investors have at least one of the necessary tools to make investment decisions – information. Provided investors have actual behavioural
control, regulatory measures aiming to influence investors to choose sustainable investment funds ought then to be focused on measures that could change investors’ intentions. Intentions are determined by attitude towards the behaviour in question, subjective norm and perceived behavioural control. Consequently, regulatory measures aiming to change investor behaviour should be targeting one or more of the three aspects, depending on the situation at hand. For example, if investors perceive the behaviour of investing sustainably to be difficult, they are unlikely to perform that behaviour. The more resources and opportunities investors believe themselves to have and the lesser obstacles they anticipate, the greater their perceived behavioural control will be. Thus, transparency regulation could influence investor behaviour by either contributing to increased resources and opportunities to invest sustainably, or by contributing to the removal of obstacles preventing investors from investing sustainably. Moreover, the perceived behavioural control has to be realistic in order to induce behaviour. A lack of information about a behaviour, in this case sustainable investing, is one aspect that can make the perceived behavioural control less realistic. In light of this, transparency regulation, which provides investors with information, ought to be a tool that can ensure realistic behavioural control. Subjective norm, that is the perceived social pressure to perform or not perform a certain behaviour, is not something transparency regulation can affect directly. However, it is possible that transparency measures, such as disclosure requirements, labels and benchmarks, could affect subjective norm indirectly by bringing increased attention to the subject of sustainable investments. In time, this could contribute to more investors considering the behaviour of investing sustainably as the norm, consequently increasing the amount of perceived social pressure. Finally, an investor’s attitude towards the behaviour of sustainable investing is influenced by the behavioural beliefs the investor holds about sustainable investments. Sustainable investing will consequently be favoured if the investor believes it to have desirable outcomes. Transparency regulation cannot ensure a desirable outcome, whatever that might be for the investor in question, but it can ensure that the investor get the information needed in order to assess the possible outcome of investing in, for example, a sustainable fund, and in that way influence investor behaviour.

In light of the above, is seems likely that transparency regulation can be used as a tool to influence investors to choose sustainable investment funds. However, the TPB is based on the assumption that there is a direct link between intentions and behaviour, and according to many recent studies that is not always the case. Sometimes there is a gap between intention and behaviour. The question then is whether or not transparency regulation can help bridge that gap. If it can, there is theoretically still a possibility that transparency regulation can influence

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263 See ch. 3.2.1.
264 Ibid.
265 Ibid.
266 Ibid.
267 Ibid.
268 See fn. 144.
investors to invest sustainably, since the smaller the gap is the more likely it is that intentions lead to actual behaviour. Lack of knowledge about sustainable products, concern and scepticism toward sustainable products, lack of quality and quantity of information about sustainable products and low perceived consumer effectiveness are examples of factors that have been suggested as possible explanations to the intention-behaviour gap. In light of information being the common denominator among the factors above, transparency regulation seems to be a tool that has the possibility to, at least partially, bridge the intention-behaviour gap. It ultimately comes down to which transparency measures are used and to what extent they manage to solve the problems creating the investor-behaviour gap.

The Engel-Kollat-Blackwell decision-making model presented in chapter 3.2.1 makes it clear that information is a central part of an investment decision. The process starts with the gathering and processing of information and the way in which the information is presented has an impact on how investors acquire and act on the information. The acquired information is then used to evaluate the different alternatives before the decision is made. Naturally, it is possible to make an investment decision without gathering information first, but if the investor has preferences and goals regarding their investment it is unlikely that such a decision will align with those preferences and goals. Information is required in order to make informed decisions and transparency regulation can help ensure that there is information available for investors to make such informed decisions.

In summary, based on studies in behavioural economics, consumer theories and decision-making models, transparency regulation seems to be a tool that can be used to influence investors to choose sustainable investment funds, at least in theory. In the end it comes down to which transparency measures are used and how they are designed. Therefore, in the following, the different transparency regulations and measures covered in previous chapters will be analysed on the basis of how they align with the conclusions drawn in this chapter, as well as on the basis of their ability to solve the problems and challenges discussed in chapter 3.3.

5.1.2 Can the EU taxonomy on sustainability influence investors to choose sustainable investment funds?

Chapter 2.1 revealed that there is neither a universal definition of sustainability, nor a universal definition of what a sustainable investment is. Although it is possible to find certain core elements in the concept of sustainability, there is still a great heterogeneity among the definitions. Additionally, financial participants marketing funds as sustainable are doing so

269 See ch. 3.2.2.
270 The ability the transparency regulations and measures have to solve the problems and challenges discussed 3.3 is closely related to the TPB, since the removal of obstacles preventing investors from investing sustainably is something that can increase an investor’s perceived behavioural control, consequently affecting investor intentions and behaviour. See ch. 3.2.1.
based on their own interpretation of sustainability. One fund may only consider the environmental aspects of the sustainability concept while another only considers the social aspects. The sustainability funds can also vary in how the sustainability dimension is applied in the management process and in what sustainable investment strategy is used. For an investor who seeks to invest sustainably, especially an investor who has particular sustainability preferences and goals, the lack of standardisation can be confusing and also complicate the decision-making process.\textsuperscript{271} Extensive information gathering will most likely be required in order to find investment funds that align with the investors’ sustainability preferences and goals. Moreover, it may be difficult to compare different sustainable investment fund alternatives.

As mentioned in chapter 2.2.7, the proposed EU taxonomy on sustainability will introduce an EU-level standardisation of what is to be considered an environmentally sustainable investment based on economic activities. Financial participants offering financial products marketed as environmentally sustainable will be required to disclose how and to what extent the standardised criteria has been used to determine the environmental sustainability of the product. In light of this it may become easier for investors to find information about in what way an investment fund is environmentally sustainable. Moreover, a standardisation of this kind can make it easier to compare alternative investments, as the environmental sustainability of each investment is based on the same criteria. Research\textsuperscript{272} has shown that investors do a limited amount of information gathering before an investment decision and that they do not always compare different investment alternatives even though they are both important parts in the decision-making process.\textsuperscript{273} However, in light of the taxonomy lessening the investors’ burden of information gathering and making comparisons between sustainable investment funds easier, it removes, or at least decreases, two obstacles that could prevent investors from investing sustainably. This, in turn, could increase the perceived behavioural control of investors, which means that the taxonomy could influence investors to invest sustainably, as perceived behavioural control affects intentions which influence behaviour.\textsuperscript{274}

The taxonomy can help increase credibility, as it will likely become more difficult to greenwash an investment fund when there are standardised criteria to be used in order to determine the environmental sustainability of the fund.\textsuperscript{275} Additionally, as the disclosed information will be based on standardised criteria, the quality of the information can, depending on how the criteria are formulated, be improved. Credibility and high-quality information are two examples of factors that can bridge the investor intention-behaviour gap.\textsuperscript{276} The smaller the gap is between

\begin{footnotesize}
\begin{enumerate}
\item See ch. 3.3.8.
\item See fn. 162.
\item See ch. 3.3.5 and 3.2.3.
\item See ch. 3.2.1.
\item See ch. 2.2.7.
\item See ch. 3.2.2.
\end{enumerate}
\end{footnotesize}
intentions and behaviour, the more likely it is that intentions will translate into actual behaviour. Therefore, there is further support for the fact that the sustainability taxonomy could influence more investors to choose sustainable investment funds. One of the criteria in the EU taxonomy that determines whether an economic activity is environmentally sustainable or not, is that the activity must contribute to one or more of the environmental objectives listed in the regulation.\textsuperscript{277} This means that investors who invest in an investment fund that is environmentally sustainable according to the taxonomy, can be certain that the investment is actually contributing to environmental objectives. As research has shown that investors who believe that their investments have a real impact are more likely to invest sustainably,\textsuperscript{278} and the fact that a high perceived consumer effectiveness is one of the factors that can bridge the intention-behaviour gap,\textsuperscript{279} this further indicates that the taxonomy could contribute to influencing more investors to invest in sustainable investment funds.

With the introduction of a standardised definition of environmentally sustainable investments, the EU taxonomy on sustainability seems to have much potential to influence more investors to choose sustainable investment funds. However, in its current format it has one flaw and that is its limitation to environmental sustainability.\textsuperscript{280} The sustainability concept covers a lot more than environmental aspects and to call the taxonomy a taxonomy on sustainability could be misleading, considering it only covers one of the three dimensions commonly associated with sustainable investments.\textsuperscript{281} Especially since most of the definitions of sustainable investments used today include all three dimensions.\textsuperscript{282} The social dimension is partly covered by the taxonomy, as an economic activity cannot be considered environmentally sustainable if it is not carried out in accordance with the principles and rights in the eight conventions in ILO’s Declaration on Fundamental Rights,\textsuperscript{283} but workers’ rights is only one of many issues found in the social dimension of sustainable investments. Other issues are e.g. human rights, freedom of expression, health, local communities, humanitarian crises and poverty.\textsuperscript{284} According to the Commission, the long-term aim is that the taxonomy should cover the whole sustainability concept, apart from governance, but as the current knowledge on how to integrate social objectives into the taxonomy is not yet developed enough on the market, they have chosen to focus on the environmental objectives.\textsuperscript{285} Though the choice to focus on one dimension of sustainable investments in the beginning is understandable, the argument to wait until the market has developed a method for integrating social objectives is not in line with the aim of preventing further fragmentation of the market.\textsuperscript{286} Waiting for the market to develop methods,

\begin{footnotes}
\item[277] See fn. 100.
\item[278] See fn. 126 and ch. 3.1.
\item[279] See ch. 3.2.2.
\item[280] See ch. 2.2.7.
\item[281] See ch. 2.1.
\item[282] See ch 2.2.
\item[283] See fn. 100.
\item[284] See ch 2.2.4.
\item[285] See ch. 2.2.7.
\item[286] Ibid.
\end{footnotes}
from which the Commission can then pick and choose the ones best suited for the taxonomy, is undoubtedly the easier way, but it will most likely result in further fragmentation of the market. This could be prevented if the Commission instead took a leading role and created a social taxonomy on its own. As there is no method on the market yet, who knows how long it will take before one is developed or if one will ever be developed? In the meantime, the investors who seek to invest in socially responsible investments will still have a difficult time finding socially sustainable investments, as the problems the taxonomy “solved” still exist regarding investments that are sustainable from another perspective than the environmental perspective.

5.1.3 Can sustainability benchmarks influence investors to choose sustainable investment funds?

As mentioned in chapter 4.2.1, benchmarks are tools that can be used by investors to measure the performance of an investment fund. According to the Engel-Kollat-Blackwell model, a post-purchase evaluation can have consequences for future purchase decisions and in the context of sustainable investment funds the post-purchase evaluation involves the actual financial and sustainability performance of the fund. Thus, both traditional financial benchmarks and the proposed EU sustainability benchmarks - low-carbon and positive carbon impact benchmarks - can have an impact on future investment decisions and consequently have the potential to influence investor behaviour. Based on the Engel-Kollat-Blackwell assumption that post-purchase evaluation influence future decisions, an investor who has invested in a sustainable fund and who finds that the fund performs better than the benchmark may be more inclined to keep investing sustainably than an investor who finds that the fund performs worse than the benchmark. As benchmarks only measure and not determine performance, they will not always be able to steer investors towards sustainable investments. However, they do facilitate the process of evaluating funds for investors and consequently enhances the possibility of investors acting on post-purchase evaluations. Additionally, as it is especially difficult to measure sustainability performance of a fund, the introduction of standardised sustainability benchmarks in the EU has great potential to influence investors who want their investments to have a real impact on sustainability issues, as sustainability benchmarks will make it easier for them to find those investments.

From a TPB perspective, benchmarks provide investors with information about the possible outcomes of the behaviour of investing sustainably. Information about the outcome of a particular behaviour can change the attitude towards a behaviour, which is one of the determinants of intention. Consequently, benchmarks could, under certain circumstances, influence investors to choose sustainable investment funds. Additionally, benchmarks can be

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287 See ch. 3.2.3.
288 See ch 3.1.
289 See ch. 3.2.1.
considered a resource for investors. The proposed EU sustainability benchmarks will therefore increase the available resources for investors. An increase of resources can, in turn, increase the investor’s behavioural control, which could ultimately influence investor behaviour since behavioural control is one of the determinants of intentions. 290

When investors use benchmarks, it is important that they pay attention to the characteristics of the benchmark, because if the characteristics differ substantially from the characteristics of the fund it is compared to, the outcome of the comparison may be misleading. For example, if an investment fund only has assets in renewable energy and the carbon footprint of the fund is measured against a benchmark of which the underlying assets are only oil companies, the outcome will be misleadingly positive. Therefore, if benchmarks are not regulated, they can be used for greenwashing, and investors can end up investing in a fund that is not as sustainable as a certain benchmark makes it out to be. 291 Additionally, if the investor does not have access to information about the methodology of the benchmark it is difficult for an investor to know if a certain benchmark is the right fit for a certain investment fund or not. Traditional financial benchmarks are already regulated under the Benchmark Regulation, but the proposed amendment to that regulation, will target sustainability benchmarks especially. 292 According to the amendment providers and administrators of benchmarks that pursue or take into account ESG objectives will have to disclose information about the methodology, 293 which will make it more difficult to use benchmarks for greenwashing; hence increasing the credibility of sustainability benchmarks. Furthermore, the proposed amendment will establish two new benchmark categories. LCBs, of which the underlying assets must have less carbon emissions than its parent benchmark, and PCIBs, of which the underlying assets’ emissions savings must exceed their carbon footprint. The benchmarks will be bound to certain minimum requirements, which will ensure comparability and a certain authenticity. 294

In light of the above, the introduction of regulated sustainability benchmarks in the EU will bring standardisation, increase credibility, ensure some comparability and provide investors with information about benchmark methodology hitherto unavailable to them. Consequently, the regulation on sustainability benchmarks seems to have the potential to both bridge an investor intention-behaviour gap and to remove some of the obstacles that prevent investors for investing sustainably which will increase investors’ perceived behavioural control. 295 As perceived behavioural control impact intentions and as a reduced intention-behaviour gap increases the likeliness of intentions translating into actual behaviour, 296 the proposed regulation on sustainability benchmarks ought to have the potential to influence more investors

290 See ch. 3.2.1.
291 See ch. 4.2.1.
292 Ibid.
293 Ibid.
294 Ibid.
295 See ch. 3.2.2, 3.3.7 and 3.3.8.
296 See ch. 3.2.1 and 3.2.2.
to invest in sustainable funds. However, the influence potential still ought to be quite limited, at least in comparison with the EU taxonomy on sustainability. A benchmark is a complex measuring tool and even though the investors are provided with the methodology of the benchmark it is not guaranteed that they will be able to understand and process it, as it will most likely consist of complex terminology and information.\textsuperscript{297} If the investors cannot understand or process the information there is a risk that they will ignore it instead,\textsuperscript{298} and if the information is ignored the usefulness of the benchmark as a tool to influence investor behaviour becomes even more limited.

The proposed regulation on sustainability benchmarks will likely come to include minimum disclosure requirements on environmental, social and governance key performance indicators, such as GHG emissions and compliance with minimum human rights standards.\textsuperscript{299} In such a case, the disclosure requirements would cover all three dimensions of sustainable investments, making it easier for investors seeking sustainable investments that are not only environmentally sustainable. The new benchmark categories however, are, like the taxonomy on sustainability, solely focused on environmental sustainability,\textsuperscript{300} and the Commission has not yet expressed that social sustainability benchmarks are something that will be developed in the future. It is unfortunate, because even though there are socially sustainable benchmarks on the market, a standardised benchmark on EU level would improve credibility, comparability and prevent the benchmarks from being used to make an investment fund seem more socially sustainable than it really is. The Commission’s argument for not including the social dimension of sustainable investments in the taxonomy is that the market has not yet developed methods for it, but in this case there already exist socially responsible benchmarks to draw inspiration from, why it ought not to be too difficult to create an EU-level socially sustainable benchmark, at least in the future.

The complexity of benchmarks and their methodologies prevent them from becoming effective tools to influence investor behaviour. The problem could possibly be solved by ensuring that the information that benchmark providers will be required to disclose is presented in a way that makes it easier for investors to understand it. However, it may not be possible, as there is a limit on the extent to which information can be simplified. Additionally, even if the disclosures are presented in an investor friendly manner, it is not a guarantee that investors will actually use the information, since investors generally have both limited knowledge and limited interest in investments.\textsuperscript{301} To conclude, the proposed regulation on sustainability benchmarks have some potential to influence more investors to choose sustainable investment funds, but as there are other transparency regulation measures with better potential, e.g. the EU taxonomy

\textsuperscript{297} See ch. 3.3.1 and 3.3.2.
\textsuperscript{298} See ch. 4.1.
\textsuperscript{299} See ch. 4.2.1.
\textsuperscript{300} See ch. 4.2.1.
\textsuperscript{301} See ch. 3.3.3.
discussed in chapter 5.1.2, it would probably be more rewarding to focus on improving them rather than to make benchmarks more investor friendly.

5.1.4 Can disclosure requirements on the integration of sustainability in the investment process influence investors to choose sustainable investment funds?

As mentioned in chapter 3.3.7, one problem on the sustainable investment fund market today is that investors do not have access to information about the management process of funds, especially regarding the process of the integration of sustainability and the result of that process. The lack of transparency in the management process has resulted in information asymmetries between investors and fund managers. As mentioned in chapter 4.2.2, the proposed regulation on disclosure of sustainability in the investment process introduces several new transparency requirements which will reduce some of the information asymmetries and provide investors with more information about the management process of funds. For example, the proposed regulation introduces a requirement for fund managers to publish, and keep up to date, policies on how they integrate sustainability risks in their investment decision-making process, as well as descriptions of the procedures and conditions they apply when integrating sustainability risks in their investment decisions. Moreover, fund managers will be required to disclose a description of the sustainable investment target and how the target is ensured, as well as information on the methodology used to assess, measure and monitor the sustainable investments selected for the financial product. By giving investors access to information that has hitherto been unavailable to them, the proposed disclosure regulation removes one of the obstacles that prevent investors from investing sustainably.\(^{302}\) As removal of obstacles can increase an investor’s perceived behavioural control,\(^{303}\) the regulation consequently has the potential to influence investor behaviour.

Access to information about the management process of sustainable investment funds can be perceived as a resource by investors, consequently increasing their perceived behavioural control, which, in turn, increases the prospect of the investor investing sustainably.\(^{304}\) As there has been a lack of information in this specific area, it is likely that the quantity of the disclosed information can help bridge the investor intention-behaviour gap,\(^{305}\) increasing the possibility of the disclosure regulation being able to influence investors to choose sustainable investment funds. Moreover, information induce knowledge, and knowledge about sustainable investment funds is another example of a factor that can bridge the intention-behaviour gap.\(^{306}\)

\(^{302}\) See ch. 3.3.7.
\(^{303}\) See ch. 3.2.1.
\(^{304}\) See ch. 3.2.1.
\(^{305}\) See ch. 3.2.2.
\(^{306}\) Ibid.
Information is central in the investment decision-making process, as investors cannot make informed investment decisions without information. However, too much information in a limited amount of time can lead to cognitive strain, confusion and ultimately to investors making poor investment decisions. An abundance of information can also make it difficult for investors to sort through all the information in order to acquire the information that is actually relevant for them. Obstacles like these reduce the perceived behavioural control of investors, reducing the possibility that they will choose to invest in sustainable investment funds. In light of the proposed regulation introducing disclosure requirement in an area where there has previously been a lack of accessible information, the risk of information overload is quite small. Nevertheless, it is important to acknowledge the problem with information overload and to put emphasis on the fact that sometimes more information is not going to help investors make investment decisions. Considering many investors only do a small amount of information gathering before an investment decision, it is sometimes better to work on the quality of information, rather than on the quantity of information.

The proposed regulation does not reveal much about the way in which the disclosures will be presented to investors and it is not possible to know how the disclosures will be received by investors until the regulation enters into force. Still, it is worth noting that if the disclosures include a lot of difficult and complex terminology and information, there is a risk that investors will not be able to understand, interpret, process and evaluate it, which will be quite counterproductive. The fact that many investors have a low knowledge of and a lack of interest in investments does not help the matter. In order to solve such a situation, regulatory measures must be directed towards making sure that the disclosed information is presented in a way that is understandable and digestible for investors.

One recurring problem regarding disclosure regulations, which is present in this case as well, is that there are no requirements regarding independent monitoring and examination of the disclosed information. The investors must trust that the information is accurate, but there is a risk that it is not. Additionally, the disclosed information might not offer the whole picture, or some information may be concealed. Independent monitoring or examination of the disclosed information would therefore be a welcomed regulatory tool. It would increase the credibility of the disclosed information and as credibility can bridge an intention-behaviour gap, the probability of investors choosing sustainable investment funds would consequently increase.

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307 See ch. 3.2.3.  
308 See ch. 3.3.6.  
309 See ch. 3.2.1.  
310 See ch. 3.3.5.  
311 See ch. 3.3.1.  
312 See ch 3.3.3.  
313 See ch 3.3.8.  
314 See ch. 3.2.2.
5.1.5 Can sustainability labels influence investors to choose sustainable investment funds?

Sustainability labels are initiatives that signal information about an investment fund’s sustainability attributes. They ease the information burden of investors as it is the provider of the label, instead of the investors, who gather, process and evaluate the available information. The information is then presented to the investor in a condensed format. Furthermore, the label provider sorts through the abundance of information to find the pieces of information that are relevant, so that the investors do not have to do that. Finally, the label provider deal with the difficult and complex terminology and information and then present it to the invetors in a manner that is more understandable. By doing all these things, the label removes several obstacles that could prevent an investor from investing sustainably. For example, the problems with information overload and complex terminology will become fewer as the investors do not have to gather, process and evaluate the information themselves. Moreover, it will not matter as much that investors have little knowledge about investments, since the information mediated by the label will be easier to understand. Likewise, it will not matter if the investors have little interest in investment-decisions because they will not have to put as much time and effort into the investment decisions as would have been necessary if the investors had had to process and evaluate the information themselves. The removal of obstacles can increase the perceived behavioural control of the investors, which means that sustainability labelling schemes have the potential to influence investors to choose sustainable investment funds. Moreover, the sustainability label itself is a resource that investors can use in their decision-making process. As increased resources also can affect the perceived behavioural control, there is yet another indicator that sustainability labels can be used to influence investor behaviour.

Information overload is a problem on the investment market, and the vast amount of both financial- and sustainability-related information surrounding a sustainable investment decision can ultimately cause investors to make poor investment decisions. Sustainability labels are one possible solution to the problem with information overload, as the labels will mediate the relevant information in a condensed manner. Furthermore, from a behavioural economic perspective, investment decisions largely depend on the information that an investor can recall quickly from the memory. A sustainability label ought to be a piece of information that could be recalled quickly, especially if the investor has seen it several times. This means that

315 See ch. 4.2.3.
316 See ch. 3.3.1 and 3.3.6.
317 See ch. 3.3.3.
318 See ch. 3.3.3.
319 See ch. 3.2.1.
320 Ibid.
321 See ch. 3.3.6.
322 See fn. 32.
sustainability labels can have a large impact on the choice the investor make, thus having much potential to influence investors to choose sustainable investments. However, the potential of influence can vary depending on factors such as the credibility of the label and how much or how little information the label conveys. A one-dimensional sustainability label only conveys one or a few specific sustainability standards or attributes, while multidimensional labels that include rankings can convey more complex information. There is a fine line between too much information and too little, but as knowledge about the investment fund generally can help bridge the intention-behaviour gap, the more information the label is able to convey, without compromising the understandability and simplicity, the more likely it is that the sustainability label will be able to influence investors to choose sustainable investments. If the investors perceive the sustainability label to be credible and of high quality, it is even more likely that it can influence investors to invest sustainably, since those two factors can bridge an intention-behaviour gap as well. The perceived credibility and quality can, for example, depend on whether the label is industry sponsored or created by a government or an NGO, whether it is voluntary or obligatory, whether the label rely on external certification or not and whether the label is complex or not.

In light of the above, the use of sustainability labels seems to have quite a lot of potential to influence investors to choose sustainable investment funds, but there are some aspects that could limit the potential. The existence of sustainability labels makes the investment environment less complex for investors and also moves the burden of information gathering from the investor to the provider of the label. However, if there are many competing labelling schemes on the market, with different methodologies and requirements, it may become difficult for the investors to understand what information the different labels convey. It may also become more difficult for investors to compare labelling schemes. These are obstacles that could decrease an investor’s perceived behavioural control and consequently affect their behaviour, making the investor less likely to invest sustainably. Additionally, labelling schemes make investors dependent on intermediaries, as the processing of information is made by them and not the investors themselves. This does not have to be a problem, since the point of a sustainability label is to move the burden of information gathering from investors. However, different label providers will have different ways to process information and the quality of the processing can vary depending on skill, training, available resources and access to information. A problem may therefore occur when there are so many sustainability labels on the market that the investors become “forced” to examine and compare the different labels. Then one may argue that it would be more rewarding for the investor to read the first-hand information themselves instead of putting time and effort into understanding and comparing

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323 See ch. 3.2.2.
324 Ibid.
325 See ch. 4.2.3.
326 See ch. 3.2.1.
327 See ch. 3.3.4.
labels. In light of this, a multitude of sustainability labelling schemes could result in a different kind of complex investment environment, which would counteract the purpose of sustainability labels.

As mentioned in chapter 4.2.3 the Commission is currently exploring whether to extend the EU Ecolabel Regulation framework to cover certain financial products as well, for example sustainable investment funds. The idea is that the criteria of the label will be based on the EU taxonomy on sustainability, which is why a proposal has not yet been drafted. If the label criteria are based on the taxonomy, investment funds that are considered environmentally sustainable according to the taxonomy will be able to apply for the label. The taxonomy already has much potential to influence investor behaviour on its own, but if combined with a label the potential will be even greater. This, since investment decisions are largely influenced by information that investors can recall quickly from their memory, for example labels. While disclosed information about how a fund is sustainable is important, a label will still be more likely to influence investors as they only have to see the label in order to know that the fund is sustainable. Yet again, the limitation to environmental sustainability is a problem, but as the EU Ecolabel already has criteria based on the social, environmental and economic aspects of sustainability, there is a good chance that the financial sustainability label is going to include criteria from all dimensions of sustainable investments as well.

In light of the general discussion on sustainability labels, there are certain aspects that, from the perspective of making sure that the EU sustainability label for investment funds has the best possibility to influence investors to choose sustainable investment funds, would be desirable to apply to a future regulation. First, in order to bridge the investor intention-behaviour gap it is important that the label is perceived by investors to be credible and of high quality. In light of the label being a governmental construction, it will inherently have some credibility, but the credibility can be increased if external certification is a requirement. To increase the perceived quality, it is important that the ambition level of the sustainability criteria is high, at least above industry average. If possible, the label also ought to convey the actual impact of the sustainable investment, as it will increase the investors’ perceived consumer effectiveness. Investors are more likely to invest sustainably if they believe that their investments can have a real impact.

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328 See fn. 32.
329 See ch. 3.2.2.
330 See ch. 3.3.4.
331 See ch. 3.1.
5.1.6 Can sustainability ratings influence investors to choose sustainable investment funds?

As mentioned in chapter 4.2.4, the objectives of sustainability ratings are to promote and certify sustainable investments and to make the investment process easier for investors. Just like sustainability labels, sustainability ratings signal information about an investment fund’s sustainability characteristics in a condensed form. It is the rating provider that decides which funds to rate and then they gather, process and evaluate the available information about that fund in order to give the fund a sustainability rating, which will reflect how sustainable the investment fund is. The information is condensed into a number, which can make it easier for the investors to digest, consequently reducing the problem of information overload and the problem of complex terminology.\(^{332}\) Transferring the burden of information gathering from the investor to the rating provider reduces the problems of investors having limited knowledge of and a lack of interest in investments as well. This, since the information is presented in a condensed and more easy-to-understand manner and since the investors have to put less effort and time into their investment-decisions. The removal of obstacles that could prevent investors from investing sustainably increases the investors’ perceived behavioural control.\(^{333}\) Furthermore, the sustainability rating itself can be considered a resource, as it can be used to make the investment-decision process easier. Resources can increase perceived behavioural control,\(^{334}\) which, in turn, will make it more likely that investors choose to invest sustainably. In light of the above, sustainability ratings seem to have the potential to influence more investors to choose sustainable investment funds.

Sustainability ratings may not be as memorable as labels, but from a behavioural economic perspective, sustainability ratings still ought to be able to be classified as information that investors could recall quickly from the memory. Since investors put much emphasis on information that they can recall quickly from their memory when faced with an investment-decision,\(^{335}\) this further indicates that sustainability ratings could have the potential to impact investor behaviour and consequently influence investors to invest in sustainable investment funds. Moreover, depending on how sustainability ratings are presented or framed, they could possibly affect the conclusions investors draw from the information.\(^{336}\) Due to the vast and complex financial- and sustainability information surrounding an investment decision,\(^{337}\) an investor might suffer cognitive strain and confusion, which could ultimately cause them to make poor investment decisions. This problem with information overload and complex terminology could be addressed with sustainability ratings, since the rating, as previously mentioned, mediate the information in a condensed format. One might argue that sustainability

\(^{332}\) See ch. 3.3.1. and 3.3.6.

\(^{333}\) See ch. 3.2.1.

\(^{334}\) Ibid.

\(^{335}\) See fn. 32.

\(^{336}\) See fn. 33.

\(^{337}\) See ch 3.3.1, 3.3.2. and 3.3.6.
ratings provide too little information, but as investors can always choose to acquire additional information about an investment fund from other sources, if they do not feel like the rating give them satisfactory information, the argument is rather hollow.

In general, there are two types of sustainability ratings - holdings-based and process-based.\textsuperscript{338} Depending on the type, a sustainability rating can have more or less potential to influence investor behaviour. As mentioned in chapter 3.1, investors are more likely to invest sustainably if their perceived consumer effectiveness is high, in other words if they believe that their investments can have a real impact towards solving sustainability issues. Sustainability rakings with a holdings-based approach cannot show the impact of an investment and are therefore less likely to influence investors to choose sustainable investments than a sustainability rating with a process-based approach.

Sustainability ratings are evaluated based on methodologies. Usually rating providers have different methodologies, which can result in the same sustainable investment fund having different sustainability ratings. Since the methodology is not always disclosed, it is difficult for investors to gain an understanding of how the fund is sustainable. The investors are left to trust that the rating provider has done a truthful evaluation, which limits the credibility of the sustainability rating and compels investors to rely on the intermediary. As credibility can help bridge an intention-behaviour gap and reliance on intermediaries is a problem preventing investors from investing sustainably,\textsuperscript{339} the absence of credibility and disclosure, as well as independent monitoring of disclosed information, makes it less likely that a sustainability rating can affect investor behaviour. Furthermore, sustainability ratings are limited to funds that holds assets that have been rated. Therefore, many sustainable investment funds never get a rating, something that, from an investor perspective, can be perceived as an obstacle, which decreases the investor’s perceived behavioural control and, consequently, the prospect of the investor choosing to invest sustainably.\textsuperscript{340}

Currently, there are neither any EU-level sustainability ratings nor any regulations regarding sustainability ratings. However, EFAMA has expressed that it would like to establish general principles that rating providers should take into account when they create sustainability ratings.\textsuperscript{341} In the following, the EFAMA principles, as well as the general analysis on sustainability ratings above, will be used as a basis to theoretically examine the potential a possible future regulation on sustainability ratings could have to influence investors to choose sustainable investment funds.

\textsuperscript{338} See ch. 4.2.4.
\textsuperscript{339} See ch. 3.2.2 and 3.3.4.
\textsuperscript{340} See ch. 3.2.1.
\textsuperscript{341} See ch. 4.2.4.
The first principle suggested by EFAMA is the principle of comparability. In light of most rating providers using their own methodologies to evaluate sustainable investment funds, it is currently difficult to compare one sustainability rating with another. An EU-level regulation on sustainability ratings could help solve that problem. By introducing minimum requirements for the methodologies used to evaluate sustainable investment funds, it would become easier to compare sustainability ratings, but at the same time the rating providers would still be left with some flexibility to design the methodologies to their preferences. The ability to compare sustainability ratings could be perceived as a resource by investors, which could increase their perceived behavioural control, consequently increasing the prospect of them investing sustainably. The second principle suggested by EFAMA is the principle of a process-based approach. Most sustainability ratings today are based on the holdings-based approach, but in order to create a sustainability rating regulation that has the best potential to influence investors to choose sustainable investment, the process-based approach is the better alternative. The processed-based approach can convey the actual impact of an investment and investors who believe that their investments can make a real difference are more likely to invest sustainably. The third principle suggested by EFAMA is transparency. As mentioned above, most rating providers do not disclose their methodologies, which prevents investors from getting an insight into why an investment fund were given a certain rating. A requirement for rating providers to disclose their methodology would remove that obstacle, which could, in turn, increase investors’ perceived behavioural control.

5.2 Conclusion

Based on the analysis in chapter 5.1 there are many indicators that transparency regulation can be used as tool to influence investors to choose sustainable investment funds. However, to what extent transparency regulation can influence investor behaviour varies depending on which transparency measures are used and how they are designed. Nevertheless, it is possible to discern certain common elements and factors that, from a behavioural economics and consumer theory perspective, are important for transparency regulation to be successful in regard to influencing investor behaviour. For example, it is helpful if the information is presented in a memorable way, in order to make sure that investors can recall it at the moment of the investment decision, and if the information is framed in a way that increases the likeliness of investors drawing the conclusion that sustainable investments are the better choice. Furthermore, the more the transparency regulation contribute to increased resources for the investors to invest sustainably and to the removal of obstacles preventing investors from investing sustainably, the more likely it is that investors will choose to invest in sustainable investment funds. Additionally, the more the transparency regulation can help bridge the gap.

342 See ch. 3.2.1.
343 See ch. 3.1.
344 See ch. 3.2.1.
between the investors’ intention and actual behaviour, the more likely it is that the investors’ intention to invest sustainably will translate into actual sustainable investing.

As mentioned above, the extent to which transparency regulation can influence investor behaviour depends on the transparency measures and their design. The transparency measures analysed in chapter 5.1 contribute to influencing investor behaviour in many different ways and they all have both advantages and shortcomings. Based on the analysis in chapter 5.1.2-5.1.6, the sustainability benchmark regulation has least potential to influence investor behaviour, due to the fact that benchmarks are complex tools, consequently contributing to the complex environment surrounding sustainable investing, which is related to many problems and obstacles preventing investors from investing sustainably. The other transparency measures all have better potential to influence investor behaviour, especially the EU taxonomy on sustainability and sustainability labels. This, since they increase the resources available to investors to help them invest sustainably, remove many obstacles preventing investors from investing sustainably and bridge the gap between intentions and behaviour in many different ways. However, there is room for improvement regarding all transparency measures. Sustainability ratings are very similar to sustainability labels, but if compared, sustainability labels have slightly more potential to influence investor behaviour due to the fact they are more memorable than ratings. The proposed EU disclosure regulation contributes to investors’ perceived consumer effectiveness, but it does not influence investor behaviour in as many different ways as, for example, the EU taxonomy and sustainability labels.
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