Book Review: Sustainable Finance in Europe edited by Danny Busch, Guido Ferrarini and Seraina Grünewald

In **Sustainable Finance in Europe***, editors* **Danny Busch***,* **Guido Ferrarini** *and* **Seraina Grünewald** *bring together contributors to explore regulatory developments in sustainable finance in the European Union. This necessary book will enable readers to understand the latest regulatory activities in the context of growing global commitments to sustainability, writes* **Irina Bevza***.*

***Sustainable Finance in Europe: Corporate Governance, Financial Stability and Financial Markets.* Danny Busch, Guido Ferrarini and Seraina Grünewald (eds). Palgrave Macmillan.2021.**

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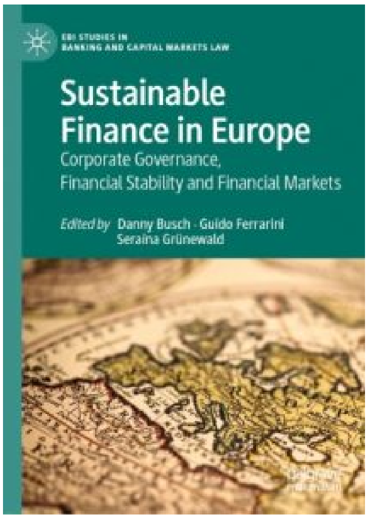

Sustainability means meeting our needs without compromising the ability of future generations to meet their own needs (UN Brundtland Commission 1987). In other words, in our daily lives, we should consider ecological, social and economic limitations to secure the long-term prosperity of society. For example, to maintain environmental integrity, we need to ensure that natural resources are consumed at a rate where they can replenish themselves. Furthermore, social and economic integrity means that universal human rights and basic necessities are attainable by all people, with economic systems kept intact and activities such as secure sources of livelihoods made available to everyone.

In recent years, sustainability has become part of the global commitments promoted by regulators, corporations and citizens. In the European finance industry, in 2018 the European Commission introduced the Action Plan for Financing Sustainable Growth. This seeks to reorient capital flows towards sustainable investment; manage financial risks arising from climate change, environmental degradation and social issues; and foster long-termism in financial and economic activity.

In *Sustainable Finance in Europe*, editors Danny Busch, Guido Ferrarini and Seraina Grünewald have gathered views of academics and practitioners on the latest regulatory developments in sustainable finance in the European Union. While the rapid development of sustainable finance in the region is evident, there are many stumbling blocks in terms of implementation, driven by gaps and misalignments in regulation globally. This book offers contributions in various areas, including the fields of corporate governance and financial markets.

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In 'Sustainable Corporate Governance: The Role of the Law', Alessio M. Pacces looks at sustainable finance through the lens of corporate governance and investigates the role that law plays in supporting sustainable developments. The intuition underlying sustainable finance is that individuals who care about sustainability prefer to invest in sustainable corporations. In practice, most individuals indirectly own shares via their pension savings plans and do not decide in which corporations to invest or how to vote on their shares. Institutional investors such as mutual or pension funds make such decisions on behalf of individuals.

Ownership of publicly held companies is concentrated in the hands of large institutional investors — for example, in the US and the UK the twenty largest investors own a majority of the capital of a typical company. Moreover, EU-based institutional investors are the second largest institutional investors in the world (161). Therefore, with such significant influence, these institutional investors can steer investee companies towards sustainability. They are well positioned to enact the sustainability preferences of the individuals whose investments they manage. However, these institutional investors might not do this because their own incentives may not align with the interests of these beneficiaries, thus creating an agency problem, or because beneficiaries may have different preferences for sustainability and disagree on how to foster it. Therefore, the obstacle for sustainable corporate governance is the alignment of institutional investors' objectives with the environment-friendly preferences of their beneficiaries.

Pacces identifies two challenges to sustainable corporate governance: the transparency of institutional investor behaviour in relation to sustainability, as discussed above; and the clear specification of what is a sustainable investment in the context of particular activities. Practitioners need to have a usable and clear definition applied to sustainable investing that can be used consistently by everyone. When individuals meet their financial advisors and enquire about sustainability-oriented investment products, they should have a clear understanding of the investment products they will be putting their funds into, including how assets are selected for investment and how fiduciary duties are performed.

Pacces concludes that ‘the recent and upcoming EU law on standard sustainability indicators, transparency of voting behaviour, and disclosure of sustainable investment by institutional investors is likely to improve this incentive alignment, making institutional investors increasingly cater to the preferences of their beneficiaries for sustainability’ (174). The Revised Shareholder Right Directive (EU) 2017/828 established, on a comply-or-explain basis, the transparency of voting behaviour for all institutional investors. Taxonomy regulation (EU) 2020/852 introduced a legislative framework defining sustainable economic activities with reference to specified environmental objectives. However, ‘whether and to what extent sustainable corporate governance is compatible with the business model of different kinds of institutional investors remains to be seen’ (174).

In ‘Sustainability Disclosure in the EU Financial Sector’, Busch attempts to assess whether Sustainable Finance Disclosure Regulation (SFDR) (EU) 2019/2099 can successfully harmonise sustainability-related disclosure rules and fiduciary duties across EU member states, financial products and distribution channels. Harmonised sustainability-related disclosure rules are necessary for the comparability of different financial products and hence can further improve transparency and efficiency in the marketplace.

On the one hand, the SFDR offers uniform rules included in regulations, which will have direct effects, rather than in directives that would have to be transposed into national law to take effect within a member state’s national legal order. Thus, the SFDR could contribute to harmonisation by directly affecting entities falling under the regulation. On the other hand, the ‘comply-or-explain’ basis of the regulation means that entities may sometimes choose not to comply with certain sustainability disclosures as long as they provide an explanation. This can potentially negatively impact harmonisation. Ultimately, Busch concludes, ‘before we reach a sufficient degree of harmonisation of sustainability-related disclosure rules and fiduciary duties there is still a long way to go’ (442).

The rapid development in sustainable finance in the EU has been evident over the past few years and is changing the finance industry. Recent and upcoming EU regulations have had significant impact on market practitioners who have had to redefine their business models and incorporate requirements outlined by the regulations. As Pacces and Busch both conclude, although the regulations are promising, their impact is yet to be seen. But will all the hard work related to sustainable finance regulation lead to a more sustainable world? A continued discussion on sustainability is essential for regulators and practitioners to track whether their activities will answer this question. *Sustainable Finance in Europe* is necessary because it outlines current discussions on the subject and allows the reader to understand ongoing regulatory activities in the context of global commitments to sustainability.
