

THE CAMBRIDGE HANDBOOK OF EU SUSTAINABLE FINANCE

This essential reference work explores the role of finance in delivering sustainability within and outside the European Union. With sustainability affecting core elements of company, banking and capital markets law, this handbook investigates the latest regulatory strategies for protecting the environment, delivering a fairer society and improving governance. Each chapter is written by a leading scholar who provides a solid theoretical approach to the topic while focussing on recent developments. Looking beyond the European Union, the book also covers relevant developments in the United States, the United Kingdom and other major jurisdictions. Thorough and comprehensive, this volume is a crucial resource for scholars, policymakers and practitioners who aim for a greener world, a more equitable society and better-managed corporations.

Kern Alexander holds the Professorial Chair in International Financial Law and Corporate Governance at the Faculty of Law, University of Zurich. He is the author of many research articles and books, including *Principles of Banking Regulation* (2019) and *Global Governance of Financial Systems* (2006). His report *Stability and Sustainability in Banking Reform: Are Environmental Risks Missing in Basel III?* (2014) was the first study of the interrelationship between banking regulation, environmental sustainability and climate change.

Matteo Gargantini is Assistant Professor (tenure track) of Business Law at the University of Genoa. Previously, he worked at the University of Utrecht and at the Max Planck Institute Luxembourg for Procedural Law. Before joining academia, Matteo served at CONSOB, the Italian financial markets authority. He is an academic member of the Consultative Working Group for Corporate Finance of the Issuers Standing Committee at the European Securities and Markets Authority (ESMA). He is a regular lecturer at the LLM programme of Luigi Bocconi University and at the Frankfurt School of Finance and Management.

Michele Siri is Professor of Corporate Law and Financial Regulation at the University of Genoa and Director of EUSFIL, the Jean Monnet Centre of Excellence on European Union Sustainable Finance and Law. He has held a Jean Monnet Chair on the EU regulation of financial and insurance markets. Since 2018, he has been a member of the Joint Board of Appeal of the European Supervisory Authorities, which he has been appointed to chair in 2021. He is a regular lecturer at the LLM programme of Luigi Bocconi University and at the Frankfurt School of Finance and Management. He is an academic member of the Advisory Committee of the Italian Financial Markets Authority.

The Cambridge Handbook of EU Sustainable Finance

REGULATION, SUPERVISION AND GOVERNANCE

Edited by

KERN ALEXANDER

University of Zurich

MATTEO GARGANTINI

University of Genoa

MICHELE SIRI

University of Genoa



Cambridge University Press & Assessment
978-1-009-48394-0 — The Cambridge Handbook of EU Sustainable Finance
Edited by Kern Alexander , Matteo Gargantini , Michele Siri
Frontmatter
[More Information](#)



Shaftesbury Road, Cambridge CB2 8EA, United Kingdom
One Liberty Plaza, 20th Floor, New York, NY 10006, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre, New Delhi – 110025, India
103 Penang Road, #05–06/07, Visioncrest Commercial, Singapore 238467

Cambridge University Press is part of Cambridge University Press & Assessment, a department of the University of Cambridge.

We share the University’s mission to contribute to society through the pursuit of education, learning and research at the highest international levels of excellence.

www.cambridge.org
Information on this title: www.cambridge.org/9781009483940

DOI: 10.1017/9781009483971

© Cambridge University Press & Assessment 2025

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press & Assessment.

When citing this work, please include a reference to the DOI 10.1017/9781009483971

First published 2025

A catalogue record for this publication is available from the British Library

Library of Congress Cataloging-in-Publication Data

NAMES: Alexander, Kern, 1968– editor. | Gargantini, Matteo, 1978– editor. | Siri, Michele, editor.

TITLE: The Cambridge handbook of EU sustainable finance : regulation, supervision, and governance / edited by Kern Alexander, University of Zurich; Matteo Gargantini, University of Genoa; Michele Siri, University of Genoa.

OTHER TITLES: Cambridge handbook of European Union sustainable finance

DESCRIPTION: Cambridge, United Kingdom ; New York, NY : Cambridge University Press, 2025. | Series: Cambridge law handbooks | Includes bibliographical references and index.

IDENTIFIERS: LCCN 2023052968 (print) | LCCN 2023052969 (ebook) | ISBN 9781009483940 (hardback) | ISBN 9781009483971 (ebook)

SUBJECTS: LCSH: Finance – Law and legislation – European Union countries. | Financial services industry – Law and legislation – European Union countries. | Financial institutions – Law and legislation – European Union countries. | Sustainable development – Law and legislation – European Union countries. | Finance – Government policy – European Union countries. | Finance – Law and legislation.

CLASSIFICATION: LCC KJE2188 .C35 2025 (print) | LCC KJE2188 (ebook) | DDC 364.24/082–dc23/eng/20231120

LC record available at <https://lcn.loc.gov/2023052968>

LC ebook record available at <https://lcn.loc.gov/2023052969>

ISBN 978-1-009-48394-0 Hardback

Cambridge University Press & Assessment has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Contents

<i>List of Figures</i>	<i>page</i> xiii
<i>List of Tables</i>	xv
<i>List of Contributors</i>	xvii
<i>Preface</i>	xix
<i>Acknowledgements</i>	xxi
PART I INTRODUCTION	1
1 The Research Handbook on EU Sustainable Finance: Regulation, Supervision and Governance	3
Kern Alexander, Matteo Gargantini and Michele Siri	
1.1 Introduction	3
2 Taking Finance Seriously: Understanding the Financial Risks of Unsustainability	22
Beate Sjøfjell	
2.1 Introducing the Topic	22
2.2 The Mainstream Approach to Finance, Sustainability and Risks	23
2.3 A Research-Based Concept of Sustainability	25
2.4 An Analysis of the Financial Risks of Unsustainability	30
2.5 Concluding Reflections	41
PART II ETHICS AND SUSTAINABILITY IN CORPORATE LAW, CORPORATE GOVERNANCE AND CONDUCT	49
3 Firm Value versus Social Value: Dealing with the Trade-Offs	51
Guido Ferrarini	
3.1 Introduction	51
3.2 Shareholder Value Maximization and Stakeholders	52
3.3 Critique of Enlightened Shareholder Value	59
3.4 Role of Corporate Governance	64

3.5	Role of Ethics and Regulation	69
3.6	Conclusions	76
4	The Hardening of Corporate ESG	80
	Geneviève Helleringer and Christina Parajon Skinner	
4.1	Introduction	80
4.2	From Soft Law ESG Commitments to Hard Law Rules: European Union and United Kingdom	84
4.3	From Soft Law ESG Commitments to Hard Law Rules: United States	92
4.4	ESG Judicial Precedent	96
4.5	Conclusion	98
5	Stakeholder Engagement	103
	Monika Marcinkowska	
5.1	Introduction	103
5.2	Stakeholder Theory	104
5.3	Stakeholder Engagement Management	111
5.4	Conclusions	129
6	Bank Governance and Sustainability	134
	Kern Alexander	
6.1	Introduction	134
6.2	Banking and Sustainability	135
6.3	Agency Problems in Bank Governance	137
6.4	Governance and Organisational Culture	141
6.5	A Behavioural Approach to Banking Regulation	145
6.6	Bank Culture and Sustainability – Where Should the Focus Be?	148
6.7	Summary and Conclusion	150
7	Risk Culture and Sustainability	154
	Paola Schwizer, Simona Cosma and Lorenzo Nobile	
7.1	The Key Role of Corporate Governance and Risk Culture in Driving Environmental Sustainability	154
7.2	The Special “Culture” of Emerging Risks and Sustainability	157
7.3	Tone from the Top: The Governance of Emerging Risks as a Key Driver for Sustainability	164
7.4	Research Design	168
7.5	Conclusions and Implications	178
8	Conduct Risk as a Possible Approach for Enhancing Awareness and Management of ESG-Related Risks	187
	Antonella Sciarrone Alibrandi, Claudio Frigeni and Giulia Schneider	

	<i>Contents</i>	vii
	8.1 The Relevance of the Category of Conduct Risk in the Contemporary Financial Sector	187
	8.2 The Definition of “Conduct Risk” and Its Function: Bridging Conduct Risk and ESG Risks	190
	8.3 ESG Regulations as Rules of Sustainable Conduct	194
	8.4 “Unsustainability” as an Important New Driver of Conduct Risk	197
	8.5 Mapping the New Risks of Unsustainability	200
	8.6 The Almost Unexplored Relationship between Conduct Risk, ESG Risks and “Unsustainability”	207
9	Sustainability and Executive Compensation Roberto Barontini and Jennifer Hill	214
	9.1 Introduction	214
	9.2 A Short History of Executive Compensation: Then and Now	215
	9.3 How Prevalent Is ‘Pay for Sustainable Performance’ Today?	226
	9.4 Conclusion	238
	PART III INTEGRATING SUSTAINABILITY IN FINANCIAL MARKETS REGULATION	249
10	Sustainability-Related Materiality in the SFDR Nathan de Arriba-Sellier and Arnaud Van Caenegem	251
	10.1 Introduction	251
	10.2 Regulatory Set-Up	253
	10.3 Baseline “Single Materiality” Disclosures	254
	10.4 Additional “Double Materiality” Disclosures	255
	10.5 Disclosures for Sustainable Financial Products	259
	10.6 Sustainable Investment	260
	10.7 Prominence of Sustainable Investment in Regulatory Developments	271
	10.8 Sustainable Investment as a Supervisory Focus	275
	10.9 Conclusion	276
11	Information Intermediaries and Sustainability: The Case of ESG Ratings and Benchmarks Matteo Gargantini and Michele Siri	280
	11.1 Scope of the Analysis: Information Intermediaries in the ESG World	280
	11.2 Information Intermediaries in Financial Markets: The Old, the New and the Not-So-New	281
	11.3 Sustainability Ratings	284
	11.4 Sustainability Indices and Benchmarks	300
	11.5 Stocktaking: Market Failures and How to Address Them	307

12	On the Sustainability of the MiFID II and IDD Investor Protection Frameworks	317
	Veerle Colaert	
12.1	Introduction	317
12.2	Role of the Investment Product Distributor in Remediating Investors’ ‘Value-Action-Gap’	318
12.3	Critical Overview of Main Changes to the MiFID II and IDD Frameworks	321
12.4	Conclusion	351
13	The EU Taxonomy Regulation and the Prevention of Greenwashing	357
	Marleen Och	
13.1	Introduction	357
13.2	Framework of the Taxonomy Regulation	358
13.3	Investor Protection and Greenwashing	367
13.4	Conclusion	377
14	Integrating Sustainable Finance into the Prospectus Regulation	381
	Iris Chiu and Pierre Schammo	
14.1	Introduction	381
14.2	Prospectus Regulation: Role and Tensions	383
14.3	‘Specialist’ Securities in Sustainable Finance and Treatment in Law and Regulation	387
14.4	Enhancing the Regulatory Regime for Specialist Securities: The Need for Prospectus Regulation	397
14.5	Conclusion	401
15	Disclosure Regulation and Sustainability	407
	Kern Alexander and Aline Darbellay	
15.1	Introduction	407
15.2	International Developments	409
15.3	EU Legislative Developments on Sustainable Disclosure Regulation	416
15.4	Sustainable Disclosure Regulation and Cross-Border Coordination	420
15.5	Conclusion	426
16	Institutional Investors as the Primary Users of Sustainability Reporting	431
	Gaia Balp and Giovanni Strampelli	
16.1	Introduction	431
16.2	The Difficult Path towards Harmonization of Non-Financial Reporting Standards	434

	<i>Contents</i>	ix
	16.3 The Users of Non-Financial Information	435
	16.4 The Content of Non-Financial Information	438
	16.5 The Form of Non-Financial Disclosures, and the Need for Balancing the Narrative and Quantitative Dimensions of Sustainability Information	442
	16.6 Conclusions	445
17	The Role of Non-Financial Disclosure and Liability in Sustainable Finance Sebastian Mock	449
	17.1 Introduction	449
	17.2 History of Non-Financial Disclosure	449
	17.3 Non-Financial Disclosure and Sustainable Finance: Two Sides of the Same Coin?	452
	17.4 Liability for Incorrect Non-Financial/Corporate Sustainability Disclosure	461
	17.5 Summary	468
	PART IV ENSURING FINANCIAL STABILITY AND SUSTAINABILITY	471
18	Macroprudential Policies and Climate Risks Seraina Grünewald	473
	18.1 Introduction	473
	18.2 Climate Change as a Source of Financial Instability: Current State of Knowledge	474
	18.3 Assessing Climate Risks: Scenario Analysis and Macro-Stress Testing	480
	18.4 Managing Climate Risks: The Macroprudential Toolkit	483
	18.5 Conclusions	488
19	Integrating Climate Risk in Banking Regulation David Ramos Muñoz	493
	19.1 Introduction	493
	19.2 Translating Climate Change into Bank Regulation’s Language: Categories of Risks and Global Landscape of Norms	494
	19.3 Pillar 1 (Capital Requirements) Disappoints and Pillar 3 (Market Discipline through Disclosures) Promises, but Cannot Deliver	498
	19.4 Pillar 2: Climate Change and Supervisory Review	508
	19.5 The Actual Legal and Non-Legal Challenges	515
	19.6 Conclusions	519
20	Prudential Requirements Framework and Sustainability Jens-Hinrich Binder	526

20.1	Introduction: Micro-Prudential Regulation and Sustainability – Mapping the Issues	526
20.2	Why Micro-Prudential Regulation? Existing Tools and Their Use for the Promotion of Sustainability Objectives	529
20.3	The Developments So Far: A Piecemeal Approach	534
20.4	A Critical Assessment: What Should (and Can) Be Done	542
20.5	Conclusions	548
21	Sustainable Finance under EU Law: The Gradual Shift from Capital Markets to Banking Regulation	552
	Christos V. Gortsos	
21.1	Brief Overview of the Policy Initiatives and the Rules Adopted during the Period 2019–2021	552
21.2	The 2021 Legislative ‘Banking Package’ and the Amendments in Relation to Sustainability and Contribution to the Green Transition	560
21.3	Concluding Remarks	567
22	Sustainability and Fit and Proper Testing in the Boards of Banks, Insurers and Investment Companies	573
	Iris Palm-Steyerberg	
22.1	Introduction	573
22.2	Scope and Definitions	575
22.3	ESG and the Roles and Responsibilities of the Management Body	576
22.4	Integration of ESG Aspects into the Fit and Proper Test	582
22.5	Integrating ESG into the Criterion of Collective Suitability	584
22.6	Integrating ESG into the Criterion of Individual Expertise	585
22.7	Integrating ESG into the Criterion of Sufficient Time	588
22.8	Integrating ESG into the Criterion of Independence of Mind and Conflicts of Interest	588
22.9	Integrating ESG into the Criterion of Good Repute (Properness/ Integrity)	589
22.10	Conclusion	590
22.11	Final Remarks: Legal Certainty and Equality (Level Playing Field)	591
23	Integration of Sustainability Risks and Sustainability Factors in Insurance Regulation	596
	Arthur van den Hurk	
23.1	Introduction	596
23.2	Sustainability Risks and Sustainability Factors	596
23.3	Brief Description of the Solvency II Framework	597

<i>Contents</i>		<i>xi</i>
	23.4 Fiduciary Duties	599
	23.5 Integration of Sustainability in the Solvency II Framework	600
	23.6 Climate Change Scenario Analysis	613
	23.7 Climate Change Transition Plans	614
	23.8 Potential Amendment of Solvency Capital Requirements to Take into Account Sustainability Risk	615
	23.9 Final Remarks	618
24	Sustainability Enforcement through Multilevel Financial Tools Tomasz Braun	622
	24.1 Multilevel Enforcement Tools: General Regulatory Trends	622
	24.2 Bottom-Up Approach to Sustainability Policies' Implementation	625
	24.3 Top-Down Financial Measures by Multilayered Regulatory Powers	626
	24.4 A Need for Unification of Sustainability Enforcement Measures	627
	24.5 Interrelations among Sustainability Enforcement Tools and Corporate Practices	628
	24.6 Sustainability Policies: Lessons from the Financial Sector	629
	24.7 Multilevel Sustainability Enforcement Tools	631
	24.8 Sustainability Enforcement and Corporate Ethical Integrity: Takeaways	635
	24.9 Conclusions	636
	PART V FINANCIAL INNOVATION AND SUSTAINABILITY	641
25	Can Financial Regulation Truly Support the Reduction of CO₂ Emissions? The Complicated Puzzle of EU Emission Allowances Filippo Annunziata	643
	25.1 The EU Emissions Trading Scheme	643
	25.2 EU Capital Markets Law and Emission Allowances	645
	25.3 The Market Abuse Regulation and Emission Allowances	649
	25.4 REMIT and Emission Allowances	654
	25.5 Exemptions for Emission Allowances	655
	25.6 The Impact of MiFID II	657
	25.7 A Complex Market Landscape	659
	25.8 Some Conclusions	660
26	Climate Risk and Financial Markets: The Case of Green Derivatives Paolo Saguato	663
	26.1 Introduction	663
	26.2 A Primer on Derivatives Markets: Economic and Market Structure	666

xii	<i>Contents</i>	
	26.3 Current Private Initiatives in the Green Derivatives Markets	670
	26.4 Current Public Initiatives: EU Taxonomy Regulation and CFTC Climate-Related Market Risk Subcommittee Report	674
	26.5 The Future Ahead	681
27	The Skin-in-the-Game Bond: A Novel Sustainable Capital Instrument	686
	Katrien Antonio, Jan De Spiegeleer, Wim Schoutens and Eva Verschueren	
	27.1 Introduction	686
	27.2 The Design of a Skin-in-the-Game Bond	689
	27.3 The Valuation of a Skin-in-the-Game Bond	695
	27.4 The ESG Skin-in-the-Game Bond	697
	27.5 The Nuclear Skin-in-the-Game Bond	704
	27.6 Conclusion	709
28	Financial Innovation in the Process of Financial Inclusion	712
	Iwa Kuchciak	
	28.1 Introduction	712
	28.2 Financial Inclusion, Exclusion, and Digital Financial Inclusion	713
	28.3 Importance of Financial Inclusion	719
	28.4 Legal and Regulatory Framework	723
	28.5 Mobile Technology and Financial Services in Developing Countries and Developed Countries	727
	28.6 COVID-19 Pandemic as an Accelerator to Digital Access to Financial Services	728
	28.7 Promoting Digital and Financial Literacy	731
	28.8 Summary	734
29	Sustainable Finance and Fintech: A Focus on Capital Raising	743
	Eugenia Macchiavello	
	29.1 Green Fintech and Sustainable Digital Finance as a New Field of Study: Opportunities and Risks in Matching Digital Finance and Sustainable Finance, with a Special Focus on Capital Raising	743
	29.2 ‘Green Crowdfunding’	747
	29.3 DLT-Based Finance and Sustainability	759
	29.4 Conclusions	766
	<i>Index</i>	777

Figures

2.1 Planetary boundaries	<i>page</i> 26
2.2 The safe and just space for humanity	28
5.1 Relational capital in a market value tree of a company	110
5.2 Stakeholder relationship management	112
5.3 Example: bank’s environment and stakeholders	113
7.1 A conceptual model	169
7.2 Proxies of risk culture: (a) risk and control committee membership as a proxy of risk culture; (b) financial sector served as a proxy of risk culture	176
9.1 Dynamics of ESG-linked executive compensation: (a) global dynamics; (b) dynamics by region	228
9.2 The adoption of ESG-linked executive compensation, by industry	230
12.1 Definition of sustainability preferences – relationship between product categories	324
12.2 Relationship between product categories in the definition of sustainability preferences and ‘Article 8’ and ‘Article 9’ products	325
17.1 Legislative options and impact on supervisory board and auditor	460
27.1 The evolution of a continuous benchmark over time is sketched in (a). The trigger level is only breached at the third payment date. The payout structure of a 5-year skin-in-the-game bond with annual coupon payment and as underlying the benchmark (a) is pictured in combination with: (b) a permanent coupon loss penalty, (c) a temporary coupon loss penalty, (d) a coupon withholding penalty or (e) a full write-down penalty	693
27.2 An illustration of the generic structure of a 5-year skin-in-the-game bond with a counting benchmark. The yearly trigger clause is activated at years 2 and 4. The cumulative trigger clause is activated at year 4	694
28.1 Financial inclusion effects	720
28.2 Multidimensional approach to financial inclusion	734

Tables

2.1	Risks of unsustainability	<i>page</i> 31
5.1	Stakeholder satisfaction and contribution factors	117
7.1	Sample profile of the respondents	170
7.2	Confirmatory factor analysis	171
7.3	Descriptive statistics and correlation coefficients	175
9.1	Government quality and the adoption of ESG compensation policies	231
9.2	Financial variables and the adoption of ESG compensation policies	233
9.3	Corporate governance variables and the adoption of ESG compensation policies	234
9.4	ESG scores and the adoption of pay for sustainable performance	236
9.5	Environmental performance, communication and the adoption of ESG compensation policies	237
9.A1	Explanatory variables	239
18.1	Overview EU macroprudential toolkit	484
19.1	Physical risk	495
19.2	Transition risk	496
19.3	TCFD recommendations and NFRD Commission Guidelines	503
21.1	Definition of risks	563
27.1	Raw rating thresholds and data percentiles for Sustainalytics' ESG rating categories	699
27.2	ESG skin-in-the-game bond characteristics	702
27.3	One-year transition matrix P , under \mathbb{P} , for a public firm in the communication services sector	702
27.4	Trigger probabilities under both the \mathbb{P} and \mathbb{Q} probability measures for an ESG skin-in-the-game bond with characteristics as given in Table 27.2	703
27.5	t_s in bps for a 5-year ESG skin-in-the-game bond with annual coupon payment, varying trigger penalties and trigger level (column). The issuer has initial rating (row)	704
27.6	Nuclear skin-in-the-game bond characteristics	706

27.7	Maximum likelihood estimate for the intensity $\hat{\lambda}^{(i)}$ as used in Equation 27.14	707
27.8	Trigger probabilities under both the \mathbb{P} and \mathbb{Q} probability measures and trigger spreads (in bps) for the nuclear skin-in-the-game bonds with characteristics as given in Table 27.6	709
28.1	Selected international data sources on financial inclusion	716

Contributors

- Kern Alexander University of Zurich
- Filippo Annunziata Bocconi University
- Katrien Antonio KU Leuven
- Gaia Balp Bocconi University
- Roberto Barontini Sant’Anna School of Advanced Studies, Pisa
- Jens-Hinrich Binder Universität Tübingen
- Tomasz Braun Łazarski University
- Iris Chiu University College London
- Veerle Colaert KU Leuven
- Simona Cosma University of Bologna
- Aline Darbellay University of Geneva
- Nathan de Arriba-Sellier Erasmus University Rotterdam
- Jan De Spiegeleer KU Leuven
- Guido Ferrarini University of Genoa
- Claudio Frigeni Catholic University of Milan
- Matteo Gargantini University of Genoa
- Christos V. Gortsos National and Kapodistrian University of Athens
- Seraina Grünewald University of Nijmegen
- Geneviève Helleringer University of Oxford
- Jennifer Hill Monash University

- Iwa Kuchciak** University of Lodz
Eugenia Macchiavello University of Genoa
Monika Marcinkowska University of Lodz
Sebastian Mock Vienna University of Economics and Business
Lorenzo Nobile University of Salento
Marleen Och KU Leuven
Iris Palm-Steyerberg University of Nijmegen
Christina Parajon Skinner The Wharton School of the University of Pennsylvania
David Ramos Muñoz Universidad Carlos III de Madrid
Paolo Saguato George Mason University
Pierre Schammo University of Durham
Giulia Schneider Catholic University of Milan
Wim Schoutens KU Leuven
Paola Schwizer University of Parma
Antonella Sciarrone Alibrandi Catholic University of Milan
Michele Siri University of Genoa
Beate Sjøfjell University of Oslo
Giovanni Strampelli Bocconi University
Arnaud Van Caenegem KU Leuven
Arthur van den Hurk University of Nijmegen
Eva Verschueren KU Leuven

Preface

Sustainability, and sustainable finance with it, have been one of the most debated matters among the public and the academic community in recent years. A growing set of laws and supervisory policies are being adopted and implemented to drive private finance towards objectives that support environmental, social and governance (ESG) purposes. Market participants have increasingly invested in ESG-compliant assets and sold their clients sustainable products, although the actual ability of such products to foster better climate or societal conditions is sometimes difficult to ascertain. Scientific research, including in the areas of law and finance, has followed suit with an impressive body of outputs. This book is an attempt to shed light on the complex system of sustainable finance that has resulted from years of legislative frenzy, changing market practices and academic efforts.

As readers will easily realise by browsing its chapters, this book is neither an enthusiastic supporter nor a sceptical challenger of the virtues of leveraging sustainable financial products, prudential regulation or corporate purpose to promote ESG targets. Rather, the book aims to provide different perspectives in understanding the intricacies of the law and regulation of sustainable finance. We hope that readers will be able to reach their own views on the merits of the specialised topics covered in the book, ranging from financial regulation and corporate governance to capital markets law and financial technology (Fintech).

While the authors have expressed their own views on specific aspects of sustainable finance, the book, as a whole, provides an image of sustainable finance that highlights its opportunities but, at the same time, does not overlook its risks – mindful that the road to hell is paved with good intentions. As Tariq Fancy highlighted, ‘sustainable finance is a confusing area of finance that often means different things to different people’, and it is therefore important to dispel misunderstandings because ‘we’re running out of time: we can no longer afford to answer inconvenient truths with convenient fantasies’.

This book is largely centred on the legal framework of the European Union. The reason is straightforward. The bulk of the most recent legal and regulatory developments concerning sustainable finance has occurred in the EU, partially as the result of the Union’s attempt to become a ‘regulatory superpower’ that paves the way to imitations by

policymakers elsewhere and leverages the size of its financial sector to force compliance by firms wishing to sell services or securities in its jurisdiction. The United States has been less eager to foster sustainable finance through the law, and the United Kingdom is designing its own way for how to regulate and supervise green finance. However, this lower dynamism has not prevented sustainable finance from growing significantly, and many analysts expect the market will further expand in the near future. Whether the sleeping beauty will awaken or not, the role of the United States as a leading international financial market – and of the United Kingdom with it – obviously remains crucial in sustainable finance, and the book duly accounts for it in many chapters.

The fast-developing landscape in the European Union is grounded on the understanding that public budgets and other regulatory strategies will not suffice to preserve the planet and humankind from major adverse climate events and social disruption. Of course, the opposite is also true. While sustainable finance and its regulatory framework can help support ESG purposes, one cannot rely on responsible investing and investor preferences alone to reduce the negative externalities of economic activities. Therefore, those with a true interest in sustainable economic growth should consider sustainable finance; and the lessons this book can hopefully give, as part of a much broader picture, should involve external constraints such as properly designed carbon taxes and other regulatory mechanisms. Hence, this book depicts a part of a larger picture but nonetheless a crucial part.

The volume and its chapters greatly benefitted from two workshops where the authors presented and discussed their drafts, one in September 2021 and the other in September 2022. We thank the Genoa Centre for Law and Finance at the University of Genoa, the Research Network for Sustainable Finance at the University of Zurich and the Utrecht Centre for Regulation and Enforcement in Europe (RENFORCE) for their organisational support.

No endeavour of any book can be completed without the precious support of colleagues and friends. Our first acknowledgement goes to the book's authors, whose commitment and enthusiasm motivated us to persist in the project. Our special gratitude goes to Guido Ferrarini, who is among the pioneers of sustainable company law and provided the initial inspiration for this book. We are also grateful to Matt Gallaway, Rebecca Jackaman, Jadyn Fauconier-Herry, Richard Walshe, Sunantha Ramamoorthy, Balaji Devadoss and all the editorial team at Cambridge University Press for their invaluable help. We also thank Sara Addamo and Martina Mantovani for their editorial support.

The book was prepared as a research project of the Jean Monnet Centre of Excellence on European Union Sustainable Finance and Law (EUSFiL) at the University of Genoa. The EUSFiL Centre has been funded with support from the European Commission (ref. Project: 620519-EPP-1-2020-1-IT-EPPJMO-CoE). This publication reflects the views of the authors alone, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

The book is up to date as of 30 April 2023. Developments that occurred after that date may be taken into account occasionally.

Acknowledgements

Ref. Project: 620519-EPP-1-2020-1-IT-EPPJMO-CoE – This project has been funded with support from the European Commission. This book reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



Co-funded by the
Erasmus+ Programme
of the European Union