

The background of the slide is a composite image. The top half features a dark blue background with a white circle containing the title. Behind the circle and across the top is a stylized financial chart with multiple lines in light blue, cyan, and purple, and vertical error bars. The bottom half of the slide shows an aerial view of a sustainable industrial park. In the foreground, there are several large white storage tanks with silver domes and rows of solar panels. In the middle ground, there are more storage tanks and a paved area. In the background, there are several wind turbines on a grassy hill overlooking a body of water. The overall theme is sustainable finance and investment.

EU sustainable finance: a competitive advantage for a resilient Europe

November 2025



the European Sustainable Investment Forum



This report was developed by **Eurosif** in collaboration with the **Label R Resilience Lab** with contributions from Lance McPherson and Oriane Schoonbroodt.



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Eurosif – the European Sustainable Investment Forum, is the leading pan-European association promoting sustainable finance at the European level. Its membership is comprised of Sustainable Investment Fora (SIFs) from across Europe. Most of these SIFs have a broad and diverse membership themselves, including asset managers, institutional investors, index providers and ESG (Environmental, Social and Governance) research and analytics firms. Eurosif and its members are committed to the growth and development of sustainable finance and support development of EU rules which are fit-for-purpose and facilitate the financial industry's contribution to a just transition.

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List of abbreviations

AIFMD	Alternative Investment Fund Managers Directive
CapEx	Capital Expenditure
CRD	Capital Requirement Directive
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
CTB	Climate Transition Benchmark
EBA	European Banking Authority
ESAP	European Single Access Point
ESG	Environmental, Social and Governance
ESMA	European Securities and Market Authority
ESRS	European Sustainability Reporting Standards
EUGB	EU Green Bond
GDP	Gross Domestic Product
KPI	Key Performance Indicator
NGFS	Network for Greening the Financial System
PAB	Paris-Aligned Benchmark
SFDR	Sustainable Finance Disclosure Regulation
SMEs	Small and Medium-sized Enterprises
TAB	Taxonomy-Aligning Benchmark
UCITS	Undertakings for Collective Investment in Transferable Securities

Executive summary: Europe's strategic imperative

Translating the EU's sustainability leadership into global competitiveness.

The European Union's (EU) sustainable finance journey began as a response to address the challenges caused by climate risks and global warming. In less than ten years, the EU has built a comprehensive sustainability framework, linking finance, regulation, and industrial policy under a single economic logic: **sustainability and competitiveness are mutually reinforcing**.

Europe is entering an era in which competitiveness depends on resilience, clarity of rules, and the ability of companies and investors to plan with confidence. **The EU sustainable finance framework is not an add-on to this strategy: it is an area where the EU already has global leadership and where the market outcomes demonstrate clear economic value.**

EU sustainable finance delivers tangible economic benefits.

The EU's combination of disclosures (CSRD, SFDR), definitions (EU Taxonomy), standards (EUGBS, climate benchmarks), and integration of ESG risks provides common language, comparable data and improved risk management. This reduces information asymmetries, enhances risk pricing, and attracts both domestic and international investments. Evidence across funds, bonds, and businesses shows that the EU framework is a global leader, reshapes market behaviour and supports long-term value creation:

Sustainability risks are financial risks.

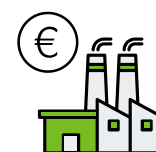
- **Macro-resilience:** a delayed transition could cut the profitability of Euro area firms by 2-3 percentage points by 2030¹ ([see section 1.1](#)).
- **Invest for the future:** about 1% of global GDP must be invested to adapt to climate change, and to prevent 10–15% in GDP losses over the century – a pay off up to five times the initial cost² ([see section 1.1](#)).



Delaying the sustainable transition and the related investments would hurt the EU's long-term growth and competitiveness.

Sustainable companies attract cheaper capital.

- **Transparency advantage:** Businesses with efficient sustainability disclosures get better access to finance³ ([see section 3.3](#)).
- **Sustainability pays:** Corporate green bond issuers accounted for 12.8% of the EU's total corporate bond market⁴ –doubling in size compared to 2020 and enabling cheaper financing due to the “greenium”⁵ ([see section 3.2](#)).



EU companies transparent about their ESG practices benefit from easier access to cheaper financing.

1 European Central Bank, [Climate Stress Test Scenario](#), November 2024.

2 World Economic Forum, [The cost of inaction: A CEO guide to navigating climate risk](#), December 2024.

3 Hummel et al., [Sustainability Disclosures Regulations and Loan Costs: Insights from Syndicated Loans](#), June 2024, and Krueger, Sautner, Tang & Zhong, [The Effects of Mandatory ESG Disclosure around the World](#), April 2024.

4 European Environment Agency, [Green bonds indicator](#) (8th EAP), July 2025

5 Certainty over the sustainable use-of-proceeds of green bonds lowers perceived risks for investors. Some investors may accept lower yields in exchange for this certainty, which reduces the financing cost for companies issuing green bonds: this premium for sustainability is called “greenium”. See Climate Bonds Initiative, [Green Bond Pricing in the Primary Market: January-June 2023](#), September 2023.

EU ESG funds are resilient and performing.

- **Europe in the lead:** 81% of global responsible and sustainable funds' assets are domiciled in Europe⁶ ([see section 3.1.1](#)).
- **Resilience in turmoil:** Sustainable and ESG funds' median return reached 12.6% during the 2023 market turmoil, outperforming traditional funds by 4%⁷ ([see section 3.1.2](#)).



EU Sustainable and ESG funds are global leaders and proved resilient in times of turmoil.

EU labels and standards attract capital.

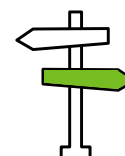
- **EU Climate Benchmarks:** In 2024, EUR 180 billion in assets were managed in accordance with EU climate benchmark criteria, with growth expected to continue⁸ ([see section 2.3.2](#)).
- **EU Green Bond Standard:** The EU Green Bond Standard launched strongly in 2025, with robust investor appetite driving over EUR 11 billion in corporate issuance⁹ and Denmark's inaugural EUR 930 million sovereign issuance¹⁰ ([see section 3.2.4](#)).



EU sustainability labels and standards meet significant success.

Sustainability increasingly shapes business strategy.

- **Guiding companies' investments:** large EU companies averaged 22.7% alignment of capital expenditures (CapEx) with the EU Taxonomy in 2024 – steadily increasing year after year¹¹ ([see section 3.3.2](#)).
- **Planning for the future:** 70% of large European firms currently reporting against EU sustainability standards established 1.5°C climate targets and 55% declared having a climate transition plan.¹² ([see section 3.3.1](#)).
- **Investors mainstream ESG:** 60% of European asset owners consider that ESG is becoming increasingly material for their investments and 61% believe ESG considerations contribute to fulfilling their fiduciary duty towards clients.¹³ ([see section 2.3.1](#)).



Sustainability is becoming integrated in the core strategy of European businesses.

These outcomes confirm that sustainability factors are not moral preferences: they are now core financial variables.

6 GSIA, [Global Sustainable Investment Review 2024](#), November 2025.

7 Morgan Stanley Institute for Sustainable Investing, [Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds \(2018–2023\)](#). Median sustainable fund return in 2023: 12.6% vs 8.6% for traditional funds, February 2024.

8 Platform on Sustainable Finance, [Investing for Transition Benchmarks report](#), December 2024.

9 Responsible Investor, [EU Green Bonds stocktake: strong investor demand but technical hurdles persist](#), September 2025.

10 National Bank of Denmark, [The Government has issued a 10-year green bond under the EuGB framework](#), September 2025.

11 European Commission, [The EU Taxonomy's uptake on the ground](#), November 2025.

12 EFRAG, [State of Play 2025: Implementation of the European Sustainability Reporting Standards \(ESRS\)](#), July 2025.

13 Morningstar, [Voice of the Asset Owner Survey Quantitative Analysis](#), September 2025.

The biggest risk now is deregulation.

Regulatory simplification should mean **operational efficiency**, not dismantling the core architecture of EU sustainable finance rules. Deregulation, by removing useful tools and standards for companies and investors alike, creates regulatory uncertainty and should absolutely be avoided.

The EU's task should not be to dilute its strengths, but to make them actionable, efficient and scalable across markets:



Frequent reversals erode trust.

- Initiatives like "**Omnibus I**" are expected to create regulatory uncertainty, eroding trust among market participants by rolling back the existing rules. This runs counter to the stated simplification objective.



Policy coherence and consistency benefit all economic actors.

- Adjustments to the EU sustainable finance rules should focus on their consistency, to align concepts, definitions, and sequencing throughout the entire investment chain.



Clear policy signals shift capital and mobilise investors.

- The success of EU tools (Taxonomy), labels (EU Climate Benchmarks) and standards (EU Green Bonds Standard) demonstrates how effective signalling channels investment toward sustainability goals – a model worth scaling and replicating.



Cross-sector dialogue fosters confidence.

- Corporates, investors, and regulators should engage in joint discussion exercises to anticipate risks and meet implementation challenges.



Digital implementation delivers simplification.

- The EU should develop its implementation support and establish an ecosystem of digital reporting that would facilitate reporting.

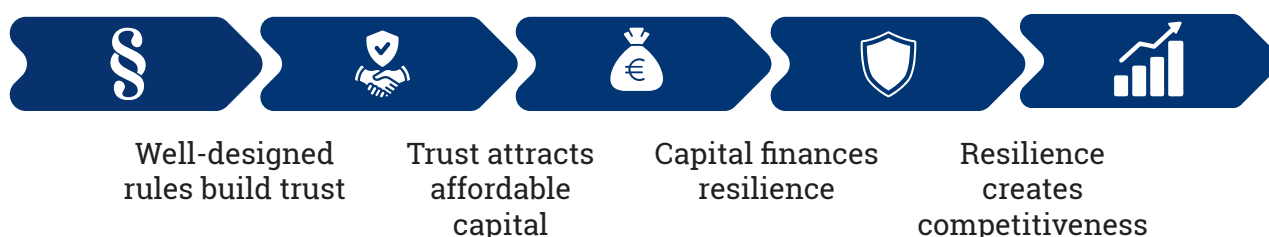
The EU sustainable framework is a foundation for Europe's strategic resilience.

As supply chains, energy markets, and geopolitical risks become more volatile, protection from risks becomes a priority.

The EU's sustainable finance framework, linking transparency, risk management, and capital allocation, helps companies and financial institutions anticipate and withstand shocks. Resilience is becoming the new productivity. **Sustainability rules support the resilient companies and financial markets that underpin a competitive European Union.**

This report is structured as follows:

- Part I** explains why sustainable finance has become the EU's strategic advantage linking competitiveness, resilience, and trust through transparent, predictable rules that attract capital and drive long-term value creation.
- Part II** shows how the EU framework turns credible definitions and disclosures into capital flows, risk pricing, and delivers outcomes across funds, bonds, lending, and forward-looking corporate decisions.
- Part III** measures outcomes across funds, bonds, and corporates using hard data series and case evidence.
- Part IV** sets the policy recommendations and strategic foresight agenda to scale-up competitiveness through the next cycle.



Part I.

Europe's strategic crossroads for competitiveness



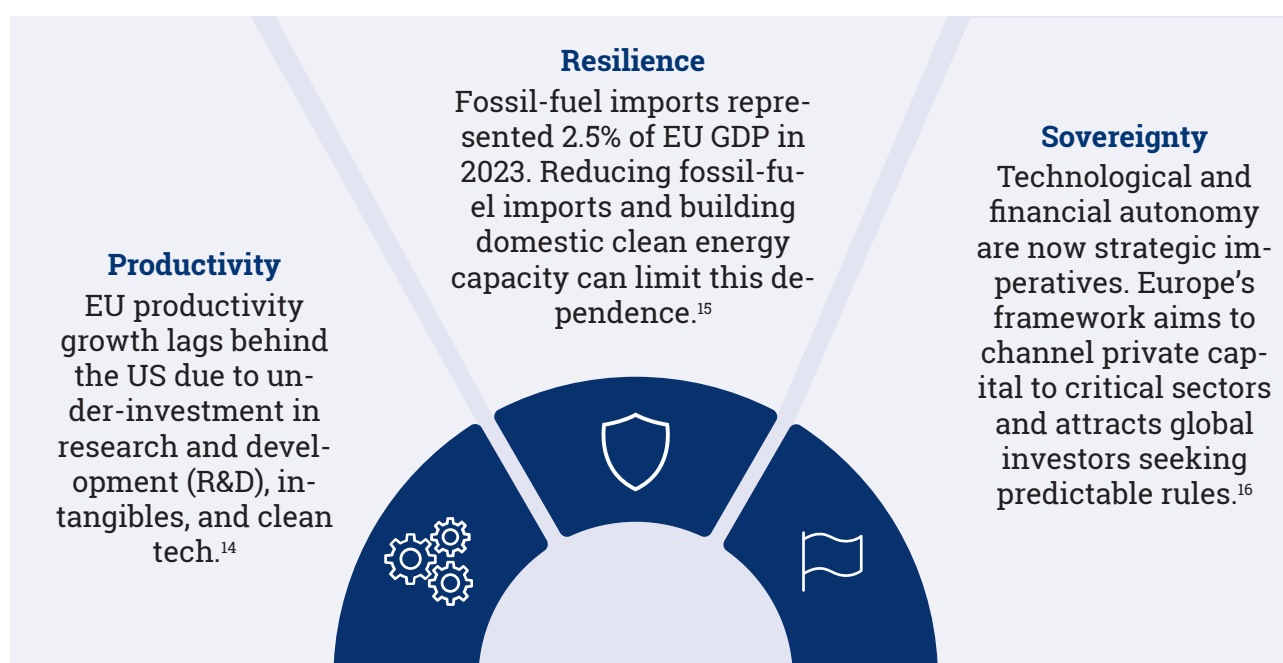
Part I: Europe's strategic crossroads for competitiveness

We begin in Part I by exploring the foundations of Europe's competitive edge and how the EU sustainable finance framework strengthens trust, lowers capital costs, and anchors the resilience on which future growth depends. It unfolds in three sections:

1. **Europe's competitive imperative:** current challenges, growth opportunities, and the measurable cost of delayed action.
2. **New metrics of competitiveness:** how resilience, trust, and transparency reshape value creation.
3. **Why the EU regulatory framework matters:** how their design and implementation are a key opportunity for the EU to deliver on its objectives.

1.1. Europe's current challenges, opportunities, and the cost of inaction

1.1.1. Europe's triple challenge: productivity, resilience, sovereignty



These challenges are deeply interconnected: environmental and geopolitical shocks amplify vulnerabilities across supply chains and energy security, exposing the economic cost of fragmentation and intensifying competition for resource.¹⁷

1.1.2. Europe's defining opportunity

Europe stands at a decisive inflection point. Either it invests in a transformation to a low-carbon and sustainable economy and regains industrial dynamism, or it falls further behind as global competitors accelerate innovation and climate readiness.¹⁸

¹⁴ ECIPE, [Keeping up with the US – why Europe's productivity is falling behind](#), May 2024.

¹⁵ Council of the EU, [Report on the energy prices and costs in Europe](#), February 2025.

¹⁶ European Commission, [Sustainable Finance Action Plan – Implementation Memo and Omnibus Alignment](#), February 2024.

¹⁷ Financial Times, [Hotter world will drive more wars, EU climate chief warns](#), May 2025.

¹⁸ Draghi, [The Future of European Competitiveness: A European Strategy for Prosperity](#), September 2024, and Letta, [Much More than a Market: Speed, Security and Solidarity](#), April 2024.

The question is not whether to pursue sustainability or competitiveness, but how to integrate both into Europe's strategy for long-term leadership and strategic sovereignty. Resilient economies that anticipate, adapt, and recover, consistently outperform in growth, innovation, employment, and market valuation.

Sustainable finance sits at the centre of this new equation. It is not a compliance mechanism but a strategic infrastructure defining the foundation of Europe's next industrial era, where capital, innovation, and trust combine to create lasting value.

Planetary boundaries and prosperity

Pivotal reports by Mario Draghi and Enrico Letta converge on one message: Europe's prosperity depends on its ability to innovate within planetary boundaries, not despite them.¹⁹

Sustainable industrial policy and finance are inseparable pillars of Europe's future.

Global competitive context

Competitors are already acting decisively. China and South Korea anchor industrial strategy in green technology. The United States, despite domestic volatility, has set a new global benchmark through its Inflation Reduction Act, as of 2024 mobilising hundreds of billions of dollars in climate and energy investment.²⁰

In this environment, Europe's advantage must lie in coherence, credibility, and trust. A single market governed by predictable rules can convert stability into competitiveness. Delay and frequent regulatory changes, by contrast, compound costs and weaken the very resilience it seeks to build.

1.1.3. Quantifying the cost of inaction

The macro-economic rationale is now measurable. Analysis estimate that a delayed transition could significantly affect the performance of Euro area companies – reducing their profitability in terms of revenue by 2 to 3 percentage points by 2030, and by twice as much in energy intensive sectors.²¹

Delayed investment in **resilient infrastructure, clean technologies, and risk management** multiplies future financial costs and fiscal and social liabilities. Due to climate change, the EU economy has already suffered losses estimated at €170 billion during the last five years, which could ramp up to €2.4 trillion – more than the current GDP of Italy – over the next thirty years.²²

About 1% of global GDP needs to be invested to adapt to accelerating climate change, and these investments could prevent 10–15% in GDP losses over the century – making them pay off up to five times their cost.²³ While the transition will create short-term challenges, its benefits in terms of GDP resilience and growth significantly outweigh the costs. **An orderly transition towards net-zero by 2050 could result in 7% added global GDP growth.**²⁴

1.2. New metrics of competitiveness: resilience and trust

Competitiveness now depends on the ability to create and retain value through innovation, resource efficiency, and resilience under stress. Leadership requires rapid adaptation, strong governance, and credible risk management. **Sustainability risks are no longer peripheral or reputational – they are financial determinants of performance.** Embedding transition, physical, and social risks into risk management, investment and business decision-making turns sustainability into an internal driver of foresight, resilience, and long-term competitiveness.

¹⁹ Draghi, [The Future of European Competitiveness: A European Strategy for Prosperity](#), September 2024, and Letta, [Much More than a Market: Speed, Security and Solidarity](#), April 2024.

²⁰ International Energy Agency, [World Energy Investment Report](#), June 2024.

²¹ ECB, [The Road to Paris: stress testing the transition towards a net-zero economy](#), September 2023.

²² Letta, [Much More than a Market: Speed, Security and Solidarity](#), April 2024.

²³ World Economic Forum, [The cost of inaction: A CEO guide to navigating climate risk](#), December 2024.

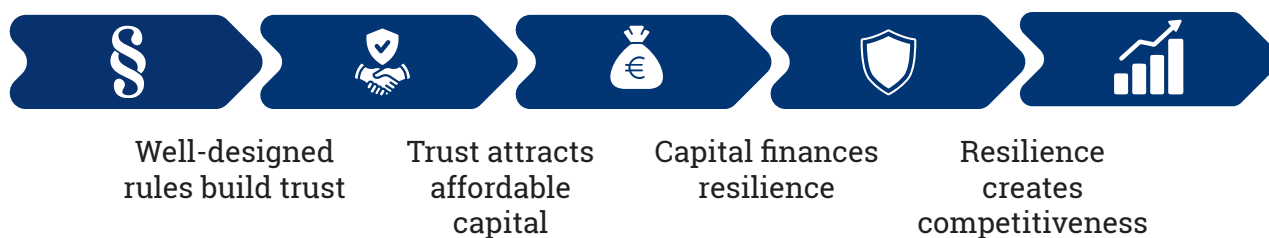
²⁴ IMF, [Benefits of Accelerating the Climate Transition Outweigh the Costs](#), December 2023.

The OECD warns that excessive focus on efficiency can make systems more fragile and vulnerable to shocks, calling for anticipatory, resilience-based governance.²⁵ **Resilience, in this sense, is Europe's new productivity: the ability to sustain growth through uncertainty.**

1.2.1. Resilience as long-term performance

The EU's sustainable finance framework provides the architecture for this shift through its three core objectives:²⁶

- integrating sustainability into risk management
- redirecting capital towards sustainable economy
- fostering transparency and long-termism



Empirical studies confirm that resilience translates into financial performance:

- Firms with robust ESG governance are more resilient during crises.²⁷
- Companies with stronger ESG performance deliver higher share-price returns and faster valuation recovery during market stress.²⁸
- Improved ESG disclosures lower financings costs²⁹ and improve liquidity in markets.³⁰
- ESG funds have performed better in market turmoil compared to mainstream funds.³¹

These results demonstrate that the behaviour changes incentivised by regulation can build resilience and improve performance. Resilience is therefore not just risk avoidance or regulatory compliance, but risk-adjusted optimisation.

This shift marks a structural redefinition of performance: resilience becomes a source of efficiency, and transparency becomes a catalyst for growth. **At the core of this redefinition sits trust, the market's invisible infrastructure.**

25 OECD, [Navigating Uncertainty: Combining Behavioural Science and Strategic Foresight for a Systemic Approach to Decision-Making](#). This report introduces the ABCD behavioural model (Attention, Belief, Choice, Determination) and the concept of "anticipatory governance", May 2018.

26 European Commission, [Renewed Sustainable Finance Strategy, and Implementation Action Plan on Financing Sustainable Growth](#), March 2018.

27 EDHEC Business School, [Were ESG Firms More Resilient during COVID-19?](#), January 2025.

28 McKinsey, [The triple play: Growth, profit, and sustainability](#), August 2023, and Albuquerque, Koskinen, Yang & Zhang, [Resilience of Environmental and Social Stocks: An Analysis of the Exogenous COVID-19 Market Crash](#), July 2020.

29 Hummel & Jobst, [Sustainability Disclosure Regulation and Loan Costs: Insights from Syndicated Loans](#), June 2024.

30 Krueger, Sautner, Tang & Zhong, [The Effects of Mandatory ESG Disclosure around the World](#), April 2021.

31 ESMA, [ESG funds during the 2020 COVID-19 market turmoil: performance and flows](#), February 2024.

1.2.2. Trust as competitive infrastructure

Competitive markets depend as much on belief in data as on data itself. Predictable, actionable rules cultivate that belief, lowering risk premia and unlocking capital. This logic mirrors the Competitiveness Compass, which defines Europe's strength as the intersection of **productivity, resilience, and innovation**.³²

Sustainable finance operationalises these levers by aligning capital with innovation ecosystems, financing resilience through transition investment, and converting disclosure into data-driven productivity.

Competitiveness Compass	Sustainable finance lever	Expected effect
Predictable, high-quality regulation	SFDR/CSRD/Taxonomy coherence	↓ risk premia, ↑ investment velocity
Deep single market & data interoperability	ESRS machine-readable reporting, ESAP	↑ comparability, ↓ search costs
Mobilising private finance for the transition	EUGB Standard, Taxonomy-linked lending and investments	↑ CapEx to transition assets
Innovation diffusion & scale-up	Green-CapEx indicators, transition plans	↑ R&D productivity, faster scale
Skills & adoption	Guidance, tools for small and medium-sized Enterprises (SMEs)	↑ compliance quality, ↓ burden

Each transparent disclosure compounds into “trust capital”, an intangible yet measurable foundation of competitiveness. With payoffs and design principles established, compliance evolves into strategy. This is the essence of Europe's approach: transforming disclosure rules into drivers of market discipline and competitiveness.

Embedding sustainability into everyday financial decisions – treasury management, credit assessment, and investment allocation – helps firms stabilise cash flows, anticipate risks, and strengthen valuations. Simplification should focus on efficiency, not leniency, to preserve trust and comparability across Europe.³³

1.3. Rules with a purpose – why the EU framework matters

Europe's framework already links transparency, trust, resilience, and capital allocation in practice.

Over the past decade, the European Union has significantly developed its sustainable finance framework. What has begun as a framework aimed at mobilising capital flows for a transition to a sustainable economy, based on improved transparency, embedding sustainability into the risk management, and standards/labels as tools for investors, has the potential to evolve into a strategic architecture for systemic transformation to a resilient and low-carbon economy.

Well-designed regulation mitigates risks by enhancing transparency and enabling businesses to plan ahead: it provides clarity, reduces uncertainty, and attracts patient capital. Efficient, aligned reporting improves transparency, reduces information asymmetry and capital

³² European Commission, [EU Competitiveness Compass](#), January 2025.

³³ Eurosif et al., [Investor and business joint statement on the Omnibus initiative: Sustainability rules are essential for European competitiveness](#), September 2025.

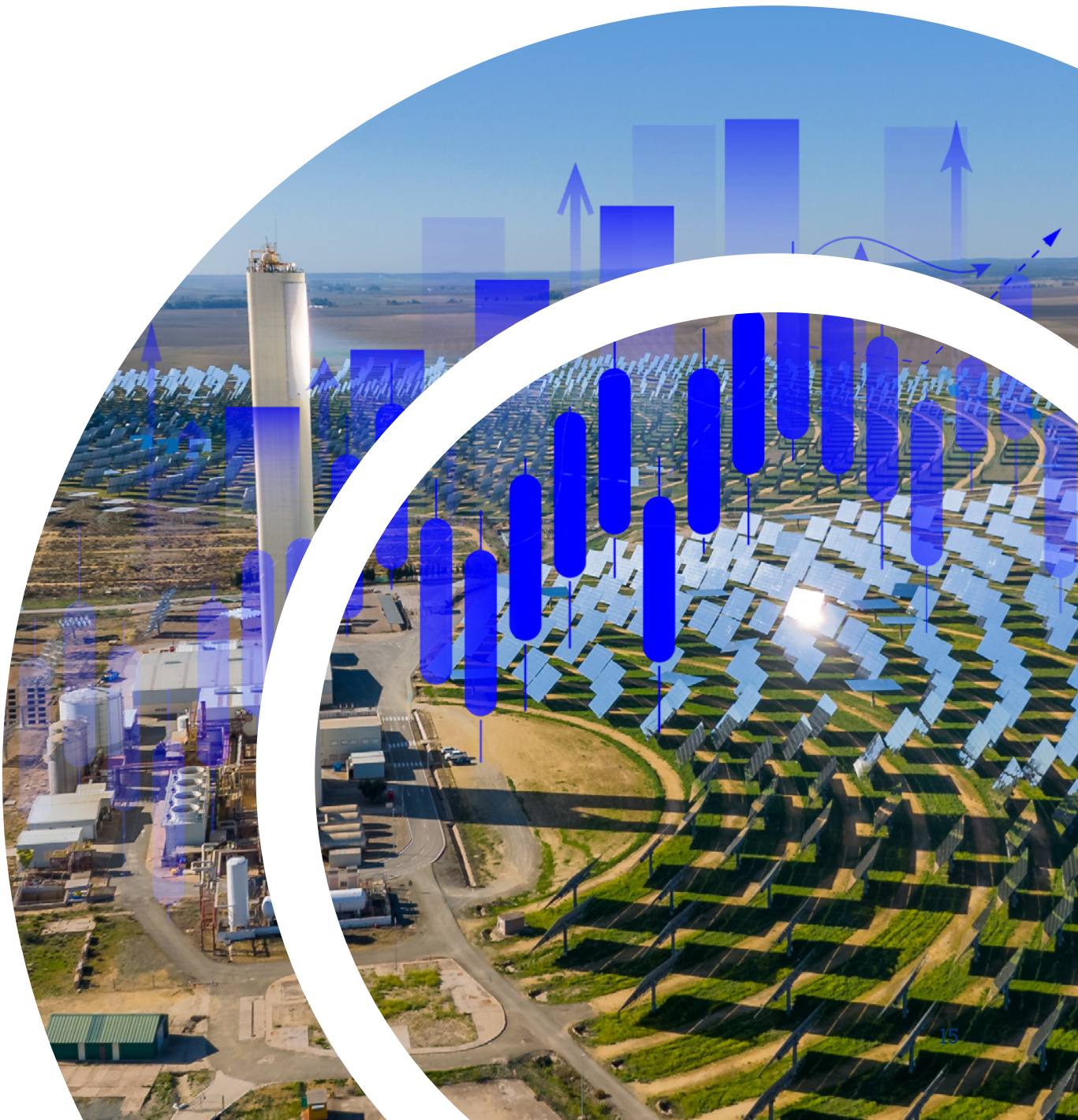
costs, and incentivises investors to finance transparent companies with clear and credible transition strategies that manage risks well. **Resilience connects macroeconomic stability to firm-level performance:** it is the capacity to absorb climate, geopolitical, financial, and operational shocks without eroding long-term value. Over time, this coherence compounds: each layer of transparency leads to trust and strengthens Europe's resilience and autonomy. By aligning finance with foresight, the EU has turned resilience from a defensive notion into a driver of productivity, innovation, and trust, the true foundations of competitiveness.

Europe's sustainable finance framework is therefore not a constraint but a competitive operating system that redirects capital, builds resilience, and reinforces trust. Sustainable finance has become the engine of Europe's next industrial era.

As we turn to Part II, we move from why sustainable finance anchors Europe's competitiveness, to how this framework converts clarity and trust into measurable economic value, through risk management, transparency, and capital reallocation.

Part II.

The value engine: how the EU framework delivers



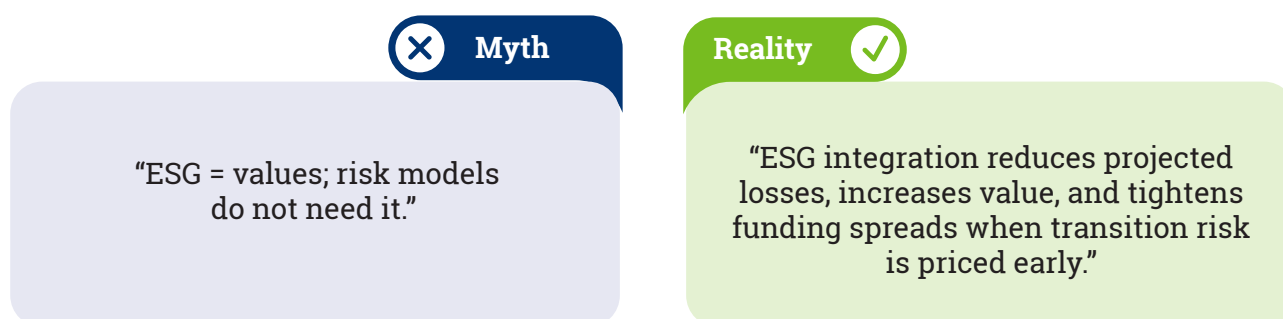
Part II: The value engine: how the EU framework delivers

Europe's sustainable finance architecture has evolved into an engine of economic growth. It is not just a set of compliance obligations, but a system that translates trust and clarity into growth, investment, and resilience.

This part shows how the EU sustainable finance framework rests on three interconnected pillars: **risk management builds resilience, transparency drives productivity, and trust mobilises capital reallocation**. These three pillars show how early risk pricing, credible disclosures, and clear standards strengthen Europe's competitive position.

2.1. Risk management as resilience

Competitiveness begins with efficient risk management. Firms that integrate material sustainability risks into governance, credit, and investment decisions reduce volatility and strengthen long-term performance.³⁴ Banks that price transition risk early show higher risk-adjusted returns and faster recovery – proof that prudence drives productivity.³⁵



Economic actors now assess ESG risks alongside traditional financial risks, including reputational, legal, counterparty, and credit risks. Indeed, **risks directly linked to climate change or other environmental challenges (physical risks) and risks associated with the shift to a low-carbon economy (transition risks) are material to financial performance**. Information on how companies manage ESG risks is essential for investors to make informed decisions, as these may translate into financial losses.

Research shows that over half of the companies included in portfolios from a selection of large EU and international asset owners are exposed to severe physical risks.³⁶ Empirical research shows that companies with higher ESG performance, and carbon risk management practices face lower credit-default spreads and smaller drawdowns during crises.³⁷

The EU sustainable finance framework embedded consideration of sustainability risks – understood as material negative impact on the value of investments caused by ESG factors – into law.³⁸ Targeted adjustments to the Delegated Acts on Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Fund Managers (AIFMD)³⁹ introduced requirements for financial market participants to integrate sustainability risks in

34 United Nations Global Compact, [Investing in the future: The rise of sustainable finance](#), July 2025.

35 IMF, [Do Banks Price Environmental Transition Risks?](#), August 2021.

36 MSCI, [Hidden in Plain Sight: Physical Risk in Asset Owners' Portfolios](#), November 2025.

37 Lambriex, [The effect of ESG ratings on credit risk in European corporates](#), Erasmus University Rotterdam, April 2022, and Duong. et al., [Do Firms Benefit from Carbon Risk Management? Evidence from the CDS Market](#), June 2021, and NYU Stern Center for Sustainable Business & Rockefeller Asset Management, [ESG and Financial Performance: Meta-Analysis](#), 2021.

38 [Regulation \(EU\) 2019/2088 on sustainability related disclosures in the financial services sector \(SFDR\)](#) - Article 2(22), November 2019.

39 [Commission Delegated Directive \(EU\) amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities \(UCITS\)](#), April 2021, and [Commission Delegated Regulation \(EU\) amending Delegated Regulation \(EU\) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers](#), April 2021.

their investments, mirroring disclosure requirements on the sustainability risks integration introduced by the SFDR.

Prudential rules also incorporate requirements for banks and insurance companies to integrate ESG risks in their assessments. In the EU, the Capital Requirement Directive (CRD) integrates provisions on the identification, measurement, management and monitoring of environmental, social and governance (ESG) risks by banks.⁴⁰ This dynamic is reinforced by the supervision. The European Banking Authority (EBA) recently published guidelines regarding the internal processes and ESG risk management arrangements that banks should have in place, as well as on the content of the plans they should draw to ensure their resilience over the short, medium and long-term.⁴¹ The European Central Bank (ECB) increasingly integrates climate risks into their EU-wide supervisory practices, which drives progresses in the banks it supervises.⁴² This shift is also coordinated at the global level, notably by European central banks, with international bodies such as the NGFS (Network for Greening the Financial System) providing climate scenarios to ensure the macroeconomic resilience of the banking framework.⁴³

When risks are priced in earlier and managed consistently, **information becomes a source of efficiency, turning transparency into a performance lever.**

2.2. Transparency as a productivity lever

Transparency does more than inform – it drives efficiency.

Comparable and verifiable data reduces information gaps, improves decision quality, and strengthens internal controls. Quantitative evidence also shows benefits of improved transparency for the financing of companies: countries introducing enforceable ESG reporting see bid-asks spreads decrease by 8.4%, revealing improved liquidity.⁴⁴

Transparency is not an end in itself but a behavioural engine. Information builds trust, trust attracts affordable capital, and capital, when deployed predictably, reinforces resilience and competitiveness.

Double materiality, the core innovation underpinning the EU sustainable finance framework, links two perspectives: how sustainability events may affect companies and finance, and how companies/finance may impact the environment and society. This dual perspective integrates ESG considerations into strategic planning, turning reporting into a **core management process**. The EU's framework embeds this discipline through the **CSRD**: by requiring disclosure of both risks and impacts, it helps investors and companies identify and measure financially material sustainability risks, which is the first step in preventing and managing them.

The **CSRD's** goal is to make sustainability information reliable enough for financial markets to use it with confidence. Early implementation shows tangible benefits: sustainability reporting starts to mirror financial reporting more closely, with fact-based, comparable, and detailed disclosures.⁴⁵ Firms expect better stakeholder engagement, risk mitigation, and cost outcomes.⁴⁶

Behavioural science shows that disclosure drives change not only by informing stakeholders but by **shaping internal behaviour**. When performance metrics are public, executives are

40 [Directive of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions](#), June 2013.

41 EBA, [The EBA publishes its final Guidelines on the management of ESG risks](#), January 2025.

42 ECB, [Banks have made good progress in managing climate and nature risks – and must continue](#), July 2025, and EBA, [Guidelines on the management of ESG risks](#), January 2025.

43 NGFS, [Guide to climate scenario analysis for central banks and supervisors – Update](#), November 2025.

44 Krueger, Sautner, Tang, Zhong, [The Effects of Mandatory ESG Disclosure around the World](#), February 2023.

45 Hombach et al., [CSRD Adoption in the EURO STOXX 50: ESG Reporting is Coming of Age](#), April 2025.

46 PwC, [Global CSRD Survey 2024 – The Promise and Reality of CSRD Reporting](#), June 2024.

incentivised to improve them. The act of preparing a sustainability report in line with CSRD creates **self-reinforcing accountability loops**: once emissions, workforce diversity, or supply chain metrics are measured and verified by a third party, they become embedded in decision frameworks and incentive systems.⁴⁷

Transparency, therefore, **catalyses cultural change**, elevating sustainability from a peripheral topic to a **board-level performance dimension**. Over time, this dynamic results in organisations becoming more adaptive, innovative, and resilient, the attributes that define competitive advantage in volatile markets.

The core objective boils down to **integrating risks, opportunities, and impacts more coherently, improving both transition planning and competitiveness**.

Initially expected to cover around 50 000 companies, CSRD's final scope is likely to be reduced by at least **90 %** as part of the 2025 Omnibus Simplification Package.⁴⁸ This initiative reflects the EU's intention to **reduce perceived regulatory burdens in the name of competitiveness**. However, as the political debate unfolds, evidence-based, genuine simplification seems to be abandoned in favour of deregulation, despite the concerns of many business voices.⁴⁹ The final outcome of this initiative therefore remains uncertain, creating short-term regulatory ambiguity for investors and real economy companies alike.

The **Omnibus initiative** assumes significant annual savings from targeted simplification,⁵⁰ **but these estimates omit mid to long-term gains from current rules**. Simplification should mean efficiency, not leniency. Additionally, evidence suggests that many firms already foresee **net cost reductions from smarter sustainability reporting processes** (26 % overall; 34 % among first reporters), proving that improved processes can lower costs without weakening rigour.⁵¹

2.3. Capital reallocation through trust and transparency

The EU sustainable finance framework established definitions, standards and labels to flag the sustainability characteristics of activities and provide investors with signalling tools that help their investment decision-making.

The **Taxonomy, SFDR, EUGBS, and EU Climate Benchmarks (CTB/PAB)** work together to direct capital toward sustainable activities.

2.3.1. SFDR and EU Taxonomy – Information as market infrastructure

The **EU Taxonomy** replaces loose marketing with **legal definitions of environmentally sustainable investment**, grounded in science.⁵² It helps steering investments towards environmentally sustainable activities, identified through technical criteria, while avoiding harmful impacts to environmental objectives. It is used in the private investment space, but is also referenced in a number of public-finance instruments, including programmes such as InvestEU.

The **Sustainable Finance Disclosure Regulation (SFDR)** goes hand in hand with the EU Taxonomy. Together they create a transparency framework on sustainability matters for financial products. By establishing dedicated disclosures depending on whether financial products have a sustainability objective (so called Article 9 products), environmental or social char-

47 Cuomo, Gaia, Girardone & Piserà, [The effects of the EU non-financial reporting directive on corporate social responsibility](#), September 2022, and Fiechter, Hitz & Lehmann, [Real effects of a widespread CSR reporting mandate: evidence from the European Union's CSR Directive](#), February 2022, and Frank Bold, [Delivering on sustainability: evidence from the first year of CSRD implementation](#), October 2025.

48 European Commission, [Omnibus proposal](#), April 2025, and Council of the EU, [Mandate for negotiations with the European Parliament on Omnibus](#), June 2025, and European Parliament, [Negotiation position on Omnibus](#), November 2025.

49 Eurosif et al., [Investor and business joint statement on the Omnibus initiative: Sustainability rules are essential for European competitiveness](#), October 2025.

50 European Commission, [Omnibus package](#), April 2025.

51 PwC, [Global CSRD Survey 2024 – The Promise and Reality of CSRD Reporting](#), June 2024.

52 European Commission, [EU Taxonomy for sustainable activities](#), July 2020.

acteristics (so called Article 8 products), or no ESG objective, SFDR enables end investors to compare products, assess claims, and reward credibility. It synergises with the EU Taxonomy, as each sustainable fund also discloses the proportion of underlying investments that qualify as environmentally sustainable economic activities under the Taxonomy Regulation. These rules are used by market actors to structure their offer of sustainability-related funds according to the regulation's articles.

Following the implementation of the SFDR, as the European Securities and Market Authority (ESMA) and the European Commission clarified definitions, funds self-corrected their reporting regime, restoring confidence.⁵³ EU supervisory authorities established a first definition of greenwashing risks within the investment chain and identified its potential drivers and channels across financial market participants.⁵⁴ ESMA also supported the consolidation of good market practices, by establishing dedicated guidelines for national supervisors when monitoring ESG fund names and marketing claims.⁵⁵

This adaptive process exemplifies how clearer rules and transparency requirements improve market efficiency and reduces uncertainty, the essence of competitiveness. Standardised templates have significantly improved analyst workflows in liquid markets. In private markets, however, due diligence and verification remain key to scaling credible strategies and translating definitions into data to inform financial decisions, for instance through CapEx-linked targets or dedicated Key Performance Indicators (KPIs).

This evolution is verified in the EU. In Q3 2025, Article 8 and 9 funds account for around **60% of EU Assets Under Management**, to reach EUR 6.8 trillion,⁵⁶ more than doubling in size from the around EUR 3 trillion of 2021, when SFDR was first implemented.⁵⁷

The SFDR framework accompanied and encouraged a wider evolution of the investment industry, whereby ESG considerations are increasingly mainstreamed in the investment processes. In 2025, on average European asset owners apply ESG considerations to about half of their Assets Under Management. 60% of European asset owners consider that ESG is becoming increasingly material, and more than 60% consider that ESG regulations – including SFDR – have helped their activities by creating more standardised frameworks. Interestingly, 45% of European asset owners are considering that the current regulatory rollbacks – e.g. the EU's Omnibus initiative – are a step in the wrong direction.⁵⁸

2.3.2. EUGB and Climate Benchmarks – sustainable debt and indexes as trust channels

Europe's green bond market remains the world's benchmark. A green bond is a type of debt instrument the proceeds of which must be used to finance projects and companies with demonstrated environmental benefits submitted to external verification. Some investors in green bonds are willing to accept slightly lower returns in exchange for a guarantee that the proceeds are used for green projects (or "greenium").⁵⁹ This illustrates how **transparency over the use-of-proceeds for sustainable projects and third-party assurance lower perceived risk**. Investors in green bonds are often willing to trade a small amount of yield for greater certainty on the use of proceeds, while issuers benefit through tighter pricing and broader market participation.⁶⁰

53 ESMA, [Sustainable Finance Progress Report](#), November 2025.

54 ESMA, [Progress Report on Greenwashing](#), May 2023.

55 ESMA, [Guidelines on funds' names using ESG or sustainability-related terms](#), August 2024.

56 Morningstar, [SFDR Article 8 and Article 9 Funds: Q3 2025 in Review](#), 2025.

57 Ibid.

58 Morningstar, [Voice of the Asset Owner Survey 2025](#), September 2025.

59 UNDP, [Identifying the 'Greenium'](#), April 2025.

60 Ibid.

To develop this instrument, the EU established a **European Green Bond Standard (EUGBS)**, which applies as from December 2024. This standard establishes an EU label with associated requirements, including a mandatory allocation of at least 85 % of proceeds to the EU Taxonomy-aligned projects, with limited flexibility of up to 15 %. The EUGB standard also creates links with the Corporate Sustainability Reporting Directive (CSRD), as companies disclosing a transition plan must also demonstrate how the bond proceeds are used to fund and implement these plans. Bonds using this standard must be verified by external reviewers – who need to be registered by the European Securities Markets Authority (ESMA) – both before and after the issuance, and are subject to annual report to demonstrate the allocation of proceeds.⁶¹ The EUGB standard brings a clear framework and verification by EU authorities over the issuance, use of proceeds and audit of European Green Bonds. As such, it is expected to strengthen **investor confidence and lower due-diligence costs**. The EUGB standard is applicable since December 2024, and **the first issuances of European Green Bonds in 2025** demonstrated strong investor appetite ([see section 3.2.4](#)).

The **EU Climate Transition (CTB)** and **Paris-Aligned Benchmarks (PAB)** were designed to channel investment to support the transition to a carbon-neutral economy. They embed **de-carbonisation trajectories and exclusion criteria** to de-risk index construction and guide capital allocation. EU PABs and CTBs have benefited from significant uptake by financial market participants. In 2024, **EUR 180 billion were managed in accordance with PAB/CTB criteria**⁶² and the figure is expected to increase in the coming years.

An additional positive effect of the climate benchmarks is the identification of clear lists of climate, social and governance-related exclusions as part of their criteria. These are now staples of sustainability-related investment approaches across markets and are referenced by the ESMA guidelines on fund names when setting minimum requirements for funds that use sustainability, transition, impact or ESG-related terms.⁶³

As their use becomes increasingly widespread, this demonstrates that **simple EU-backed labels and standards help financial institutions make strategic investment decisions**. By providing clear definitions, transparent methodologies, and credible verification requirements, these frameworks reduce uncertainty for investors and asset managers when navigating an increasingly complex sustainability landscape. Labels such as the EUGB, PAB, and CTB serve as reliable reference points that simplify product comparison, ease regulatory compliance, and allow institutions to articulate consistent investment strategies aligned with EU climate objectives. Ultimately, these standards not only enhance market integrity but also accelerate the shift of capital toward environmentally sustainable activities by making it easier – and less risky – for financial actors to integrate sustainability considerations into their core decision-making processes.






61 [Regulation \(EU\) 2023/2631 on European Green Bonds](#) (entered into application 21 December 2024), Articles 4–7, 10, 13–20, November 2023.

62 Platform on Sustainable Finance, [Investing for Transition Benchmarks report](#), December 2024

63 ESMA, [Guidelines on funds' names using ESG or sustainability-related terms](#), August 2024.

2.4. How the EU framework delivers long-term competitiveness

EU sustainable finance rules, offering a variety of tools like standards and labels, convert **certainty into tangible financial advantage**: lower risk premia, more investment liquidity, and stronger resilience. These act as the levers of productivity and innovation highlighted in the EU Competitiveness Compass.

Pillar	Function	Effect
 Definitions (Taxonomy)	Create clarity, prevent greenwashing, channel capital	Define what counts as sustainable and give markets a common language.
 Disclosures (SFDR, CSRD)	Generate data, prevent greenwashing	Turn sustainability into measurable and comparable information.
 Due Diligence (CSDDD)	Manage risk	Support risk management, extend accountability across value chains and align behaviour with resilience.
 Labels (EUGB, CTB/PAB)	Channel capital, manage risk	Mobilise capital for transition to a low-carbon economy.
 Supervision (ESMA, EBA, EIOPA, ECB)	Ensure credibility	Uphold consistency and transform regulation into reliability.

Each pillar amplifies the others; the more complete the system, the higher its collective return – a textbook case of institutional complementarities.⁶⁴

Clear, predictable rules do not suppress innovation – they enable it. Evidence shows that well-designed environmental regulation stimulates efficiency and technological leadership.⁶⁵ Recent OECD work confirms the benefits of early green innovation and better regulation in the transition.⁶⁶

Having shown how clear definitions, credible disclosures, useful tools, and consistent supervision turn policy into performance, Part III now examines the evidence on how these mechanisms reshape markets, redirect capital, and generate measurable competitiveness across funds, bonds, and corporates.

⁶⁴ OECD, [Science, Technology, and Innovation Outlook 2023: Enabling Transitions in Times of Disruption](#). OECD Publishing, 2023.

⁶⁵ Aghion, Hepburn, Teytelboym, & Zenghelis, [Path Dependence, Innovation, and the Economics of Climate Change](#), November 2014.

⁶⁶ OECD, [The economic benefits of early green innovation](#). OECD Publishing, February 2023.

Part III.

Markets in motion: evidence from funds, bonds, and corporates



Part III: Markets in motion: evidence from funds, bonds, and corporates

The sustainable finance architecture described in Parts I and II is already producing tangible market effects in flows, pricing, and behaviour. Companies are increasingly aligning their capital expenditures with the EU Taxonomy.⁶⁷ Within five years of the SFDR's launch, sustainability-labelled funds and green bonds have become mainstream.⁶⁸ CSRD transparency is reshaping how capital is priced and how companies plan for the future.⁶⁹ The direction of travel is clear: capital is concentrating where credibility, foresight, and resilience intersect.

This part III measures this transformation across funds, bonds, and corporates, using hard data evidence showing that sustainability is not a niche label but a systemic reallocation of capital toward credible transition pathways. It unfolds in four dimensions, each one reflecting a visible market shift:



Funds – the mainstreaming of sustainability: how sustainable strategies moved from niche to mainstream allocations.



Bonds – financing the transition: how verified use-of-proceeds instruments attract increasing demand and lower capital costs.



Corporates – from disclosure to strategy: how CSRD and the EU Taxonomy alignment translate transparency into strategic advantage.



Systemic outcomes – markets that learn: how Europe's ecosystem of rules, data, and behaviours reinforces itself through trust.

Together, these elements confirm that **Europe's sustainable finance framework is starting to deliver and is self-reinforcing**. A framework that learns, adapts, and delivers measurable competitiveness through foresight and credibility.

⁶⁷ European Commission, [The EU Taxonomy's uptake on the ground](#), November 2025.

⁶⁸ Morningstar, [SFDR Article 8 and Article 9 Funds: Q3 2025 in Review](#), September 2025.

⁶⁹ EFRAG, [State of Play 2025](#), July 2025.

3.1. Funds – The Mainstreaming of Sustainability

✕ Myth

“Most fund flows to ESG are pro-cyclical and will evaporate in volatility.”

Reality ✓

“Sustainable fund inflows have proven resilient across market cycles, while regulatory clarifications bring market consolidation.”

Europe now holds the clear majority of global sustainable fund assets. Article 8 and Article 9 funds have achieved significant scale within five years, demonstrating that regulation can catalyse market momentum.

3.1.1. Asset growth and market share

In Q3 2025, Article 8 and Article 9 funds reached EUR 6.8 trillion, around 60% of total EU funds' assets.⁷⁰ Europe now represents about 81% of global responsible and sustainable fund assets, consolidating its leadership in ESG integration.⁷¹

Globally, the same trend prevails. Responsible and sustainable investment approaches now total more than USD 16 trillion in assets, more than a quarter of total Assets Under Management from funds worldwide. Environmental, social, and governance metrics have evolved from niche considerations to mainstream portfolio fundamentals as regulators clarify expectations, and institutional investors align fiduciary duty with systemic stability.⁷²

3.1.2. Resilient flows and performance

Even through volatile markets, sustainable funds have shown remarkable persistence. Following periods of market turmoil in 2022 and especially 2023, the EU ESG fund market demonstrated resilience compared to mainstream funds.⁷³ Overall, Article 8 and Article 9 funds have been consistently outperforming mainstream funds in terms of organic growth rate between Q2 2021 and Q3 2023.⁷⁴

Global performance of ESG funds reinforces the trend. The median ESG fund returned 12.6% in 2023 versus 8.6% for conventional peers, a gap sustained into 2025 (12.5% vs 9.2%). Over 2018-2025, cumulative returns of sustainable funds exceeded non-ESG equivalents by approximately 9 percentage points.⁷⁵

These results, achieved with equal or lower volatility, undermine the notion of an "ESG penalty". Resilience and steady growth, especially in times of market turmoil, is financial performance.

⁷⁰ Morningstar, [SFDR Article 8 and Article 9 Funds: Q3 2025 in Review](#), September 2025.

⁷¹ GSIA, [Global Sustainable Investment Review 2024](#), November 2025.

⁷² Ibid.

⁷³ ESMA, [Report on Trends, Risks and Vulnerabilities Q1 2023](#), February 2023.

⁷⁴ Morningstar, [SFDR Article 8 and Article 9 Funds: Q3 2025 in Review](#), September 2025.

⁷⁵ Morgan Stanley, [Sustainable funds deliver strong returns in 1H 2025; Flows positive but tracking below prior years](#), September 2025.

3.1.3. Investor confidence and trust dynamics

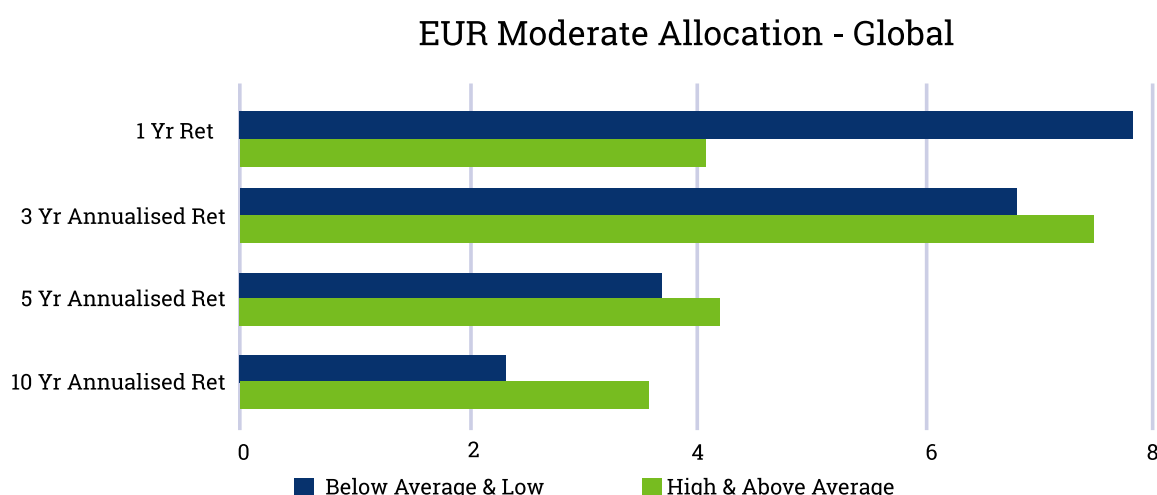
Sustainability occupies an increasingly central place in investor practices. According to 2025 Morningstar analysis, **61% of surveyed asset owners viewed ESG considerations as contributing to fulfilling their fiduciary duty towards clients**, and one in five applies ESG criteria to over 75% of assets.⁷⁶ Support was highest in Europe, where data quality has improved fastest. According to recent studies, funds with ESG names benefit from additional investor interest, translating into increased inflows following the adoption of ESG-related names.⁷⁷

Retail investors cautiously mirror this positive sentiment: a 2025 FIR-Ifop survey shows 55% of French savers value environmental and social impact in their investment choices, yet only 14% have acted on it. This reflects greenwashing concerns and gaps in the advisory process rather than lack of interest. When disclosure clarity rises, participation follows; when advisers explicitly offer sustainable options, nearly 50% of clients invest.⁷⁸

Recent research confirms that **most EU retail investors are keen to invest in sustainability-related investment products** but are diverse in their sustainability preferences, validating the need for differentiated SFDR categories ("sustainable", "transition", "impact" and "ESG"). Importantly, the study involving 300 EU retail investors demonstrates that when SFDR product distinctions are clearly explained, investors can understand and act on them effectively.⁷⁹ In other words, the **EU's transparency drive for investment funds is unlocking latent demand**.

3.1.4. Sustainability as component of financial performance

The relationship between sustainability and performance is now empirically verifiable. Morningstar's ESG Risk Rating for Funds assesses the unmanaged ESG risk for each portfolio by aggregating material exposures and management scores for underlying holdings.⁸⁰ According to Morningstar, "Each security's unmanaged risk is measured by evaluating a set of material ESG issues based on both the company's exposure to and management of those issues." Grouped by risk mitigation quality, **funds with superior ESG risk management** ("High & Above Average") **consistently outperform those with weaker controls** ("Below Average & Low") across multiple time horizons (over 3, 5, 10 years).



Morningstar ESG Risk vs Fund Performance, EUR Moderate Allocation – Global⁸¹

⁷⁶ Morningstar, [Voice of the Asset Owner Survey Quantitative Analysis](#), September 2025.

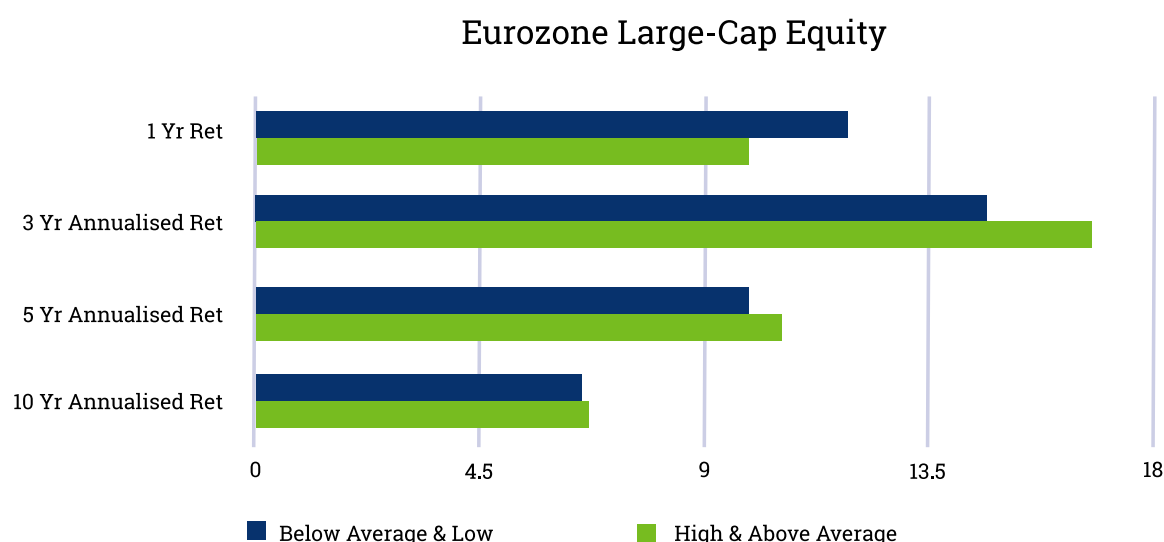
⁷⁷ ESMA, [Fund names: ESG-related changes and their impact on investment flows](#), April 2025.

⁷⁸ FIR, [Les Français et la finance responsable](#), September 2025.

⁷⁹ Climate and Company, [Transition Products, Retail Investor Preferences and the Reform of the SFDR](#), October 2025.

⁸⁰ Morningstar Sustainalytics, [ESG Risk Ratings for Funds, Version 4.0 \(Methodology\)](#), March 2025.

⁸¹ Morningstar Direct, [Fund performance by Morningstar ESG Risk Rating \(Globes\): EUR Moderate Allocation, Global](#); 1/3/5/10-year annualised returns; author analysis of Morningstar category data and Sustainalytics fund ratings, 2025.



Morningstar ESG Risk vs Fund Performance, Eurozone Large-Cap Equity⁸²

This correlation strengthens this report's central proposition: **transparency and disciplined risk management are not ethical add-ons, but structural medium and long-term performance drivers.**

3.1.5. Behavioural and structural effects

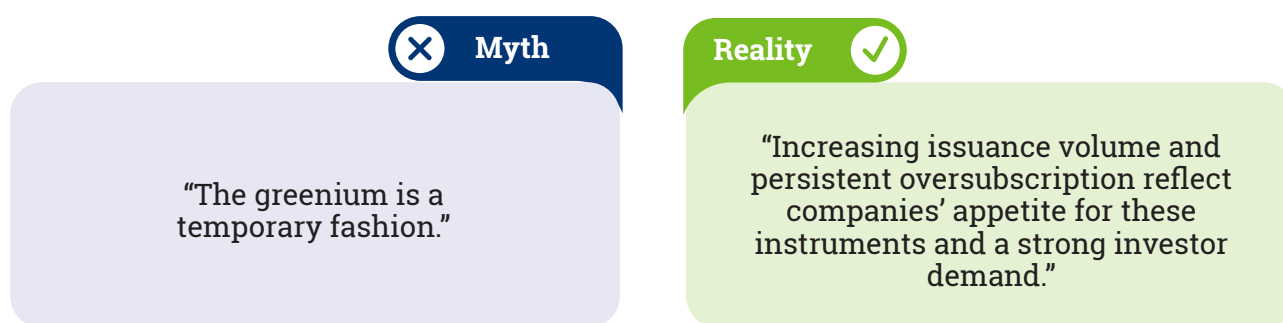
The structural alignment between risk transparency and outperformance inside portfolios mirrors the organisational changes now reshaping asset-management firms themselves. **SFDR and EU Taxonomy alignment have not only mobilised capital flows, but also shifted organisational behaviour within asset management.**

These behavioural changes inside investment houses mirror the broader system transformation visible in bond and corporate markets. Taken together, the EU's corporate, financial, and regulatory shifts illustrate a living ecosystem where information, incentives, and supervision continuously reinforce one another.

⁸² Morningstar Direct, [Fund performance by Morningstar ESG Risk Rating \(Globes\): Eurozone Large-Cap Equity](#); 1/3/5/10-year annualised returns; author analysis of Morningstar category data and Sustainalytics fund ratings, 2025.

3.2. Bonds – financing the transition

3.2.1. Record issuance and market leadership



In 2024, European corporates and sovereigns issued USD 88.4 billion worth of green bonds, representing about 58% of global green bonds issued in line with the Climate Bond Initiative criteria. This increase of 16.8% compared to 2023, demonstrates that **demand for green bonds is scaling up**.⁸³ The same year, the EU set new records with 6.9% of its total issued EU corporate and sovereign bonds classified as green bonds – a significant growth from 0.1% in 2014.⁸⁴ Corporate green bond issuers now account for 12.8% of EU's total corporate bond issuance.⁸⁵ The European Investment Bank issued USD 16.6 billion of green debt in 2024 and is, with national development banks, continuing to anchor demand, demonstrating public-private complementarity.

The upward trend in issuance extends beyond Europe and to other types of sustainability, transition or social-related debt. Global sustainability-related loans and bonds issuance reached a record USD1.6 trillion in the first half of 2025.⁸⁶ Green bonds continue to dominate the sustainability-related debt landscape, reflecting investor appetite for financing instruments where the use-of-proceeds is clearly identified.

3.2.2. Investor demand and pricing advantage

In H1 2023, green bonds issued in EURO met 3.2 times more demand than other available bonds.⁸⁷ This demonstrates that investors in green bonds are keen to benefit from the certainty of verified use-of-proceeds and to contribute to sustainability projects.⁸⁸ **This means that companies issuing green bonds can get financing at a lower price compared to mainstream bonds.** The certainty over the sustainable use-of-proceeds lowers perceived risks for investors, and some may accept lower yields in exchange for this certainty (or "greenium"). Lower yields for investors mean cheaper financing for the company issuing green bonds.⁸⁹ Roughly one-third of green bonds in H1 2023 was priced at a greenium.⁹⁰ However, this greenium does not necessarily penalise green bonds when these are exchanged on the secondary markets. In H1 2023, most green bonds purchased on the secondary market matched or outperformed mainstream bonds.⁹¹ The economic signal is unmistakable: **sustainability lowers the cost of capital for companies.**

83 Climate Bond Initiative, [Sustainable Debt Global state of the Market 2024](#), May 2025.

84 European Environment Agency, [Green bonds indicator](#) (8th EAP), July 2025.

85 Ibid.

86 ING Think, [Global sustainable finance 2025: mixed results highlight regional differences](#), September 2025.

87 Climate Bonds Initiative, [Green Bond Pricing in the Primary Market: January-June 2023](#), September 2023.

88 UNDP, [Identifying the 'greenium'](#), April 2022.

89 Climate Bonds Initiative, [Green Bond Pricing in the Primary Market: January-June 2023](#), September 2023.

90 Ibid.

91 Climate Bonds Initiative, [Green Bond Pricing in the Primary Market: July-December 2022](#), March 2023.

3.2.3. Market resilience through volatility

Amid the 2022–23 rate-hike cycle⁹², global sustainability-related bond issuance fell about 15% in 2022, while in Europe overall ESG bond-and-loan supply declined about 10%. Yet green bonds issued in Europe still rose around 6% in 2022 and then reached a new record in 2023.⁹³ Investor dedication to ESG mandates and the ECB's collateral eligibility for green bonds cushioned the downturn. This resilience illustrates that **sustainable finance instruments are increasingly integral to fixed-income portfolios, driven by structural demand from pension funds, insurers, and sovereign-wealth funds** with long-duration liabilities.

Complementing the surge in green-bond issuance, sustainable-loan markets are expanding rapidly. More than USD 390 billion was raised in sustainable loans in the first half of 2025. New innovations, including blue bonds – whose proceeds must be used to protect and restore ocean ecosystems – are accelerating the integration of ecological data into financial decision-making.

Together, these instruments demonstrate how sustainability is reshaping credit markets as well as capital markets, embedding resilience and transparency across the entire financial ecosystem.⁹⁴

3.2.4. Institutional innovation: the EUGBS

The European Green Bond Standard (EUGBS), effective as of 2024, codifies best practice: a minimum of 85% of proceeds must be used to finance activities in line with the EU Taxonomy criteria (with a flexibility clause of 15% for technical/temporary deviations). Bonds issued in line with this standard must be verified externally and have detailed annual reporting.⁹⁵

The expected effects of the EUGB are:

- Higher investor confidence and lower due diligence costs.
- Stronger market discipline via auditability.
- Alignment across corporate, sovereign, and supranational issuers.

Far from restricting issuance, the EUGBS is expected to increase volumes by filtering out low-credibility instruments and attracting mainstream capital seeking verified sustainability exposure.⁹⁶

The standard met a strong start in 2025, with appetite from investors and increasing supply – at more than EUR 11 billion issuance from corporates, and a first sovereign issuance at EUR 900 million by Denmark.⁹⁷

⁹² Rate-hike cycle: a period during which a central bank repeatedly raises its policy interest rate

⁹³ AFME, [ESG Finance Report: Q4 2022 & FY 2022](#), February 2023, and IEEFA, [Will Europe's New Standard Help or Hinder the Green Bond Market?](#) February 2024.

⁹⁴ Environmental Finance, [Sustainable Loans Insight 2025, A Guide to the Evolving Sustainable-Loan Market](#), October 2025.

⁹⁵ [Regulation \(EU\) 2023/2631 on European Green Bonds and optional disclosure for bonds marketed as environmentally sustainable](#), entered into application 21 December 2024. Articles 4–7 and 10, 13–20, November 2023.

⁹⁶ [Regulation \(EU\) 2023/1114 of the European Parliament and of the Council of 31 May 2023 establishing the European Green Bond Standard](#), May 2023.

⁹⁷ Responsible Investor, [EU Green Bonds stocktake: strong investor demand but technical hurdles persist](#) licence, September 2025. And National Bank of Denmark, [The Government has issued a 10-year green bond under the EuGB framework](#), September 2025.

3.3. Corporates – From disclosure to strategy



3.3.1. CSRD as a strategic catalyst

The Corporate Sustainability Reporting Directive (CSRD), effective as of 2024, extends rigorous sustainability disclosures to in-scope companies (including non-EU entities operating in the Union).⁹⁹ While the Omnibus initiative is likely to drastically reduce the number of companies covered by these rules, early evidence from the first round of sustainability reports of 2025 shows that **transparency requirements are transforming governance and strategic planning**.

70% of large firms currently reporting in line with the European sustainability reporting standards have established climate targets in line with the 1.5°C limit, integrating ESG into core risk management processes. 55% of the reporting companies declared having a climate transition plan.¹⁰⁰ Double-materiality assessment helps reshape internal decision-making by linking sustainability with risk, finance, and operations resulting in increased resilience.¹⁰¹ Given the increasing commitment of international C-suite executives to sustainability, with 75% of them considering it a top priority¹⁰², the structure CSRD provides is clearly relevant and consistent with global trends.

3.3.2. EU Taxonomy alignment: measuring the opportunity gap

In 2024, the average EU Taxonomy-aligned turnover of companies with activities covered by its criteria was 11.2%, totalling EUR 825 billion. The Taxonomy's strong uptake is demonstrated by a 22.7% average alignment of capital expenditures (CapEx), showing that companies use this tool as guidance for a significant part of their forward-looking investments and growth strategy.¹⁰³

This statistic has two main implications:

1. Massive investment potential: a significant proportion of the remaining economic activities needs transitioning; each percentage point increase in the Taxonomy alignment equals hundreds of billions in capital expenditure.
2. Strategic signalling: by reporting aligned CapEx, firms communicate transition intent to investors, attracting additional capital.¹⁰⁴

⁹⁸ Krueger, Sautner, Tang, Zhong, [The Effects of Mandatory ESG Disclosure around the World](#), February 2023.

⁹⁹ European Commission, [Corporate Sustainability Reporting Directive \(CSRD\), and European Sustainability Reporting Standards \(ESRS\)](#), 2025.

¹⁰⁰ EFRAG, [State of Play 2025](#), July 2025.

¹⁰¹ PwC, [In search of sustainable value: The CSRD journey begins](#), April 2023.

¹⁰² Reuters Events, [Reuters Impact: Global Sustainability Trends Report](#), November 2025.

¹⁰³ European Commission, [The EU Taxonomy's uptake on the ground](#), November 2025.

¹⁰⁴ Ibid.

While that **Taxonomy alignment among EU companies has been growing,¹⁰⁵ and investors have been increasingly using the Taxonomy to develop fund strategies,** there are two big challenges. First, the number of companies reporting against the Taxonomy is likely to be drastically reduced due to the Omnibus initiative, which is expected to cut the number of companies covered by mandatory Taxonomy reporting by over 90%. Second, the Taxonomy does not yet cover all economic activities. Important sectors such as agriculture lack technical screening criteria, leaving parts of the real economy outside the framework. Extending the Taxonomy to more sectors would broaden its coverage and usefulness to investors. The Taxonomy, while still work-in-progress, already acts as a strategic compass: it measures progress and reveals both risks and opportunities.

3.3.3. Interactions between sustainability disclosures and financial performance

Companies with credible transition plans consistently enjoy valuation premiums. ECB research finds that companies which are aligned with climate targets are perceived as presenting a lower credit risk by financial market participants – which entails a facilitated access to financing.¹⁰⁶ Investors and other financial market participants reward transparency and foresight, as better disclosure means lower uncertainty, hence lower required returns.

Moreover, **ESG integration correlates with operational efficiency and cost reduction.** Energy-intensive firms adopting mitigation and efficiency strategies report measurable cost reductions within one to two years.¹⁰⁷ Overall, this demonstrates how **EU sustainable finance rules translate into productivity and financial gains.**

3.3.4. Supply-chain resilience through due diligence

The CSDDD complements the CSRD by requiring the largest companies to adopt climate transition plans and to monitor and manage risks of significant environmental and human rights violations across their value chains.

A risk can only be managed if it is properly measured. Corporate due diligence is a great tool for companies to be aware of risks residing in their value chains and helping to manage them. As a result, such companies are more resilient, face lower reputational and financial risks. Firms often have lower visibility on their indirect suppliers,¹⁰⁸ whereas this is where most of the risks lie throughout their supply chains.¹⁰⁹ For investors, **companies performing due diligence across direct and indirect business partners are more resilient, represent lower volatility and lower reputational and regulatory risk, translating into a tangible financial benefit.**

The obligation to adopt and implement climate transition plans is crucial. **Credible transition plans are one of the most sought after metric for investment decision making,** as it allows investors to have a clear picture of investee companies' forward-looking strategy and how they manage ESG risks.¹¹⁰

However, while the application of CSDDD was expected to start in 2027, **the Omnibus initiative is likely to bring significant changes to its scope and content, reducing its usefulness for companies and investors alike.** Restricting due diligence requirements to focus on direct business partners (tier 1) will limit identification and assessment of the material risks often

¹⁰⁵ Ibid.

¹⁰⁶ European Central Bank, [The Low-Carbon Transition, Climate Commitments and Firm Credit Risk](#), December 2021, and European Central Bank, [Transition versus physical climate risk Physical Climate Risk rising in European financial Markets: a text-based approach](#), July 2022.

¹⁰⁷ International Energy Agency, [Gaining an Edge: The Role of Energy Efficiency in Industrial Competitiveness](#), June 2025, and International Energy Agency, [Energy Efficiency 2024](#) (Industry Chapter), November 2024.

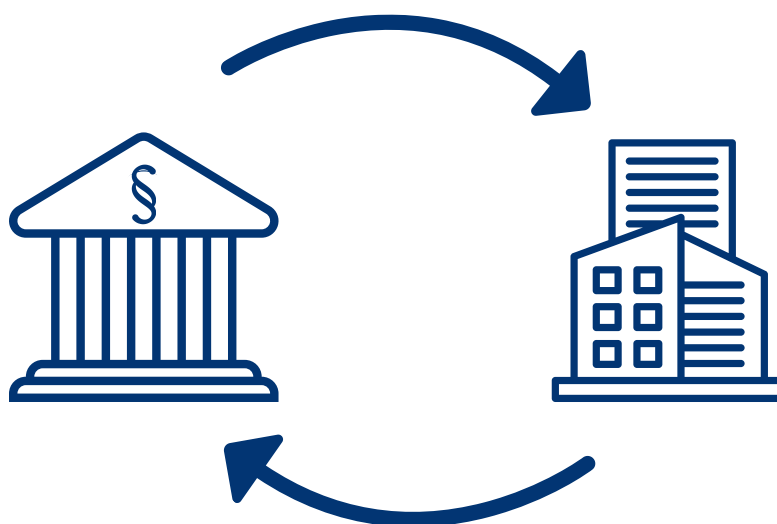
¹⁰⁸ McKinsey, [Supply chains: Still vulnerable](#), October 2024.

¹⁰⁹ Villena, Gioia, [On the riskiness of lower-tier suppliers: Managing sustainability in supply networks](#), December 2018.

¹¹⁰ Eurosif, [Report on Climate-related data: The Investors' Perspective](#), May 2023.

present in tier two and three business partners. This will limit effectiveness of the provisions, with many risks likely being undiscovered, affecting usefulness and reliability of the related disclosures for investors. Departing from the international standards will increase administrative burdens for companies that are active globally. The removal of requirements related to climate transition plans will likely limit their development in the EU and hamper their comparability across the largest EU companies.¹¹¹ **This will negatively influence the ability of the EU sustainable finance framework to mobilise capital flows for the transition to a low-carbon economy.**

3.4. Systemic outcomes: markets that learn



The EU's multi-layered framework has triggered a learning effect across markets. To take the example of the SFDR:

1. Regulators adapt dynamically. When the market started using the SFDR transparency regime to 'classify' financial products according to the SFDR Articles 6, 8 and 9, the European Commission and European Supervisory Authorities clarifications via Q&As¹¹² and ESMA-driven supervisory convergence initiatives in 2023 and 24 improved consistency and regulatory clarity.¹¹³
2. Market actors self-correct. Investors' adjustments to fund names and reporting regimes due to supervisory clarifications and the implementation of the ESMA guidelines on fund names¹¹⁴ demonstrate a maturing understanding of sustainability concepts and related expectations. In turn, EU regulators considered the demand from markets for a 'classification' of products to shape a review the SFDR regime.¹¹⁵

¹¹¹ Eurosif et al., [Investor and business joint statement on the Omnibus initiative: Sustainability rules are essential for European competitiveness](#), September 2025.

¹¹² European Supervisory Authorities, [Consolidated Q&As on SFDR and the SFDR Delegated Regulation](#), November 2025.

¹¹³ ESMA, [Final Report on the 2023-2024 Common Supervisory Action \(CSA\) on Sustainability Risks and Disclosures](#), June 2025.

¹¹⁴ ESMA, [Guidelines on funds' names using ESG or sustainability-related terms](#), August 2024.

¹¹⁵ European Commission, [Summary Report of the Open and Targeted Consultations on the SFDR assessment](#), May 2024.

Lessons from Implementation

The experience of the past five years yields three overarching lessons for policymakers and market participants:

Clarity creates liquidity

When rules are predictable, capital moves. The more investors can trust definitions, standards and labels, the cheaper and faster funding becomes.

Transparency drives transformation

Disclosure requirements have spurred genuine changes in governance, risk management, and innovation.

Comprehensiveness beats fragmentation

The strength of the EU approach lies in interlocking instruments, not isolated acts, as each rule amplifies the others.

Collectively, these insights confirm that **EU sustainable finance regulation, properly implemented, enhances both competitiveness and resilience**. It channels savings into productive transformation to a low-carbon economy, reduces risks and hence safeguards economic and financial stability. Europe's sustainable finance model proves that good rules do not slow markets. They make markets move with confidence.

Having shown how Europe's sustainable finance framework delivers measurable market outcomes, Part IV explores levers for refinement in both policy design and private governance.

Part IV.

Policy coherence and strategic foresight: the path to a competitive Europe



Part IV: Policy coherence and strategic foresight: the path to a competitive Europe

4.1. The architecture of coherence: resilience as the end goal

4.1.1. The regulatory imperative: why rules matter

Europe's sustainable finance framework is exceptional for its comprehensiveness and internal logic. Each instrument – SFDR, CSRD/ESRS, CSDDD, EU Taxonomy, EUGBS, and EU climate benchmarks – targets a distinct failure of the old market paradigm: information asymmetry, externalised risk, fragmented incentives and lack of clear signalling.

Together, these instruments create **clarity, accountability, and comparability** that benefit investors, companies and financial markets. As Part III demonstrates, Europe's multi-pillar system has already shifted markets, capital allocation, and corporate behaviour, proving that coherence delivers a pricing advantage. The EU's multi-pillar system integrates transparency, tolls like standards and labels, ESG risk integration and its improved management. This integrated approach turns sustainability into a **resilient financial infrastructure**.

Disclosures and standards create a common language which is essential to guide the market and channel capital. Many actors still conflate voluntary initiatives, reporting standards, and regulatory requirements, leading to fragmented practices and confusion between guidelines (recommendations), standards (technical criteria), and disclosure frameworks (legal obligations). The EU's approach resolves this by aligning definitions and methodologies across instruments such as SFDR, CSRD, and the Taxonomy, ensuring consistency in both qualitative and quantitative disclosures. Standardisation drives consistency and comparability of disclosures and how they are calculated. Mandatory external verification instils trust, enabling markets to price sustainability risks in with a greater precision.

Equally important is the balance between quantitative and qualitative information. Metrics alone are insufficient: a number without context says little about performance quality or the robustness of the underlying processes. Qualitative disclosures, governance structures, transition plans, and risk management practices demonstrate whether quantitative data is credible, decision-useful, and embedded into strategic execution. The EU's integrated model captures both dimensions, turning sustainability reporting into an assessment of how performance is achieved, not only what is measured.

Some argue that voluntary standards would suffice. The evidence suggests otherwise. Without mandatory disclosure and due diligence, progress is too slow and uneven.¹¹⁶

- **Mandatory frameworks** (SFDR, CSRD, CSDDD) incentivise firms to analyse and quantify their sustainability risks and impacts, catalysing internal change.
- **Supervision by market regulators** ensures consistency creating fairness and credibility that voluntary regimes cannot guarantee.
- **Voluntary reporting is not harmonised and leads to fragmentation** that hinders corporate data comparability and limits its credibility for investors.

Together, these elements transform disclosures from a mere communication exercise into core market infrastructure – a system of comparable, verifiable information that enables investors to allocate capital with confidence.

¹¹⁶ European Commission, [Impact assessment accompanying the CSRD](#), April 2021.

The EU sustainable finance framework is not bureaucracy: it is a catalyst for the transition to a low-carbon, competitive economy. By enhancing transparency, strengthening risk management, and creating effective incentives, it establishes a common baseline that shifts from opacity to actual performance.

4.1.2. Long-term delivery: the time horizon of real economy and financial outcomes

The effectiveness of sustainable finance policy should be judged not only by short-term costs of implementing these rules, but by their **outcomes in the real economy, reduced emissions, enhanced resilience, and increased competitiveness.**

These rules give European firms a real competitive advantage. They improve stability, performance, and enable value creation. In doing so, the EU sustainable finance framework supports both competitiveness and autonomy.

For the real economy:



The EU Taxonomy, CSRD and CSDDD enable companies to better identify their sustainability risk exposures and to develop more resilient business models.



Predictable frameworks enhance industrial planning and improve R&D investment in green technologies fostering local supply chains and reducing import dependency.



Transparency and resilience is rewarded by attracting capital. By applying clear ESG standards, European investors have in practice channelled more investments to Europe's key industries.

For financial institutions:



The EU's sustainable finance framework functions as foresight infrastructure, helping investors identify resilient activities and price risks more accurately.



Credible disclosures help attract patient capital and are associated with oversubscribed green bonds and tighter financing spreads.¹¹⁷



Resilient, ESG-integrated portfolios have shown stronger risk-adjusted outcomes over multi-year horizons.¹¹⁹

In this perspective, resilience and foresight are not policy ideals but measurable drivers of Europe's long-term competitiveness. This reinforces the OECD's observation: systems optimised narrowly for efficiency tend to lose resilience, lacking spare capacity to absorb shocks,

¹¹⁷ Hyun, Park & Tian, [The price of frequent issuance: the value of Information in the green bond market](#), June 2022, and Petreski, Schäfer & Stephan, [The Reputation Effect of Repeated Green-Bond Issuance and Its Impact on the Cost of Capital](#), December 2024.

¹¹⁸ Giese et al., [Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance](#), July 2019.

which can leave them vulnerable to catastrophic failure under stress.¹¹⁹ The EU's multi-pillar architecture addresses this risk by prioritising long-term continuity and adaptability over short-term optimisation – the foundation of competitiveness in times of uncertainty.

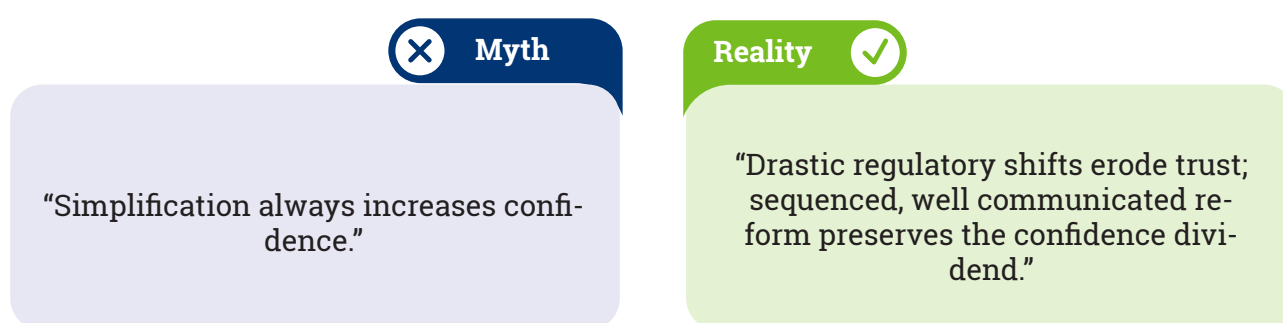
In consequence, while we can already observe some of the positive outcomes of the EU sustainable finance framework, the main benefits will materialise over the mid-to long-term. A short-term assessment disproportionately highlights implementation costs compared to the benefits brought by these rules and can lead to policy decisions that are detrimental to companies, investors and the economy overall, especially in the longer-term outlook.

4.1.3. Predictability & regulatory stability as a strategic asset

Markets require **predictability** and regulatory stability, not deregulation. Firms invest and innovate when policy signals are clear and consistent over time. Predictability transforms regulation from a constraint to infrastructure by lowering perceived risk, stabilising expectations, and reducing the cost of capital across cycles. Inversely, unpredictability has a negative effect: in a recent survey of over 500 global practitioners, 48% of C-suite executives cite regulatory uncertainty as their top concern.¹²⁰

The Omnibus initiative, rolling back core requirements of the CSRD, Taxonomy, and CSDDD obligations, was conceived as a simplification measure to ease administrative pressure and align timelines. However, its **abrupt change of the rules created precisely the uncertainty it sought to reduce**. Companies and investors that had already aligned systems and budgets around the original rules and deadlines now face ambiguity over the changed scope and substance of the rules and standards, requiring many companies to incur additional significant investments to adjust the systems. Significant rollbacks to disclosure rules disrupt investor plans to leverage the expected improved ESG data which would help them improve their analysis of risks and opportunities across a wider range of EU companies and reduce costs.

This need for stability was manifested through the reaction of European and international investors¹²¹ strongly advocating against reopening these rules. Substantial modifications to their core elements were also opposed jointly by many EU investors and businesses.¹²²



The episode exposed a major tension in Europe's competitiveness agenda: simplification must preserve stability, not replace it. Sudden procedural shifts can weaken the very confidence that high-quality regulation is designed to build. Regulatory stability is helpful to business and investors, reduces their costs and is therefore a competitiveness asset.

¹¹⁹ BCG Henderson Institute, [Resilience vs. Efficiency: Calibrating the Trade-off](#), December 2020.

¹²⁰ Reuters Events, [Reuters Impact: Global Sustainability Trends Report](#), November 2025.

¹²¹ Eurosif, IIGCC & PRI, [Investor joint statement on Omnibus Legislation](#), February 2025.

¹²² Eurosif et al., [Investor and business joint statement on the Omnibus initiative: Sustainability rules are essential for European competitiveness](#), September 2025.

Europe needs operational simplification, not a dilution the rules' core principles. Streamlining processes and timelines can reduce compliance challenges. However, dismantling the objectives of the EU sustainable finance framework is eroding trust and predictability that attracted capital in the first place.

Predictability is not incompatible with reform, but reform should be grounded in evidence, take a long-term perspective in terms of cost-benefit analysis, and be conducted in consultation with all the relevant stakeholders impacted by the changes. The Omnibus simplification initiative process failed to follow these steps¹²³ and proposed drastic changes to rules already applied and supported by a wide range of EU investors and businesses, under a very short timeline. This explains why the Omnibus is expected to negatively impact their activities and to create unwanted regulatory uncertainty.¹²⁴

Predictability aligns incentives across three layers:

1. **Industrial strategy** – enabling long-term R&D and CapEx for transition projects.
2. **Financial markets** – sustains disclosure comparability across cycles.
3. **Public trust** – showing citizens that regulation evolves pragmatically, not ideologically.

When combined, these layers form a **confidence dividend**, reducing perceived risk and thus cost of capital. This is why the potential for EU's foresight-driven governance is a competitive advantage, not a regulatory burden.

4.2. Foresight and systems thinking: anticipating the next decade

To achieve the ambition of the Competitiveness Compass, the next step is aligning sustainability, competitiveness, and industrial policy. This requires foresight, anticipating how regulation shapes not only compliance costs, but also innovation trajectories and investor needs. This would enable decision makers to test today's rules against tomorrow's shocks and turns design into adaptive capacity.¹²⁵

Europe now stands at a juncture where the real challenge is not adding or removing rules, but **making the existing sustainable finance framework coherent and predictable**. Rather than reopening core legislation through the Omnibus initiative, which risks weakening standards and creating new uncertainty, the EU should focus its efforts on **consistent, future-proof rules and their implementation**.

4.2.1. Design future-proof rules

Regulatory clarity, coherence, and consistency reduce compliance uncertainty and gives businesses the confidence to plan ahead. When companies know how rules will apply, and when supervisors apply them consistently, sustainability becomes integrated into strategic decision-making rather than a fragmented exercise driven by compliance deadlines. Investors benefit too: supervision becomes clearer and data more reliable.

Frequent reversals erode trust.

The Omnibus initiative, proposing amendments to the CSRD and CSDDD before these rules were fully implemented or in the case of CSDDD not implemented at all, created significant regulatory

¹²³ CEPS, [Reporting Obligations, study requested by the European Parliament's Legal Affairs committee](#), June 2025.

¹²⁴ Eurosif et al., [Investor and business joint statement on the Omnibus initiative: Sustainability rules are essential for European competitiveness](#), September 2025.

¹²⁵ OECD, [Framework for Anticipatory Governance of Emerging Technologies](#), April 2024.

ry uncertainty. This undermines trust among investors and businesses, many of which had already invested in compliance. This need for stability was manifested through the opposition of European and international investors¹²⁶ to reopening these rules. Confidence can be restored by maintaining their core substance, as jointly supported by many EU investors and businesses.¹²⁷ Policy coherence and consistency benefit all economic actors.

Rather than rolling back existing rules, simplification should target misalignments, duplications, and unclear definitions based on concrete evidence from practitioners ([see section 4.2.2. below](#)). Adjustments to the EU sustainable finance rules should focus on their consistency, taking a holistic perspective across the investment chain, based on evidence from practitioners.

Legislative changes should also cascade through all impacted rules. As an example, a review of SFDR establishing categories of products with minimum criteria should be reflected in adjustments to the financial products distribution rules of MiFID/IDD, and in dedicated rules on benchmarks making sustainability-related claims.¹²⁸

Clear policy signals shift capital and mobilise investors.

The rise of ESG-denominated funds, the uptake of EU climate benchmarks, and the development of taxonomies across the world demonstrate the effectiveness of signalling tools to channel investments towards sustainability goals. The EU would benefit from expanding the use of such signalling tools within its regulatory framework.

The EU would benefit from developing more of these effective policy signals in its regulatory framework. The review of SFDR could help define more clearly what constitutes “sustainable”, “transition” or “ESG” investments using formal categories of products and minimum criteria to facilitate the identification of these investment targets. Similarly, the EU should also establish an EU Social Investment Standard to identify what constitutes socially sustainable investments based on a set of common criteria.¹²⁹

The successes of the EU climate benchmark labels (PAB/CTB) should also be replicated by introducing additional EU ESG benchmarks with specific environmental objectives, drawing, for example, on the proposals for EU Taxonomy-aligning benchmarks (EU TABs)¹³⁰ from the Platform on Sustainable Finance.

4.2.2. Invest in implementation

Proper implementation is the most effective form of simplification: it reduces costs, improves clarity, and allows the framework to deliver on its intended economic and supervisory objectives. **In other words, effective implementation turns transparency into a driver of better governance, better risk management, and better financial oversight.**

In this sense, investing in implementation is not an alternative to competitiveness: it is the pathway leading to it.

Cross-sector dialogue fosters confidence.

A first priority is to rebuild confidence through structured, cross-sector dialogue. Companies, investors, auditors, and supervisors continue to adapt to a rapidly evolving rulebook, yet they often work in parallel rather than in coordinated processes. Regular, institutionalised exchanges would

¹²⁶ Eurosif, IIGCC & PRI, [Investor joint statement on Omnibus Legislation](#), February 2025.

¹²⁷ Eurosif et al., [Investor and business joint statement on the Omnibus initiative: Sustainability rules are essential for European competitiveness](#), September 2025.

¹²⁸ Eurosif, [Fostering investment in decarbonisation and sustainable growth: Policy recommendations for a fit-for-purpose SFDR](#), June 2025.

¹²⁹ Eurosif, [Scaling-up investments for sustainable growth: Eurosif's regulatory roadmap for EU policymakers](#), November 2024.

¹³⁰ EU Platform on Sustainable Finance, [Climate Change Taxonomy and the EU Regulatory Response: EU Taxonomy-Aligning Benchmarks \(TABs\) Report](#), December 2023.

help align expectations, identify practical bottlenecks, and reduce the divergence that emerges when rules are interpreted inconsistently across jurisdictions or sectors.

Importantly, these dialogues should not merely collect perceptions or anecdotal evidence. They should feed directly into each review of SFDR, CSRD/ESRS and the EU Taxonomy, allowing policymakers to base adjustments on a clear understanding of what assumptions hold, which elements create frictions, and how market actors are actually responding on the ground. This approach turns implementation into a learning system rather than a sequence of isolated compliance cycles.

Ultimately, the framework's success will depend not on the volume of legislative amendments but on whether its provisions operate as a coherent, predictable system that enables markets to function with clarity and confidence. Proper implementation is the mechanism through which the EU can transform high-level objectives – trust, comparability, resilience – into tangible economic outcomes. It is also the condition for credible supervision: only with consistent, high-quality data can supervisors monitor risks effectively and ensure that Europe's sustainable finance rules deliver on their purpose.

Digital implementation delivers simplification.

The second pillar of effective implementation is digitalisation. Without modern digital infrastructure, even the best-designed rules risk becoming burdensome and unevenly applied. Digital tools include complete XBRL tagging, sector-specific ESRS guidance, automated validation checks, and EU-wide reporting templates. These tools can drastically reduce the cost and complexity of compliance. They also ensure that data entering the system is consistent, machine-readable, and useful for both financial markets and supervisors. Embedding these capabilities into a fully functional European Single Access Point (ESAP) would transform sustainability information from disparate reports into a shared European data common.

The benefits of proper implementation extend far beyond administrative efficiency. When rules are applied consistently and supported by digital reporting, they produce high-quality, comparable data, the very resource the framework was designed to generate. This improves firms' internal management systems, allows investors to allocate capital with greater precision, and enables supervisors to focus their resources on areas of real risk rather than on reconciling conflicting disclosures. **In other words, effective implementation turns transparency into a driver of better governance, better risk management, and better financial oversight.**

Equally important, predictable implementation reduces compliance uncertainty and gives businesses the confidence to plan ahead. When companies know how rules will be interpreted and when supervisors apply them consistently, sustainability reporting becomes integrated into strategic decision-making rather than a fragmented exercise driven by compliance deadlines. Investors benefit too: supervision becomes clearer, oversight becomes more targeted, and data becomes significantly more trustworthy.

Ultimately, the framework's success will depend not on the volume of legislative amendments but on whether its provisions operate as a coherent, predictable system that enables markets to function with clarity and confidence. Proper implementation is the mechanism through which the EU can transform high-level objectives – trust, comparability, resilience – into tangible economic outcomes. It is also the condition for credible supervision: only with consistent, high-quality data can supervisors monitor risks effectively and ensure that Europe's sustainable finance rules deliver on their purpose.

Investing in implementation is therefore not a secondary task. It is the decisive step that will determine whether Europe's sustainable finance architecture becomes a global benchmark in practice, not only in design.

Conclusions

Europe is entering a decade in which competitiveness depends on resilience, clarity of rules, and the ability of companies and investors to plan with confidence. EU sustainable finance is not an add-on to this strategy – it is one of the few areas where Europe already has global leadership and where the market outcomes demonstrate clear economic value. Europe's sustainable finance framework can serve as a strategic asset if its key elements are preserved and regulatory stability attained.

1. Sustainable finance is delivering tangible economic benefits

Evidence across funds, bonds, and corporates shows that the EU sustainable finance framework is already reshaping market behaviour and strengthening long-term value creation:

- Lower cost of capital for companies with credible sustainability disclosures and transition plans.
- Oversubscribed green bonds and persistent “greenium” effects, reducing financing costs.
- Mainstreaming of sustainability-related funds, which now represent most EU funds, with resilient performance even in volatile markets.
- Growing capital expenditure aligned with the EU Taxonomy, showing that firms use the framework as strategic guidance.

These outcomes confirm that sustainability factors are not moral preferences – they are now core financial considerations.

2. Europe's advantage lies in credible, stable, high-quality rules

The EU's framework (EU Taxonomy, SFDR, CSRD, climate benchmarks, EUGBS) provides clarity and comparability unmatched globally. This predictability reduces risk premia, improves investment planning, and anchors Europe's attractiveness for global capital.

3. The main risk is regulatory volatility

The Omnibus initiative has created uncertainty by reopening rules before they were fully implemented. This undermines trust, creates sunk-cost losses for businesses, and disrupts investor decision-making. Europe cannot afford policy instability during a capital-intensive transition to a low-carbon economy.

4. Policymakers should pursue simplification – without weakening the core of the framework

Targeted improvements should focus on alignment, consistent definitions, digital reporting, and reduced administrative friction – not dilution of standards or scope. High standards are an asset; fragmentation and uncertainty are liabilities.

5. Sustainable finance is a pillar of Europe's strategic resilience

In an era of climate shocks, geopolitical tension, and technological disruption, frameworks that improve risk management, strengthen transparency, and support transition investment directly enhance Europe's resilience, sovereignty, and long-term competitiveness.

Key message to policymakers: Europe's sustainable finance framework is working. Preserve stability, refine implementation, and avoid disruptive rollbacks. Competitiveness will come from consistent, credible rules – not from deregulation.



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