



## CALL FOR PAPERS

### Special Issue of *Accounting Forum*



## Accounting for the EU Green Taxonomy<sup>1</sup>

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The current global greenhouse gas (GHG) emissions trajectory indicates that the world is likely to experience catastrophic consequences due to climate change, unless swift action is taken towards funding green solutions and the defunding of fossil fuel activities (IPCC, 2018). There is wide scientific consensus that achieving a net zero carbon economy by 2050 is the key to stabilizing the rise in global temperatures under 1.5°C (IPCC, 2018; Matthews & Caldeira, 2008; UN, 2019).

In this respect, accounting for green economic activities is an essential enabler for policymakers, investors, companies, scientists and other stakeholders to gain a nuanced understanding on the most effective ways to transition to a net zero carbon economy in a timely manner. For example, traditional GHG accounting for corporate activities and both voluntary and mandatory GHG disclosure initiatives have yet to ensure robust GHG reporting practices of companies based on which investors and policymakers could act upon in a meaningful way (e.g. Liesen et al., 2017). The pro-bono academic initiative [www.ClimateDisclosure100.info](http://www.ClimateDisclosure100.info) finds that only 21 listed companies worldwide report on 100% of their organizational boundary when disclosing their GHG emissions.

In seeking to solve these challenges, the Technical Expert Group on Sustainable Finance set up by the European Commission has proposed a [Taxonomy of environmentally sustainable economic activities](#) from a climate change mitigation and adaptation perspective (Slevin et al., 2020). This new approach de-emphasizes aggregate company level emissions on Scope 1, 2 or 3, and instead, focuses on the teasing out of the environmentally sustainable activities out of the numerous activities that companies undertake. The EU Taxonomy will be further developed by the Platform on Sustainable Finance.<sup>2</sup>

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<sup>1</sup> For the current state of legislation on the 'EU Green Taxonomy', please see [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en)

<sup>2</sup> [https://ec.europa.eu/info/publications/sustainable-finance-platform\\_en](https://ec.europa.eu/info/publications/sustainable-finance-platform_en)

From a legislative point of view, the EU is at the forefront of efforts<sup>3</sup> and the scope of relevant EU initiatives on non-financial disclosures includes several initiatives, such as the Taxonomy regulation, the review of the Non-Financial Reporting Directive (NFRD) and the regulation on sustainability-related disclosures in the financial services sector (SFDR). The on-going development of the EU regulatory framework on sustainability related issues and the breadth of regulatory action in the area of non-financial reporting further emphasizes the importance of the present call, not only towards providing cutting-edge academic contributions on the topic of sustainability accounting, but also towards providing an avenue for enhanced research impact on policy and practice (Haslam et al., 2018).

Given these policy initiatives, the academic community has much to contribute towards understanding the multifaceted implications of the EU Taxonomy, which is likely to influence the practice of numerous professions beyond accounting and finance professionals, to include climate scientists, policymakers and researchers (Ascuí & Lovell, 2011). Taxonomies and disclosure requirements can be commodified and shaped by conflicts of interests which can result in symbolic action by corporates, investors or policymakers (Liesen et al., 2015; Michelon et al., 2020). An explicit goal of the legislator is to prevent greenwashing, but in practice, we know little about the incentives of companies or their sustainability related service providers,<sup>4</sup> which should be considered when designing taxonomies and disclosure regulations in a way to effectively discourage greenwashing (Baboukardos, 2017; Kim & Lyon, 2015; Lyon & Montgomery, 2015). Furthermore, very few technical solutions have been proposed to tackle greenwashing (e.g. Hoepner et al., 2017). Nevertheless, ‘precautionary principles’ serve as guidance when estimating information in relation to aspects of the Taxonomy (see articles 12.2 and especially 13.2 in the EU’s legislation on climate benchmarks<sup>5</sup>).

These recent regulatory developments and academic debates serve as the motivation for the proposed Special Issue. The overall objective is to derive academically sound insights for policymakers, regulators, financial institutions and investors on the EU Taxonomy and its implementation, use and implications. These suggestions can be rooted in empirical quantitative and qualitative investigations and observations as well as focus in conceptual thought-provoking analyses.

In this light, we invite contributions to the special issue that seek to address, among others, the following questions:

### **Adoption and implementation of the EU Taxonomy**

- What are the incentives for investors and companies to adopt the EU Taxonomy and report accordingly?
- What barriers and challenges can be foreseen for financial institutions and companies?
- What are the risks of political interference in the development of the Taxonomy legislation?

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<sup>3</sup> For more information see: [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en). Other useful links to various EU legislative initiatives:

*Taxonomy Regulation*: <https://data.consilium.europa.eu/doc/document/ST-5639-2020-REV-2/en/pdf>

*Consultation on Level 2 measures in relation to the Sustainable Finance Disclosure Regulation (SFDR)*: <https://www.esma.europa.eu/press-news/consultations/joint-esa-consultation-esg-disclosures?cookies=disabled>

*Review of Non-Financial Reporting Directive (NFRD)*: <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive>

<sup>4</sup> The Technical Expert Group specifically noted “different practices with respect to solicitation” of (sustainability) related service providers and an “expectation of financial independence” in environmental assessments. (Hoepner et al., 2020: 20)

<sup>5</sup> [https://ec.europa.eu/finance/docs/level-2-measures/benchmarks-delegated-act-2020-4757\\_en.pdf](https://ec.europa.eu/finance/docs/level-2-measures/benchmarks-delegated-act-2020-4757_en.pdf)

- What are the key data used in operationalizing the implementation of the Taxonomy across asset classes?
- How does the current data infrastructure facilitate or hinder the adoption of the EU Taxonomy? What data inputs do companies need to accurately report in accordance to the EU Taxonomy requirements?
- How do the capital market structure and institutional features of a country impact the adoption and operationalization of the Taxonomy at the country level?
- What are the challenges for financial institutions in reporting according to the EU Taxonomy? How can the Taxonomy be used for financial risk assessment?
- How can a brown taxonomy be developed? What are the technical challenges that emerge from the joint implementation of green and brown taxonomies in reporting and investment processes?
- What are the costs and benefits of reporting in accordance to the EU Taxonomy? How can reporting and implementation costs be minimized for actors such as SMEs?
- Is the proposed EU Taxonomy approach more reliable than other traditional reporting frameworks? If so, why?

### Implications of the EU Taxonomy

- What is the impact of the EU Taxonomy on capital markets?
- To what extent does the EU Taxonomy facilitate or hinder the potential implementation of a green supporting factors in banking regulation?
- How does the EU Taxonomy affect the operations and strategy of companies and financial institutions outside the EU?
- What are the potential unintended consequences of the Taxonomy? How can they be mitigated against and by whom?
- How does the EU Taxonomy interact with other environmental-related accounting frameworks?
- To what extent does the EU Taxonomy prevent greenwashing? What considerations do users of green taxonomies need to consider to detect and disincentivize greenwashing?
- Can technologies be proposed that account for greenwashing?
- What is the impact of the Taxonomy for environmentalist movement organizations ?
- To what extent does the EU Taxonomy mitigate the weaknesses of traditional greenhouse gas emissions accounting or other forms of sustainability reporting?
- To what extent does the Taxonomy enable sustainable financial product development and the scale up of existing forms of finance such as impact investing?
- How can investors and companies account for static versus dynamic and forward-looking disclosures on sustainable activities?

### Submission and deadlines

- All submissions to the Special Issue will be reviewed in accordance with *Accounting Forum's* editorial process.
- The **submission deadline** for this special issue is **July 15, 2022**.
- The special issue is expected to be published in early 2024.
- Manuscripts submissions: <https://www.editorialmanager.com/racc/Default.aspx>.
- Please check the journal's instructions for authors before submitting.
- The Guest Co-Editors welcome enquiries and declarations of interest in submitting.

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