The Regulation of Sustainable Finance in Sweden

A State-of-Art Overview*

KELLY CHEN**

1. Introduction

This article aims to provide a systematic overview of the regulation of sustainable finance in Sweden. There has been a sharp increase in sustainability-related regulations in the financial markets in recent years. Scholarly work examining the subject matter from a Swedish point of view remains however rather scarce.[1] This article seeks to contribute to this limited number by explicating the underlying policy objectives of sustainable finance, the existing regulatory framework, and the relationship between the numerous pieces of legislation that now exist in the field.

* Previously published in JT net 2023–24 p. [254]. This text has been subject to scientific peer review.

** Kelly Chen, LL.D. in Private Law, Head of the Research Panel for Comparative Commercial Law at Stockholm Centre for Commercial Law, Faculty of Law, Stockholm University. Visiting Fellow at the Financial Law Institute, Faculty of Law, Ghent University. I would like to thank Sara Göthlin, Magnus Schmauch and the anonymous reviewer for their valuable comments and suggestions on an earlier version of this article. All errors and omissions remain my own. The article is based on the national report to the 2022 General Congress of the International Academy of Comparative Law on the topic Green Finance and Protection of the Environment: An Efficient Couple?. The revisions and expansions made here include regulatory changes in the EU and Sweden as of summer 2023.

1 See e.g. Schmauch, M., Hållbarhetsreglerna på finansmarknaden, Norstedts Juridik 2023, Schmauch, M., CSDD – Kommissionens förslag till direktiv om företagens *due diligence*-ansvar i hållbarhetsfrågor, SvJT 2022 p. 855 ff., Härkönen, E., Institutional Investors and Sustainability-Related Stewardship Responsibilities, in Gilson, R. et al. (eds.) Festskrift till Rolf Skog, Norstedts Juridik 2022, Göthlin, S., Sustainable Finance and Law – Thoughts on an Emerging Field of Legal Studies, Juridisk Publikation 2021 No 2 p. 193 ff., Östberg, J., Corporate Sustainability and Profit Maximisation in the Land of Unicorns, Faculty of Law, Stockholm University Research Paper No. 88, 7 December 2020, available at http://dx.doi.org/10.2139/ssrn.3731281 [last visited 31 July 2023], and Göthlin, S., The Green Promise – Contract Law and Sustainable Purpose Bonds, JT 2018–19 p. 567 ff.

Historically, Sweden has been recognized as being at the forefront of environmental protection and tackling climate change. Sweden hosted the first UN conference on the global environment in 1972 and has since continued to play an important role in international environmental issues and sustainable development. In 2022, on the fiftieth anniversary of the 1972 Stockholm Conference, Sweden hosted another UN meeting, with a prime focus on the Sustainable Development Goals (SDGs) of the 2030 Agenda.

Against this background, designing frameworks that promote the financial sector to contribute to a green and sustainable economy is, and should be, a main goal of financial regulation and supervision in Sweden. The question is how these frameworks should be built. The following sections are dedicated to how Sweden has responded to this challenge and the potential impact on market participants. In particular, the article seeks to shed some light on how various regulatory frameworks at the Swedish and EU level relate to each other.

It should be noted that the field of sustainable finance has generated vast literature in recent years.[2] Given the range and complexities of the topic, it would be too extensive to be captured in full here. Neither is the article intended to serve as a literature review. Further, rather than a minute analysis of all sustainability-related measures in the financial markets, the article focuses on the main policy and regulatory frameworks in Sweden. By narrowing down the discussion, it allows a more thorough analysis that could contribute to a more systematic view of sustainable finance regulation in Sweden.

The rest of the article is organized as follows. First, beginning at the policy level, the article explicates how sustainable development became a policy objective of financial regulation. It discusses the underlying global frameworks that Sweden has committed to and the priorities that Swedish policymakers and regulator have made. Second, the article analyzes the regulatory framework and provides an overview of different approaches in the regulation of sustainable

[2] See e.g. Macchiavello, E., Sustainable Finance and Fintech, in Alexander, K., Gargantini, M., and Siri, M., The Cambridge Handbook of EU Sustainable Finance – Regulation, Supervision and Governance, Cambridge University Press 2023 (forthcoming), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4471584 [last visited 28 November 2023], Armour, J., Enriques, L. and Wetzer, T., Mandatory Corporate Climate Disclosure: Now, But How?, Columbia Business Law Review, vol 2021, no 3, 2022, Ahlström, H., Sustainability in EU Business Law and Financial Markets Law: An Interdisciplinary Methodology, in Sjåfjell, B., Russell, R. and Van der Velden, M. (eds), Interdisciplinary Research for Sustainable Business, Springer 2022, Chiu, I. H-Y., Lin, L. and Rouch, D, Law and Regulation for Sustainable Finance, European Business and Organisation Law Review, vol 23, issue 1, March 2022 (topical issue on sustainable finance), Grünewald, S., Ferrarini, G. and Busch, D. (eds), Sustainable Finance in Europe: Corporate Governance, Financial Stability and Financial Markets, Palgrave Macmillan 2021, Ferrarini, G., Siri, M. and Zhu, S., The EU Sustainable Governance Consultation and the Missing Link to Soft Law, European Corporate Governance Institute – Law Working Paper No. 576/2021, 9 April 2021, and Schoenmaker, D. and Schramade, W., Principles of Sustainable Finance, Oxford University Press 2018.

finance in Sweden. Third, it takes a closer look at three main regulatory packages in sustainable finance that derive from EU and how they have been implemented in Sweden. The article concludes with a few remarks on the necessary, yet difficult, task of reconciling financial regulation with environmental protection.

2. Sustainable Development as a Policy Objective

2.1 A New Objective of Financial Regulation?

It should be emphasized that contributing to sustainable development has been considered as an unconventional regulatory objective in the financial markets.[3] In general, it is acknowledged that financial stability, investor and consumer protection and market efficiency are the objectives of financial regulation.[4] Further, the purpose of financial regulation is commonly viewed as to improve the functioning of the financial system. The design of financial regulatory frameworks is often an exercise in economics – the application of the analytical tools of economics to determine the regulatory framework best suited to correcting the failures of a financial system. Financial regulation thus is a means to correct market failure.[5]

As for sustainable finance, it could perhaps be approached from two perspectives. On the one hand, one could apply the conventional tools of financial regulation. Climate risks can for example be linked to financial risks, i.e., climate-related financial risks.[6] On the other hand, contributing to sustainable finance could be viewed as a "new" objective of financial regulation. However, as argued by Colaert, while there have been many sustainability-related regulations in the EU in recent years, sustainable finance has not become a new, autonomous objective of EU financial regulation. In this regard, an objective is "autonomous" if without it, certain rules of financial regulation cannot be

3 De Arriba-Sellier, N., Turning Gold to Green: Green Finance in the Mandate of European Financial Supervision, Common Market Law Review 58, 2021, p. 1097 ff., and turning goaert, V., The Changing Nature of Financial Regulation – Sustainable Finance as A New Policy Goal, KU Leuven Jan Ronse Institute for Company and Financial Law Working Paper No 2022/04.

4 See Wymeersch, E., Financial Regulation: Its Objectives and their Implementation in the European Union, European Banking Institute Working Paper Series 2019 No 36, Armour, J. et al., Principles of Financial Regulation, Oxford University Press 2016, and Llewellyn, D., The Economic Rationale for Financial Regulation, FCA Occasional Paper Series No 1 April 1999.

5 Armour, J. et al. 2016, p. 51.

6 See e.g. Principles for the Effective Management and Supervision of Climate-related Financial Risks developed by the Basel Committee on Banking Supervision (BCBS), see further below section 2.2.

explained. Sustainable finance has nonetheless the potential to become such an objective in the future.[7]

Moreover, based on an examination of the existing sustainability-related measures in the EU, Colaert finds that there is no conflict between sustainable finance and the other, traditional objectives of financial regulation at the moment. The EU has however introduced a number of new initiatives in sustainable finance and it is too early to determine whether they might undermine the traditional regulatory objectives. However, in case of such an event, the traditional objectives of financial regulation should prevail.[8]

As for Sweden, the government did indeed present an additional goal for the financial sector in 2015, namely the financial system should contribute to a sustainable development.[9] However, as seen below, in the regulatory initiatives, the policymakers have applied the conventional tools of financial regulation, such as linking climate change to financial stability.[10] The overarching mandate of the financial supervisory authority FI has also been expanded to include ensuring that the financial sector contributes to sustainable finance. The other, traditional, areas of responsibility of FI, which are safeguarding financial stability, well-functioning markets and a high level of consumer protection, remain intact.[11]

2.2 International Commitments

The road to a sustainable society requires efforts at the local, national, regional and global level. More importantly, the different levels must interact. Sweden is committed to fulfilling its obligations set out by international frameworks at the local and national level. It is further dedicated to promoting the implementation of the sustainability objectives at the regional and global level.

It should however be noted that the international frameworks serving as the grounds for sustainable finance do not derive from the familiar sources of global financial regulation, such as the G20 and the Financial Stability Board (FSB). They derive instead from international treaties on sustainable development and environmental protection, the UN 2030 Agenda and the Paris Agreement being two key instruments. In particular, article 2(1)(c) of the Paris Agreement provides that financial flows should be consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

7 Colaert 2022, p. 1670 and 1701.
8 Colaert 2022, p. 170 ff. See also De Arriba-Sellier 2021, p. 1129.
9 See the Government’s Official Letter, Politik för hållbart företagande (skr. 2015/2016:69) to the Swedish Parliament on 17 December 2015.
10 See further below section 2.3.
11 Sec. 2 of the Ordinance on Instructions for Finansinspektionen [Förordning med instruktion för Finansinspektionen] SFS 2009:93.

Sweden seems to hold high ambitions in relation to both frameworks. According to the governmental bill from 2020 in regard to the implementation of the 2030 Agenda, Sweden aims to become a leading actor in the field and strive for the implementation of the sustainable development goals nationally as well as internationally. The Swedish government explicitly stated that sustainable development should be a guiding factor in *all policymaking until 2030*.[12]

Further, Sweden was one of the signatories of the Paris Agreement in 2015 and the convention was ratified a year later. Since Sweden is an EU member state, it has not submitted a plan for climate actions on its own but is included in the nationally determined contributions of the EU. Sweden has however set more ambitious goals at the national level. It seeks, for example, to have zero net emissions of greenhouse gases into the atmosphere in 2045. In comparison, the EU has committed to achieve zero net emissions by 2050.[13]

With regard to commitments at the European level, the EU is seeking to become a global leader in sustainable development.[14] As discussed below, EU has introduced a number of new regulations in sustainable finance and Sweden is in the process of implementing them. In addition to adhering to EU strategies and legislations in the field, Sweden is actively promoting initiatives towards environmental protection and tackling climate change within the EU. Combating the climate crisis was for example one of Sweden's priorities in the EU in 2021.[15]

Narrowing down to the financial sector, the Swedish financial supervisory authority, Finansinspektionen (FI) is participating in various international cooperations at the global level. The Director General of FI is for example the chair of the Sustainable Finance Taskforce of the International Organization of Securities Commissions (IOSCO).[16] It is generally acknowledged that IOSCO is the prime standard-setting body for securities regulators around the world. One of IOSCO's main objectives is developing and promoting adherence to internationally recognized standards of regulation and supervision in the securities sector.[17] A main agenda of the taskforce for sustainable finance has thus been working towards globally consistent sustainability disclosure standards, with an

[12] See Government Bill, Sweden's Implementation of Agenda 2030 [Sveriges genomförande av Agenda 2030], Prop. 2019/20:188, June 2020, p. 13 (hereafter Prop. 2019/20:188). See also Governmental Official Report, Agenda 2030 and Sweden [Agenda 2030 och Sverige: Världens utmaning – världens möjlighet, Betänkandet av Agenda 2030-delegationen], SOU 2019:13, March 2019, p. 59 (hereafter SOU 2019:13).

[13] SOU 2019:13, p. 147.

[14] See e.g. Commission Communication, The European Green Deal, COM(2019) 640 final.

[15] Declaration of the Government's Priorities in the EU [Regeringens EU-deklaration], 20 January 2021.

[16] For more about the taskforce, see Sustainable Finance and the Role of the Securities Regulators and IOSCO, Final Report, The Board of IOSCO, FR04/2020, April 2020.

[17] See the By-Laws of IOSCO, available at https://www.iosco.org/library/by_laws/pdf/IOSCO-By-Laws-Section-1-English.pdf [last viewed 31 July 2023].

initial focus on climate change-related risks and will subsequently be broadened to other sustainability issues.[18]

The Basel Committee on Banking Supervision (BCBS) is another major network in global financial regulation that Sweden is a member of.[19] In 2020, BCBS launched the Task Force on Climate-related Financial Risks (TFCR), in which FI actively participates. BCBS issued the Principles for the Effective Management and Supervision of Climate-related Financial Risks in 2022 to promote a principle-based approach to improve banks' risk management as well supervisors' practices in terms of climate-related financial risks.[20] FI also participates in the work of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), which is an informal network for central banks and financial supervisory authorities across the world. The network seeks to contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. It defines and promotes best practices in the field for implementation within and outside of its membership.[21]

It should be noted that IOSCO, BCBS and NGFS are not recognized under public international law and the standards and recommendations are not legally binding. Membership and implementation of the standards thus are voluntary. It is however generally acknowledged that financial regulation at the global level centers around networks of experts that develop soft law standards for member jurisdictions to implement. IOSCO and BCBS are for example two prominent regulatory networks in global financial regulation and their standards are generally adhered to.[22] Furthermore, the regulatory and supervisory standards are endorsed by the G20, FSB and International Monetary Fund (IMF).

[18] See for example Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management, Final Report, the Board of IOSCO, FR08/21, November 2021.

[19] Sweden is represented by the central bank and FI, see https://www.bis.org/bcbs/membership.htm [last viewed 31 July 2023].

[20] The document sets out 18 principles across areas such as corporate governance, internal controls, risk assessment, management and reporting, available at https://www.bis.org/bcbs/publ/d532.pdf [last viewed 31 July 2023].

[21] See Charter of NGFS, April 2023, available at https://www.ngfs.net/sites/default/files/media/2023/04/27/ngfs_charter_-_27_april_2023.pdf [last viewed 31 July 2023].

[22] The workings of the networks and the normativity of the standards have generated vast literature, see among others Avgouleas, E. (ed.), The Political Economy of Financial Regulation, Cambridge University Press 2019, Chen, K., Legal Aspects of Conflicts of Interest in the Financial Services Sector in the EU and China – the XYZ of Norm-making, Doctoral Dissertation, Faculty of Law, Stockholm University 2018, Buckley, R. P., Avgouleas, E. and Arner, D. W. (eds.), Reconceptualising Global Finace and Its Regulation, Cambridge University Press 2016, Black, J., Restructuring Global and EU Financial Regulation: Character, Capacities and Learning', in Wymeersch, E., Hopt, K. J., and Ferrarini, G. (eds.), Financial Regulation and Supervision: A Post-Crisis Analysis, Oxford University Press 2012, and Verdier, P-H., Transnational Regulatory Networks and Their Limits, Yale Journal of International Law, vol. 34 no. 1, p. 113 ff.

The standards are for example applied in the evaluation of the securities and banking sector in the Financial Sector Assessment Programs carried out by the IMF and the World Bank.[23] They are also used in peer reviews conducted within the FSB.[24]

2.3 Policy and Regulatory Priorities

It is widely acknowledged that the financial system plays a key role in delivering the sustainability objectives. This is well-established in Sweden as well. Sustainability is however a broad field; certain priorities thus are warranted. FI stated for example in 2021 that its focus was on the climate. At current trajectory, climate change is giving rise to significant physical and economic risks, in terms of potential scope as well as the negative effects that they can cause. The risks are a source of concern for society at large and the financial sector in particular. There is a widespread consensus at the international level that changes in the field are needed.[25]

The Swedish government has also provided their view on the relationship between climate issues and sustainability. For example, FI has been tasked to follow up climate-related reporting by financial markets participants and how loans and investments relate to the 1.5°C-goal in the Paris Agreement. In the governmental decision on this matter, it was stated that FI should promote the financial system's contribution to sustainable development. An important condition is that actors in the financial markets take into account environmental, social and governance (ESG) factors when making business decisions and provide information that enables external actors to assess the risks and opportunities that they are exposed to. This is also a condition for preserving the resilience of the financial system and a high level of consumer protection. It is further stated that issues related to climate change are central in sustainability work since they are of major global importance and clearly linked to the stability of the financial markets. In this regard, the governmental decision refers directly to article 2(1)(c) of the Paris Agreement.[26]

[23] IOSCO Objectives and Principles for Securities Regulation and the BCBS Core Principles for Effective Banking Supervision are for example two of the key set of standards endorsed by the IMF and the World Bank, see https://www.imf.org/external/standards/index.htm [last viewed 31 July 2023].

[24] See FSB Framework for Strengthening Adherence to International Standards, 9 January 2010.

[25] Sustainability Report 2021 – The Climate in Focus, Finansinspektionen, Ref. 21-6917, 18 March 2021, p. 6 (hereafter FI Sustainability Report 2021).

[26] Assignment to FI on Following up on Climate-related Reporting by Financial Market Operators [Uppdrag till FI om uppföljning av finansmarknadsaktörers klimatrapportering], Fi2020/01920/FMASTAB, 23 April 2023.

In December 2022, FI issued a report on how it will carry out its work in sustainable finance until 2025. It identified three overarching goals, access to relevant, comparable and reliable sustainability-related information, a high level of trust in the sustainable financial market, and resilience against sustainability-related risks in the financial system.[27] FI also presented a number of prioritized measures in the upcoming years including the implementation of new regulations, conducting structured dialogues and communication with market participants, integrating sustainability factors into FI's supervision, developing forward-looking analytical tools such as climate scenario analyses, preventing greenwashing and financing of money laundering and terrorism, improving access to sustainability-related information, and disclosures regarding sustainable finance products, and actively contributing to international policy work.[28]

In sum, albeit briefly, it could be argued that sustainable development, and in particular climate issues, are important areas of concern for Swedish policymakers in the financial regulatory arena. Sweden is dedicated to fulfilling its international obligations and facilitating the implementation of the sustainability development goals globally. In this pursuit, the financial sector plays a key role. As a result, a number of regulatory reforms are underway, with more to be expected, altering the business operation of many financial, as well as non-financial, actors. The supervisory authority has also clarified its strategy in sustainable finance in the upcoming years, highlighting the three areas of reliable sustainability-related information, high level of trust and building resilience against sustainability-related risks.

3. Regulating Sustainable Finance

3.1 Definition

As seen above, the definition of sustainable finance in Sweden aligns with the global one, which is actors in the financial sector should take ESG considerations into account when making investment decisions. In the Swedish legislative context, sustainable development can be used in a wide as well as a narrow sense. The former includes the ESG factors while the latter focuses on the environmental aspect.[29] Most likely, this can be applied in the financial sector as well, where sustainable finance understood in a narrow sense could encompass a more specific meaning that focuses on the environmental dimension. Under

[27] Report: Roadmap for Sustainable Finance, Finansinspektionen, FI Ref. 22-32466, 13 December 2022, p. 9 (hereafter FI Roadmap for Sustainable Finance 2022).

[28] FI Roadmap for Sustainable Finance 2022, p. 12 ff.

[29] SOU 2019:13, p. 53.

such circumstances, the term sustainable finance can be used interchangeably with green finance.

As for the ESG-factors, environmental considerations include the impact on the environment and climate. In particular, environmental factors encompass the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems. The impact on the climate concerns climate change mitigation and adaption.[30] This is indeed consistent with the EU definition of environmental objectives.[31]

3.2 Sweden and EU

In terms of the relationship between EU and Sweden in sustainable finance, it should first be noted that as a member state, Sweden is obligated to implement EU's sustainable finance regulations. It has been viewed that EU has ambitious plans in the field. In 2018, the Commission adopted its eight climate action plan which was entirely dedicated to sustainable finance.[32] The EU has since initiated several measures to further its ambitions in the area, such as the European Green Deal,[33] European Green Deal Investment Plan,[34] and Strategy for Financing the Transition to a Sustainable Economy.[35]

It should be borne in mind that sustainable finance combines two major policy areas of the EU, sustainable development and financial regulation. As discussed above, EU aims at global leadership in terms of the former.[36] With regard to the latter, financial stability in the internal market has become a key issue for the EU. During the past decades, especially in the aftermath of the financial crisis of 2008, EU has increasingly enhanced the regulation and supervision of the financial markets. It has shifted from minimum harmonization to full harmonization and strengthened the supervisory framework.

Sustainable finance falls under the scope of financial regulation in the EU. Currently, it could be argued that the main EU regulatory packages in sustainable finance include the Taxonomy Regulation classifying economic activities

30 See e.g., FI Roadmap for Sustainable Finance 2022, p. 5.

31 See below section 4.1.

32 Commission Communication, Action Plan: Financing Sustainable Growth COM(2018) 97 final.

33 Commission Communication, The European Green Deal COM(2019) 640 final.

34 Commission Communication, Sustainable European Investment Plan – European Green Deal Investment Plan COM (2020) 21 final.

35 Commission Communication, Strategy for Financing the Transition to a Sustainable Economy COM(2021) 390 final. For EU's policy-making timeline in sustainable finance, see https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en#policy-making-timeline [last viewed 28 November 2028].

36 See above section 2.2.

that are considered environmentally sustainable.[37] There is also the Non-Financial Reporting Directive (NFRD) prescribing the relevant sustainability-related reporting rules for large companies.[38] Further, the Sustainable Finance Disclosure Regulation (SFDR) which lays out specific disclosure requirements for financial market participants.[39]

It should be noted that EU has presented a number of regulatory frameworks in addition to these three.[40] One that should be mentioned is the EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and Sustainability-related Disclosures for Benchmarks, which has been referred to as the Low Carbon Benchmarks Regulation.[41] In terms of upcoming regulations, there is the European Green Bonds Regulation.[42] The Commission has also put forward proposals for new legislative frameworks in sustainable finance. The Commission adopted for example a proposal for a directive on corporate sustainability due diligence in February 2022. It aims, among others, to establish a duty for corporates to identify, prevent, mitigate and account for negative human rights and environmental impacts within the company, its subsidiaries and along the value chains.[43] Further, there is the Commission proposal for a regulation on the transparency and integrity of ESG rating activities which was put forth in June 2023. Given the important role of rating activities in the financial markets, the regulatory framework will have a significant impact on the sustainable finance market once in place.[44]

Second, there are areas where EU regulations are underway but have yet to be finalized. One example can be found in the banking sector. FI has for example stated that enhanced transparency on climate-related risks in banks' credit portfolios, and how their lending aligns with climate goals, is an area that FI will prioritize. There are far-reaching and detailed proposals from the European

37 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable Investment, and Amending Regulation (EU) 2019/2088.

38 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards Disclosure of Non-financial and Diversity Information by Certain Large Undertakings and Groups.

39 Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-related Disclosures in the Financial Services Sector. See further below section 4 about the regulatory packages.

40 For more about the Taxonomy Regulation, NFRD and SFDR, see below section 4.

41 Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and Sustainability-related Disclosures for Benchmarks.

42 See further below section 3.3.3.

43 See Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and Amending Directive (EU) 2019/1937, COM(2022) 71 final.

44 See Proposal for a Regulation of the European Parliament and the Council on the Transparency and Integrity of Environmental, Social and Governance (ESG) Rating Activities, COM(2023) 314 final.

Banking Authority (EBA) on how banks should disclose sustainability risks in their Pillar 3 reports.[45] In this regard, the position of FI is that Swedish banks should start reporting more on their exposure to climate risks. The purpose is to pre-empt the upcoming regulations. More transparent reporting could include a detailed account of lending volumes to firms in climate-affecting sectors in absolute amounts and as a share of the total portfolio, and the environmental impact of this lending expressed in terms of, for example, carbon emissions. Moreover, in order to improve transparency on transition risks in credit portfolios, banks need to use tools for analysis to a greater extent. Here, FI refers to the Paris Agreement Capital Transition Assessment (PACTA), stating that it can help banks to gain a better overview of the risks in different exposures and the portfolios' alignment with climate goals.[46]

3.3 Other Regulatory Approaches

3.3.1 State Credit Guarantees for Green Investments

Given the wide scope and complex nature of the matter, the legislator needs to make use of a range of regulatory approaches and tools to build frameworks in sustainable finance. In addition to the legislations deriving from the EU, Sweden has launched a number of initiatives at the national level, including providing support to market participants, incentives for investors and the use of international standards on a voluntary basis. It should be emphasized that there are many examples of such initiatives, the ones discussed below are not intended to be exhaustive but merely serve as some cases in point.

One of the sustainability-related frameworks in Sweden is the state credit guarantee scheme for green investments. In 2021, the Swedish National Debt Office was mandated to provide state credit guarantees for new loans raised by companies from credit institutions for financing large industrial investments in Sweden that contribute to environmental protection and climate policy goals.[47] In order to qualify for the scheme, the investment must meet certain environmental requirements. Under the relevant ordinance, the environmental requirements refer to the Swedish Environmental Objectives System, which has been

[45] See EBA Consultation Paper – Draft Implementing Standards on Prudential Disclosures on ESG Risks in accordance with Article 449a CRR, EBA/CP/2021/06, 1 March 2021.

[46] FI Sustainability Report 2021, p. 23 f. See also Finansinspektionen and the central bank of Sweden, the Riksbank, Omställningsrisker i bankernas låneportföljer – en tillämpning av Pacta, 8 April 2022.

[47] Assignment to Provide State Credit Guarantees for Green Investments [Uppdrag att ställa ut kreditgarantier för gröna investeringar], Fi2020/05098, 3 June 2021.

developed by the Swedish Environmental Protection Agency.[48] The system prescribes the quality of the environment that Sweden would like to achieve and covers sixteen different areas, such as limiting the impact on the climate. It has been pointed out that the environmental objectives contribute to achieving the UN SDGs and address the challenges at the national level, especially those related to environmental sustainability. The Swedish environmental objectives are however more specific in terms of the environmental quality required for a good environment than the ones of the UN 2030 Agenda.[49]

In addition, the Swedish National Debt Office has stated that in evaluating whether an investment contributes to the environmental quality objectives, the EU Taxonomy Regulation will be applied as well. It must be stated whether and how the investment relates to the EU taxonomy, such as if the investment is classified as green under the taxonomy, including the reasoning behind this conclusion. It must also be declared whether the investment is classified as a transition activity or an enabling activity and is thereby deemed to be in line with the EU taxonomy.[50] Based on the guidelines issued by the Swedish Environmental Protection Agency, the Swedish environmental objectives largely overlap with those of the EU as prescribed in the Taxonomy Regulation.[51] The objectives for climate change mitigation are almost identical. A difference is that Sweden aims at achieving zero net emissions of greenhouse gases into the atmosphere by 2045 and the EU by 2050. Moreover, the Swedish environmental objectives do not include climate change adaption.[52]

3.3.2 Tax Incentives on Green Savings Account

Taxation is another tool of the legislator, such as introducing tax incentives for investors to promote sustainable finance. In 2020, a governmental official report (Statens Offentliga Utredningar, SOU) raised a number of interesting

48 Sec. 3 of the Regulation on State Credit Guarantees for Green Investments [Förordning om statliga kreditgarantier för gröna investeringar], SFS 2021:524.

49 As stated by the Swedish Environmental Protection Agency, available in English at https://www.naturvardsverket.se/en/environmental-work/agenda-2030-and-the-global-goals-for-sustainable-development/ [last viewed 31 July 2023]. For more about the environmental objectives, see Legislative Proposal, A Climate Policy Framework for Sweden [Ett klimatpolitiskt ramverk för Sverige], Prop. 2016/17:146, March 2017.

50 See Environmental Assessment in relation to Section 3 of Regulation (2021:524) on State Credit Guarantees for Green Investments, Swedish National Debt Office, available at https://www.riksgalden.se/globalassets/dokument_sve/garantier/grona-kreditgarantier/bilaga-2---miljobedomning.pdf [last viewed 31 July 2021].

51 Article 9 of the Taxonomy Regulation.

52 See Naturvårdsverkets vägledning avseende 3 § första stycket förordningen om statliga kreditgarantier för gröna investeringar (2021:524), NV-05100-21, 30 June 2021, p. 4.

questions.[53] The purpose was to investigate the possibility to introduce a tax reduction on green savings accounts. The governmental report opposed such an initiative. It found that lack of capital could not be determined as the primary cause for green investments not being made. In addition, the positive effects of such a tax incentive were uncertain and difficult to quantify. However, notwithstanding the view presented in the report, it was mandatory for the report to present a proposal for how tax incentives in relation to green savings could be constructed. In this regard, it was concluded that if such policies should be introduced, the most appropriate approach would be a tax reduction for green savings accounts in accordance with the Dutch model. Under the program, private individuals would be able to open particular bank savings accounts that are considered green.[54] At least seventy percent of the total deposited funds in the bank account must be invested as that it contributes to achieving the Swedish environmental objectives. It was also suggested that in order to finance the tax program, the tax on two other savings options, investment savings accounts and endowment insurances, would be increased.[55]

The suggestion was met with criticism from market participants. Their reaction was however focused on the tax rise on the other two savings options and not on the program on green savings accounts, thus raising the important, as well as thorny, question of how some green initiatives should be financed. Currently, the government has not moved forward with the initiative, it thus remains to be seen whether such a tax incentive will become a reality.

3.3.3 Voluntary Standards

Lastly, it should be emphasized that an important part of the financial regulatory landscape is adherence with standards on a voluntary basis. As mentioned above, the standards developed by IOSCO and BCBS are not legally binding but well-recognized and generally followed by the members in their financial regulation. The financial markets also have a history of regulating itself through self-regulatory rules, best practices, industry codes and standard contracts. The norms can be found under various guises; the common denominator would be that they are developed by market participants themselves for the purpose of regulating the market. In its legislative approach, Sweden generally follows the relevant international standards and guidelines, developed by industry organiza-

[53] Governmental Official Report, Green Savings [Grönt sparande – Betänkande av Utredningen om grönt sparande], SOU 2020:17, March 2020.
[54] SOU 2020:17, p. 17 ff. and 173 ff.
[55] SOU 2020:17, p. 21 and 242 ff.

tions representing private market participants or public regulators from different states. In other words, standards and guidelines that are of soft law nature.[56]

As for sustainable finance, green bonds could serve as a prominent example of voluntary use of international standards of a non-legally binding nature. Green bonds can be understood as bonds that seek to support projects with environmental and/or climate benefits.[57] In 2020, Sweden launched the Framework for Sovereign Green Bonds. It was developed in accordance with the Green Bond Principles published by the International Capital Market Association (ICMA), which is a self-regulatory industry association that promotes internationally accepted standards of best practice.[58] The Swedish framework was adopted to provide a transparent manner for investors to ensure that the bonds purchased are green. It specifies how eligible expenditures are defined, selected, recorded and reported, so that the investors can monitor which expenditures that the bonds are linked to and what climate and environmental effects can be expected. The first sovereign green bond was issued in September 2020 and raised interest from investors worldwide.[59]

The question of whether Sweden should regulate green bonds was investigated in a governmental inquiry in 2017.[60] It concluded that self-regulation in the green bonds market is functioning well and there is no immediate need to legislate. Swedish national regulations could even serve as an obstacle on a global market. If regulation would be introduced, it should be launched at the EU level. A regulatory framework for green bonds has also been proposed in upcoming EU regulations in the field.[61]

In this regard, a political agreement was reached between the European Parliament and the Council on the Commission's proposal for a European Green

[56] For more about international standards of soft law nature, see e.g., Chen 2018, p. 63 ff., Brummer, C., Soft Law and the Global Financial System: Rule Making in the 21 st. Century, 2nd edn Cambridge University Press 2015, Ferran, E., and Alexander, K., Can Soft Law Bodies be Effective? Soft Systemic Risk Oversight Bodies and the Special Case of the European Systemic Board, University of Cambridge Faculty of Law Research Paper no 36/2011, and Zaring, D., Informal Procedure, Hard and Soft, in International Administration, Chicago Journal of International Law, vol. 5 no. 2, p. 547 ff.

[57] For more on green bonds from a Swedish perspective, see Göthlin 2018.

[58] See Green Bond Principles – Voluntary Process Guidelines for Issuing Green Bonds, June 2021, ICMA. It should also be noted that there are other sets of international standards for green bonds, one example is the Climate Bonds Standard, available at https://www.climatebonds.net/standard/the-standard [last viewed 31 July 2023].

[59] Sweden's Sovereign Green Bond Framework, Government Decision of 4 June 2020, available at https://www.riksgalden.se/globalassets/dokument_sve/skuld/upplaning/ramverk-for-svenska-statliga-grona-obligationer.pdf.pdf [last viewed 18 January 2024].

[60] See Governmental Report, To Promote Green Bonds [Att främja gröna obligationer] SOU 2017:155 (hereafter SOU 2017:155).

[61] SOU 2017:155 p. 20 f. The report included however suggestions on legislative approaches that could be used if the circumstances should be changed, see SOU 2017:155 p. 247 ff.

Bond Regulation in February 2023.[62] While it was contemplated at an earlier stage if the standard should be mandatory, it was concluded that the regulation will establish a voluntary high-quality standard for green bonds in the EU. Once in place, it will set a gold standard for how companies and public authorities can use green bonds to raise funds to finance green projects, while meeting tough sustainability requirements and protecting investors.[63] The proposed framework comprises four key requirements, which can be summarized as follows. First, the funds raised should be allocated to projects that align with the Taxonomy Regulation. Second, there should be full transparency regarding how the proceeds are allocated through detailed reporting requirements. Third, an external review must be conducted to ensure compliance with the Green Bond Regulation and Taxonomy Regulation. Fourth, the external reviewers are subject to supervision by the European Securities Markets Authority (ESMA).[64]

4. Main Regulatory Package

4.1 Classifying Green Activities

As mentioned above, the Taxonomy Regulation is a major regulatory framework in the EU sustainable finance regime. The regulation seeks to create a common framework on appropriate definitions for which economic activity can be considered environmentally sustainable in the EU. It serves as a basis for future EU standards and labelling of sustainable financial products. Alignment with the Taxonomy Regulation is for example required under the European Green Bonds Regulation as discussed below.[65] The Taxonomy Regulation has been applicable to the first two of six environmental objectives in the regulation since January 2022. It became applicable in relation to the other four objectives in January 2023.

The structure of the Taxonomy Regulation can be summarized as follows.[66] The regulation establishes the criteria for determining whether an economic

[62] See timeline for the European Green Bond Standard, available at https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard_en [last viewed 31 July 2023].

[63] For more about the topic, see e.g. Maragopoulos, N., Towards a European Green Bond: A Commission's Proposal to Promote Sustainable Finance, European Banking Institute Working Paper Series 2022 no. 103, 6 April 2022.

[64] See Proposal for a Regulation of the European Parliament and of the Council on European Green Bonds, COM(2021) 391 final.

[65] See section 3.3.3 above.

[66] For more about the taxonomy, see e.g, Gortsos, C. and Kyriazis, D., The Taxonomy Regulation and its Implementation, 2nd ed 1 October 2023, European Banking Institute Working Paper Series 2023 no. 136.

activity is considered environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable.[67] In order for an economic activity to be classified as environmentally sustainable, four conditions must be met cumulatively.[68] First, the activity must substantially contribute to one or more of the six environmental objectives set out in the regulation, climate change mitigation, climate change adaption, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. The regulation also prescribes what is considered as substantially contributing to each of the objectives. Climate change mitigation for example refers to processes that contribute to the long-term temperature goal of the Paris Agreement.[69]

Second, the activity must not significantly harm any of the environmental objectives set out in the regulation. Significant greenhouse gas emissions are for example considered as harming climate change mitigation in a significant manner.[70] Third, the activity must also be carried out in compliance with minimum safeguards, including alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.[71]

Lastly, the activity must comply with technical screening criteria that have been developed by the European Commission.[72] Essentially, it is in the screening criteria that the details on what constitutes an environmentally sustainable activity are laid out. A first delegated act on sustainable activities for climate change adaption and mitigation objectives was formally adopted by the Commission in June 2021. It specifies the technical screening criteria under which certain economic activity qualify as contributing substantially to climate change mitigation and climate change adaptation. It also lays down the criteria for determining whether those economic activities cause significant harm to any of the other relevant environmental objectives. The delegated act sets out sector specific performance criteria, including in the forestry, manufacturing, energy, transport, and information and communication sector. It also covers environmental protection and restoration, water supply, sewage, waste management and remediation, construction and real estate, and professional, scientific and technical activities.[73]

[67] Article 1(1) of the Taxonomy Regulation.
[68] Article 3 of the Taxonomy Regulation.
[69] Article 10 of the Taxonomy Regulation.
[70] Article 17(1)(a) of the Taxonomy Regulation.
[71] Article 18 of the Taxonomy Regulation.
[72] Article 19 of the Taxonomy Regulation.
[73] Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and

Further, it is stated that the technical screening criteria should ensure that the economic activity makes a positive impact on the climate objective or reduces negative impact on the climate objective. Those technical screening criteria should therefore refer to thresholds or performance levels that the economic activity should achieve in order to qualify as contributing substantially to one of those climate objectives. The technical screening criteria for 'do no significant harm' should ensure that the economic activity has no significant negative environmental impact. Consequently, those technical screening criteria should specify the minimum requirements that the economic activity should meet in order to qualify as environmentally sustainable.[74]

The Commission has since adopted three more delegated regulations. The Disclosures Delegated Act supplements Article 8 of the Taxonomy Regulation.[75] It concerns the content and presentation of information disclosed by undertaking subject to Article 19a or 29a of the directive on annual financial statements, consolidated financial statements and related reports by certain types of undertaking (the Accounting Directive).[76] The Complementary Climate Delegated Act includes, under strict conditions, specific nuclear and gas energy activities in the list of economic activities under the Taxonomy Regulation.[77] The Environmental Delegated Act was adopted by the Commission at the end of June 2023.[78] It includes a new set of criteria for economic activities that contribute to

for determining whether that economic activity causes no significant harm to any of the other environmental objectives, C/2021/2800 final (The Climate Delegated Act).

74 Recital 4 of the Climate Delegated Act.

75 Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation, C/2021/4987.

76 Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the Annual Financial Statements, Consolidated Financial Statements and Related Reports of Certain Types of Undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and Repealing Council Directives 78/660/EEC and 83/349/EEC.

77 Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards Economic Activities in Certain Energy Sectors and Delegated Regulation (EU) 2021/2178 as regards Specific Public Disclosures for Those Economic Activities, C/2022/631.

78 Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities.

the other four environmental objectives. Amendments to the Climate Delegated Act and Disclosures Act were made as well.

From a Swedish point of view, the government has stated that Sweden played an active role in the negotiations of the Taxonomy Regulation. Some key areas for Sweden were technological neutrality and predictability in rules on renewable electricity generation. Sweden also sought to avoid regulatory overlaps and strived for a taxonomy that will be used for all financial products and not only generate burdensome reporting duties for those that already are working with sustainability. Sweden was however the only member state that voted against the Taxonomy Regulation in the Council. The main reasons were related to sustainable forestry. Further, Sweden was actively engaged in the Commission's work on delegated acts. In terms of the Climate Delegated Act, Sweden communicated with the Council that it should object to the act, reasons primarily based on the classification of sustainable forestry. There was however not enough support in the Council or the European Parliament, and the delegated act entered into application in January 2022. Sweden also suggested that the Council should object to the Complementary Climate Delegated Act. Sufficient support was however not obtained.[79]

4.2 Sustainability-Related Reporting

Another regulatory framework of key relevance in EU's sustainable finance regime is the NFRD, which requires certain large companies to provide a sustainability report in conjunction with the annual report. It should include, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. The report should contain, *inter alia*, policies taken in relation to these matters, including due diligence processes implemented, outcomes of those policies and principal risks related to those matters linked to the company's operations.[80] Further, firms must disclose the portion of their activities that qualify as environmentally sustainable under the Taxonomy Regulation.[81] In terms of climate-related information, in accordance with the Commission's non-binding guidelines, companies can fulfill their obligations by following the recommendations drawn by the Task Force on Climate-Related Disclosure (TFCD) of the FSB.[82]

79 Article of the Ministry of Finance, published 4 December and updated 5 April 2022, available at https://www.regeringen.se/regeringens-politik/finansmarknad/taxonomi-ska-gora-det-enklare-att-identifiera-och-jamfora-miljomassigt-hallbara-investeringar/ [last viewed 31 July 2023].

80 Article 1 of NFRD.

81 Article 8 of the Taxonomy Regulation.

82 Communication from the Commission — Guidelines on Non-financial Reporting: Supplement on Reporting Climate-related Information, C/2019/4490.

It should be noted that member states are permitted to extend the obligations set out by the NFRD to a wider range of firms.[83] As a result, some member states have opted for more rigorous requirements. Sweden is one of them. Under Swedish law, the scope of companies that must disclose non-financial information is broader. Sustainability reporting is mandatory for companies that meet more than one of the following three conditions: the average number of employees for each of the past two financial years has been more than 250; the reported balance sheet total for each of the past two financial years has been more than SEK 175 million; the reported net sales for each of the past two financial years has been more than SEK 350 million.[84] In comparison, NFRD applies to large public-interest undertakings, which are defined as listed companies, banks and insurance companies, with more than 500 employees. During the implementation process, it was discussed whether stricter requirements would be disadvantageous to Swedish companies in relation to their European counterparts. It was concluded that while this is a valid concern from a market competition point of view, a higher level of requirements would also provide more confidence from consumers and investors, thus enhancing Swedish companies' position.[85]

The Swedish approach is in line with the developments at the EU level. In April 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), amending the NFRD.[86] The CSRD extends the scope of the requirements to include all large companies and all companies listed on regulated markets, except for listed micro-enterprises. It also introduces more detailed reporting requirements, and it will be mandatory to report according to European Sustainability Reporting Standards. The CSRD entered into force in January 2023 and into application in three stages, with the companies that already fall under the scope of NFRD to be the first ones to apply the rules in January 2024.[87] Considering Sweden's implementation of the NFRD, it could be argued that more Swedish companies are prepared to adapt to the new regulatory framework of CSRD.

[83] Recital 14 of NFRD.

[84] Sec. 6:10 of the Annual Reports Act [Årsredovisningslagen], SFS 1995:1554.

[85] Government Legislative Proposal, Companies' Reporting of Sustainability and Diversity Policy [Företagens rapportering om hållbarhet och mångfaldspolicy], Prop. 2015/16:193, June 2016, p. 44.

[86] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards Corporate Sustainability Reporting.

[87] For more about the timeline, see Governmental Report, New Rules for Sustainability Reporting [Nya regler for hållbarhetsredovisning], SOU 2023:35, June 2023, p. 291 ff.

4.3 Sustainability-Related Disclosure

Lastly, there is the SFDR, which sets out particular disclosure obligations for financial market participants, such as financial advisors, asset managers and insurance companies. They must disclose how sustainability is integrated into their activities as well as sustainability-related information about the investments for which they provide different forms of financing.[88] Further, financial market participants that offer environmentally sustainable financial products must disclose the extent to which the underlying investments are invested in activities that meet the criteria set out in the Taxonomy Regulation.[89]

SFDR entered into application in March 2021. At the moment, the Commission has adopted two delegated acts. Both entered into application at the beginning of 2023. The first one specifies the technical standards on the content, methodology and presentation of the disclosed information.[90] The second delegated regulation started to apply in February 2023.[91] It concerns information about to what extent the portfolios of financial market participants are exposed to gas and nuclear-related activities that comply with the Taxonomy Regulation, as laid out in the Complementary Climate Delegated Act.[92]

As for the relationship between the three regulatory frameworks discussed here, it could be summarized as follows. While all companies meeting certain criteria in terms of size and operation fall under the scope of the NFRD/CSRD, the SFDR only applies to the financial sector. Further, the Taxonomy Regulation sets out particular requirements both in relation to the NFRD/CSRD and SFDR. Article 6 of the Taxonomy Regulation refers for example to the SFDR and article 8 to the NFRD.

In terms of the Swedish market, FI has expressed an ambition to have Swedish financial sector actors being at the forefront of the application of the new

[88] For more about the regulation, see e.g. Busch, D., Sustainable Disclosure in the EU Financial Sectors, in Grünewald, S., Ferrarini, G. and Busch, D. (eds.), Sustainable Finance in Europe: Corporate Governance, Financial Stability and Financial Markets, Palgrave Macmillan 2021.

[89] Articles 5–7 of the Taxonomy Regulation.

[90] Corrigendum to Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

[91] Commission Delegated Regulation (EU) 2023/363 of 31 October 2022 amending and correcting the regulatory technical standards laid down in Delegated Regulation (EU) 2022/1288 as regards the content and presentation of information in relation to disclosures in pre-contractual documents and periodic reports for financial products investing in environmentally sustainable economic activities.

[92] See section 4.1 above.

regulatory frameworks. The position of the Swedish regulator is that financial institution should work actively to adapt to the new rules and stay one step ahead of upcoming requirements. The regulatory approach of FI consists of pursuing a dialogue with market participants on a continuous basis. This includes informing and discussing the impact of the requirements with financial institution, as well as answering questions that market participants might have.[93]

It should however be noted that FI has also pointed out that the regulatory frameworks have been developed during a short time frame and with high ambitions. While EU is indeed taking at the forefront of tackling these global issues, the regulations are complex, and their implementations are challenging for the relevant market participants. The responsibility to find ways to implement the SFDR and the Taxonomy Regulation lies with the market participants. FI is facilitating this process by pursuing dialogues with both individual firms and industry representatives to answer questions and develop best practices.[94]

5. Concluding Remarks

As seen above, the Swedish framework for sustainable finance is rather comprehensive. At the policy level, there seem to be ambitious plans in place for the purpose of realizing the sustainability objectives. The role of the financial sector should not be underestimated in this pursuit. However, nearly a decade has passed since the SDGs and the Paris Agreement were adopted and there have been renewed realization of just how challenging the task at hand is. Further, as the sustainable finance framework is embedded in a wider policymaking context, it would perhaps not be too surprising that the level of ambition varies over time.

As for the regulatory framework, there have been a number of reforms in the financial markets and more can be expected. While Sweden is obligated to follow EU's strategy for sustainable finance, it has also taken several initiatives that are ahead. One line of reasoning of the legislator is that potential disadvantage from a market competition viewpoint can be counterbalanced by enhanced confidence from consumers and investors. At the same time, is should be emphasized that the new regulations are complex and require considerable efforts from the regulators as well as market participants to implement. In this regard, from a market participants perspective, clear and timely guidance from the regulators is much needed.

Lastly, in order to achieve the goal of reorienting financial flows to economic activities that are sustainable, it is crucial to build frameworks that can function

93 FI Sustainability Report 2021, p. 22 and 24.

94 FI Sustainability Report 2021, p. 3.

efficiently. In building these frameworks, it is necessary to reflect on the relationship between the financial system and sustainable development. It could be argued that the current frameworks are no longer only promoting the financial sector to facilitate sustainable development, they are transforming the financial system itself. This is done by integrating the sustainability objectives into the financial system by creating a link to the regulatory objectives of financial regulation, such as the one between climate change and financial stability. The regulatory frameworks are in turn reshaping the business models and decision-making processes of financial market participants. In this way, the financial system is no longer only serving as a means to a sustainable development as an end, it is becoming the sustainability end itself.