LEGITIMACY EFFECTS OF EU SUSTAINABLE FINANCE DISCLOSURE REGULATION IN FINNISH EQUITY FUNDS

Interpretations of Regulation (EU) 2019/2088 Articles 6, 8 and 9 in Finland

Lappeenranta–Lahti University of Technology LUT

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ABSTRACT

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Legitimacy effects of EU Sustainable Finance Disclosure Regulation in Finnish equity funds: Interpretations of Regulation (EU) 2019/2088 Articles 6, 8 and 9 in Finland

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The rise of sustainable thinking is evident in today's financial environment, as proven by EU's Sustainable Finance Disclosure Regulation (SFDR) of 2019. Prior research on regulation and sustainability reporting has shown that sustainability disclosures can be used to legitimize organizations' existence, more often non-intentionally than not. The aim of this study is to provide knowledge on implementation of SFDR Articles 6, 8, and 9 in sustainable Finnish equity funds, focusing on the legitimacy aspect of sustainability reporting.

This research was conducted using a mixed methods approach, including both quantitative and qualitative content analysis as research methods. Fund reports from 23 sustainable equity funds were collected for the first part of the analysis, after which five sustainable investment professionals from said funds were interviewed using a semi-structured interview method. The findings show that complying with SFDR by categorizing funds and disclosing sustainability information increases the legitimacy of fund management companies. Additionally, the results of the research indicate that the quality of sustainability information is directly proportional to how sustainable the underlying fund is since Article 9 is complied with the most thoroughly. SFDR has increased the reporting burden of fund management companies, yet the information provided is still non-uniform even though the purpose of SFDR is to unify sustainability information. This study shows how this is due to challenges in interpreting the regulation, also affecting the reception of full legitimacy impact from sustainability disclosures.

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Kestävällä kehityksellä on kasvava merkitys nykypäivän rahoitusympäristössä, mistä kertoo myös EU:n asetus kestävyyteen liittyvien tietojen antamisesta rahoituspalvelusektorilla (SFDR) vuodelta 2019. Edeltävä tutkimus sääntelyn ja kestävyysraportoinnin suhteesta on osoittanut, että kestävyysraportoinnilla on vaikutuksensa organisaation legitimiteetin rakentumiseen eli organisaation olemassaolon perustelemiseen. Tämän tutkielman tarkoitus on tarjota ymmärrystä SFDR:n 6, 8 ja 9 artikloiden implementoinnista suomalaisissa kestävissä osakerahastoissa keskittyen kestävyysraportoinnin legitimiteettiaspektiin.

Tämä tutkimus toteutettiin käyttämällä monimenetelmällistä tutkimustapaa, jossa yhdistettiin määrällinen ja laadullinen sisällönanalyysi. Tutkimuksen ensimmäisessä osassa kerättiin rahastoesitteitä 23 eri kestävästä osakerahastosta, minkä jälkeen haastateltiin viittä kestävän sijoittamisen asiantuntijaa näistä rahastoista käyttäen puolistrukturoitua haastattelumenetelmää. Löydökset osoittavat, että sääntelyn onnistunut implementaatio kategorisoimalla rahastoja ja tarjoten kestävyystietoa kasvattaa rahastoyhtiön legitimiteettiä. Lisäksi nähdään, että kestävyystiedon laatu on suoraan verrannollinen rahaston kestävyystasoon, sillä artiklaa 9 noudatetaan tarkimmin. Vaikka SFDR on lisännyt raportointitaakkaa, kestävyystieto on yhä regulaation tavoitteiden vastaisesti epäyhtenäistä. Tämä tutkimus osoittaa, kuinka tämän taustalla ovat haasteet sääntelyn tulkinnassa, mikä vaikuttaa myös täyden legitimiteettivaikutuksen saamiseen kestävyysraportoinnista.

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5 years, 10 months and 12 days ago I started my studies in what was then called Lappeenranta University of Technology. What began on that autumn and ends this summer can only be described as the best of times, with the best people. I am still amazed how quickly I found my place in Lappeenranta, and thanks for that belongs to the always welcoming atmosphere of Skinnarila and especially, my dearest friends - number of which increased also during the years due to a certain student organization with a special place in my heart.

I receive a diploma from LUT, yet the years spent on studying and in student life offer me something much more significant: not only did I find many friends, but I found myself. Looking back at the Aino five years ago, I see so much growth that has happened sneakily during these years. I could not have asked for a better place than LUT to grow into the person I am today. Getting rejected from my first choice of university as the first person on the waitlist on 2016 was the best lucky accident that happened, since without moving to Lappeenranta I would not have met my ride-or-die friend group (with a billion business ideas).

Even though I am very happy to be able to call myself master Laine, I am happier to be able to call such an amazing bunch of people from all around Finland my friends. We have shared memories in sweet Skinnarila as well as elsewhere sailing, skiing, cracking serious casework, singing our voices off, and even spending countless hours on the library. Thank you LUT, NESU, Enklaavi, RKK, Seppo 66 and Skinnarilan Sale for making this degree possible.

This summer, I end my studies in what is now called Lappeenranta-Lahti University of Technology LUT and continue to the next chapter of my life with more knowledge and friends.

In Helsinki 13th June 2022

Aino Laine

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1. Introduction

On September 24th, 2021 Finnish financial service provider Nordnet announced adding a new filtering function on their website to help private investors find sustainable investment alternatives easier (Nordnet 2021). Background for this new feature can be found in new EU legislation entering into force earlier in the year. Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 came into effect in March 2021, after which financial market participants and financial advisers are required to provide transparent information regarding their sustainability (Sustainable Finance Disclosure Regulation 2019). The regulation allows financial investments to be categorized according to their effects on sustainability, thus improving the transparency of what is known as sustainable investing. This improvement is visible to all stakeholders, including private investors choosing investments and evaluating investment providers from a new perspective.

This regulation is walking proof of the importance of sustainability, as regulators are taking active steps in order to improve and support sustainable choices. The rise of ecological thinking extends to business and is used in marketing to attract environmentally conscious clientele also in financial markets. Sustainable alternatives are gaining ground in the midst of traditional profit-seeking investment options – but how thorough and transparent is the information on these investment options? Regulation 2019/2088 was introduced to standardize the sustainability information available for possible investors - but what kind of effects does the regulation have on the reliability of investment providers? This study focuses on providing answers to these questions among others. Justification for the operations of investment providers comes from the surrounding society, which defines just how legitimate the business is. Businesses are starting to comprehend the importance of sustainability as they are taking steps in taking sustainability issues into account, and providing more and more information regarding sustainability matters also through legislative compulsion: such as SFDR.

1.1. Background and motivation

The society and people living in it act in accordance with a set of shared values. Values are connected to every decision, choice, and act in all life aspects - including attending finances of an individual or an organization. Investments are affected by the values of both the investors and the investment providers themselves. Focusing on organizations, society places a vast number of expectations and demands on organizational activity to ensure that the organization is working in accordance with societal values. Thus, the existence of organizations is justified by understanding and meeting these expectations and demands enforced by values (Deegan 2006). When discussing organizations meeting a societal value, one term inevitably arises in the discussion: organizational legitimacy. Shortly, it is a characteristic used to describe an organization's proven ability to meet the values of the society (Suchman 1995). The term is defined later in the introduction. The concept of legitimacy is grounded in both the theory and the research of this thesis, forming a framework for the whole study.

One of the societal values is sustainability, as green thinking has claimed its role in the everyday life of people today. The importance of sustainability has leaked from individuals to organizations since organizations are formed of people and since organizations do not exist in a bubble but are reflected of the surrounding society (Fernando & Lawrence 2014; Jeong & Kim 2019). This study focuses on sustainability as a value in the world of investment.

Studies show that regulation can be used as a tool to affect and improve the legitimacy of organizations, especially through sustainability (Carini, Rocca, Veneziani & Teodori 2021; Deegan, Rankin & Voght 2000). Previous research on legislative effects has focused on companies of specific industries on a country level, whereas studying more narrow segments, including but not limited to individual equity funds, has remained limited. This research examines the role of the new EU legislation, Sustainable Finance Disclosure Regulation, in organizations' ability to meet the previously chosen value of sustainability. All financial providers with all their instruments in the EU area are under the scope of SFDR,

yet due to the limitations of the extent of this study, the subject of this research is narrowed down to investment funds, more specifically *sustainable* investment funds since their effect on their managing organizations legitimacy is higher due to their sustainable nature. Thus, this research contributes to the existing literature by focusing on a highly defined segment of the financial industry. The new regulation creates a categorization of all investment funds based on the extent of sustainability in their actions. SFDR includes three Articles, all of which determine a different set of requirements for sustainability behavior and disclosure. Funds can choose which Article they will follow, thus how strict sustainability requirements they must meet.

This research focuses on Articles 6, 8, and 9 of the Sustainable Finance Disclosure Regulation. These Articles create requirements for financial product providers to disclose pre-contractual information regarding their products in the light of sustainability. The requirements differ between Articles, and financial product providers such as fund management companies can choose which Article each fund follows. Funds following Article 6 are not lawfully required to promote sustainability in their actions and investments, yet they must disclose sustainability risks related to their investments. This requirement leaks onto the next two Articles as well. Funds in accordance with Article 8 can be called *light green* funds: they must not only disclose information on sustainability risks but also promote sustainability in their actions. The last category is related to Article 9, also known as *dark green* funds: most importantly they are required to promote significant sustainability goals in their strategy, thus refraining from investments harmful to sustainability. (Sustainable Finance Disclosure Regulation 2019) This categorization provides an interesting possibility to examine the similarities and differences between funds following Article 8 or 9, since they both can be, and demonstrably are, marketed as *"green"* or *"responsible"*. Additionally, due to these similarities between the two categories, this study uses *"sustainable funds"* as an umbrella term for all funds that follow either Article 8 or 9, even though it must be noted that according to SFDR regulation, only funds following Article 9 can be called sustainable. This choice of word is supported by the nature of this study, and these funds are separated from each other in other ways later in the research. Additionally, a lack of a better term suitable for this purpose supports this choice.

Investment funds that promote sustainability have a notable potential to be used as tools to improve the legitimacy of the underlying fund management company. Also, the sustainability reporting of these funds is more flattering to the fund management company, thus improving their image. Since the grouping into light green and dark green funds is made on a high inter-governmental level, it could be assumed that there are identifiable characteristics inside each of the two groups, despite their similar nature. This assumption works as one motivational factor in this study.

On a more practical level, Regulation 2019/2088 places requirements on fund prospectus and the fund websites on disclosing their processes and the provision of sustainability-related information of said funds. The term used to describe the sustainability information required by the legislation in a broader manner and not attached to its whereabouts is simply *"disclosure"*. Due to the ambiguous formatting of the legislative text of SFDR, financial market participants may interpret and implement the regulation differently on their reports and websites, creating an interesting possibility for comparative research on the matter.

1.2. Objective and research questions

The purpose of this thesis is to examine the impact of the Sustainable Finance Disclosure Regulation on the legitimacy of sustainable investment funds. The new regulation has a broad effect on financial market participants all around European Union, whereas this study focuses on sustainable equity funds in the Finnish market, also due to scope limitations. This study tries to differentiate funds following Articles 8 and 9 of the regulation, thus investigating the extent and effectiveness of the new regulation. More importantly, the subject is studied in the light of organizational legitimacy and its role. This research contributes to the existing academic literature on sustainability reporting through a fresh sample of equity funds, providing an analysis focused on the Finnish financial market.

Founded on the purpose of the thesis, the main research question is:

How does the Sustainable Finance Disclosure Regulation 2019/2088 affect the legitimacy of sustainable equity funds in Finland?

As the main research question is quite wide and open to interpretation, it must be separated into more precise sections. This supports constructing the research and helps answer the main question in the analysis. The first sub-question is used to examine the contents of the fund prospectus regarding sustainability information to gain a general view of the disclosures. The second sub-question focuses on differentiating funds following either Article 8 or 9 of SFDR and finding the similarities between them. Finally, the last sub-question raises a needed question on the justification of sustainability of said funds to further determine the differences and similarities. The sub-questions with a supportive role in the study are:

1. *How is the sustainability information required in Article 8 or 9 implemented in the fund prospectus?*
2. *What are the main differences between funds in accordance with Article 8 and 9?*
3. *How are sustainable equity funds used to improve legitimacy?*

These sub-questions are studied by analyzing fund reports and interviewing sustainable investment professionals from a pool of sustainable Finnish equity funds. Mixed methods approach is used to answer the research questions, the duality of which improves the extent of the research. Fund report analysis provides an overview of the implementation of SFDR and begins to highlight the differences between light green and dark green funds, whereas semi-structured interviews are used to deepen this knowledge and dive into legitimacy effects, which connects the sub-questions with each other.

1.3. Definitions

Next, the most crucial terms used in this study are listed and defined briefly in order to ensure the understanding of the reader from the beginning. Providing definitions is important to achieve a consensus between the research and the reader about the main concepts of the study, especially in the field of sustainable finance with such unestablished vocabulary.

Organizational legitimacy is a feature representing the rightfulness and appropriateness of an organization based on a socially constructed system of norms and values. This value can be for example environmental consciousness or cultural inclusiveness. An organization with a high level of legitimacy takes all corporate social responsibilities into account in its operational and directive decisions. Legitimacy theory is a theoretical construction explaining the legitimacy of organizations. (Suchman 1995; Idowu et al. 2013; Deegan 2006; Rayman-Bacchus & Crowther 2016)

ESG is an acronym that stands for the three vital elements in sustainability: environmental, social, and governance. These factors must be proactively integrated in any action or operation claiming to be sustainable, thus making ESG a key concept in sustainability research, including but not limited to sustainable finance. (Caplan, Griswold & Jarvis 2013)

Sustainable investment is an umbrella term for financial investments following ESG guidelines in their investment policies and other operations. The variety of sustainable investments is heterogeneous in their level and extent of sustainability. (Haigh 2012; SFDR 2019; PRI 2022)

Corporate Social Responsibility (CSR) can be defined as the responsibility private and public companies have for their effect on the surrounding society. CSR is a company-driven philosophy including also practical tools to help carry out said responsibility. (Carrol 1991;

Idowu, Capaldi, Zu & Gupta 2013; Rayman-Bacchus & Crowther 2016; SAGE Publications 2012)

Sustainability reporting refers to the information provided by organizations to their stakeholders about their sustainability impact on society. This reporting can be forced with regulation for the organizations, and the level of sustainability reporting overall is on the rise during the last decade with an increasing amount of related legislation (SFDR 2019; MiFID 2 2014). Additionally, organizations can choose to provide voluntary sustainability reporting.

1.4. Previous research

This sub-chapter presents a brief overview of the existing academic literature in the field of sustainable investment used in this thesis. A summary is provided to introduce the reader to the most relevant research orientations on the subject from the viewpoint of this study.

Sustainable investment has been widely studied from different perspectives, and the interest of the research community on the subject is not showing signs of lessening. As sustainability regulation and the expectations of the society regarding Corporate Social Responsibility of organizations are on the rise, disclosing sustainability-related information is constantly changing. This creates interesting possibilities for researchers to investigate sustainability reporting from various perspectives. Topics of interest include the quality of sustainability reporting, the effect of new legislation focusing on specific industries or countries, assessing the measurements of sustainability in financial markets, and so on.

Even though mandatory non-financial sustainability information is a relatively new topic in EU legislation, regulation 2019/2088 is not the first nor only EU regulation created to increase the amount of sustainability information provided by European businesses. For example, directive 2014/95 effective from the year 2017 has been researched from the point of view of an environmentally problematic industry: the oil and gas sector (Carini, Rocca,

Veneziani & Teodori 2019; Carini, Rocca, Veneziani & Teodori 2021). Studies within Europe have been conducted on a country-level, focusing on their level and quality of reporting: examples include Turkey, Denmark, France, Poland, Sweden, the U.K., and The Netherlands (Habek & Wolniak 2015; Koray & Ensari 2015). Some researchers have adopted annual reports as their source of information for ease of access and comparability between entities (Niskanen & Nieminen 2001). On that premise, more recent studies have adopted company websites as research material for their analysis on environmental reporting (Jose & Lee 2007). Predominantly, the subject of research has been companies as a whole, whereas analysis of more specific segments, such as investment funds individually, has stayed limited.

Earlier research shows regulation being one of the most relevant factors affecting companies' sustainability behavior, which in part explains why legislation is often researched from a sustainability perspective (Carini et al. 2021; Chelli et al. 2014). Measuring the sustainability of investment funds is not established, proven by a vast number of metrics included in past studies, as reviewed by Popescu, Hitaj & Benetto (2021).

Content analysis is a widely used research method adopted in past research for example by Chelli (2014), Deegan (2000), Carini (2021), and Jose (2007) together with their respective co-authors. Content analyses have shown that sustainability information is not always aligned between companies providing such information (Jose & Lee 2007; Junior, Best & Cotter 2014). The emergence of regulation 2019/2088 rises a hypothesis of sustainability information of investment funds being now more homogenous between market participants, since this effect has been seen after other EU and national regulations as well (Carini et al. 2019; Habek & Wolniak 2015; Chelli et al. 2014). In addition to methodology, there are repeating trends regarding frameworks used in previous research on sustainability information, the most common and important ones in our context being legitimacy theory (e. g., Chelli et al. 2014; Deegan et al. 2000) and corporate social responsibility (e. g., Habek & Wolniak 2015; Jose & Lee 2007; Junior et al. 2014). The table below (table 1) exhibits a summary of the most relevant past studies, including identification information, framework, and method(s) used, as well as the main findings of each research.

Table 1 Summary of the most relevant previous research for this thesis

Author(s) and year	Research focus	Framework	Method(s)	Main findings
Chelli et al. (2014)	How French companies reacted to the "New Economic Regulations" with requirements in environmental disclosures in French law in 2001	Legitimacy theory	Content analysis	Both the quality and quantity of environmental disclosures increased. The law was complied to ensure organizational legitimacy.
Deegan et al. (2000)	How Australian companies changed their environmental disclosures after major social incidents	Legitimacy theory	Content analysis	Disclosures increased after the incidents. Sustainability disclosures are used as a tool for companies to legitimize their existence.
Carini et al. (2021)	Comparison of sustainability disclosure behavior before and after The European Directive 2014/95	GCC, strategic legitimacy theory	Content analysis, single case study	Disclosure activity increased. Regulation (compliant with society norms) is one of the key forces to improve sustainability behavior.
Carini et al. (2019)	Comparison of non-financial disclosure before and after EU Directive 2014/95 in the oil and gas sector	Regulatory Impact Assessment	Partial content analysis	Degree of disclosure increased, whereas overlapping information decreased. Disclosures are more uniform.
Habek & Wolniak (2015)	Assessing mandatory and voluntary CSR reporting practices and their quality in EU	CSR	Qualitative & quantitative analysis	The general quality level of sustainability reports is low. Legal obligation of CSR reporting increases the quality of the reports.
Jose & Lee (2007)	Assessing the content of website disclosures of Fortune Global 200 companies	CSR	Content analysis	Large corporations have increased their sustainability disclosures. Yet, the quality of disclosures is not uniform amongst them.
Junior et al. (2014)	State of sustainability reporting in Fortune Global 500 companies by country	CSR	Descriptive analysis	Quantity of sustainability reports has increased, yet the proportion of assured reports has remained in the same level.
Popescu et al. (2021)	Assessing sustainability measurement methods for investment funds	PRISMA	Literature review	Existing metrics and ratings fail to capture the real-world sustainability impact of investments

Previous research has also dived into the question of why companies choose to include ESG matters in their business in the first place. Improved image and moral leadership have been recognized as reasons behind companies' sustainability leap. (Brønn & Vidaver-Cohen 2009) Not only is "going green" a marketing trick, finance market has shown that sustainable investments are also profitable – proved by the rising number of sustainable investment funds provided also in Finland, which is to increase the legitimacy of the underlying fund management companies.

1.5. Theoretical framework

This sub-chapter presents the theoretical framework used in this thesis. All the most relevant concepts are included in the framework, also showing their relations with respect to each other. The theoretical framework is presented in figure 1. The framework shows an organization inside corporate social responsibility (CSR), a responsibility that it carries to the surrounding society. In order to follow their CSR, the organization must take into account ESG factors: environmental, social, and governance. Sustainability disclosure is linked to the organization through sustainable investment. As organizational legitimacy is determined externally, it is represented with an arrow leading to the organization itself. Organizations use sustainability disclosures to improve their organizational legitimacy, thus connecting Sustainable Finance Disclosure Regulation and legitimacy to each other. The location of this research can be found in the figure on the connecting point of sustainability disclosure and organizational legitimacy arrows, highlighted in orange since this thesis studies the legitimacy effects of SFDR. Using legitimacy theory as the academic base of the research is justified due to these connections.

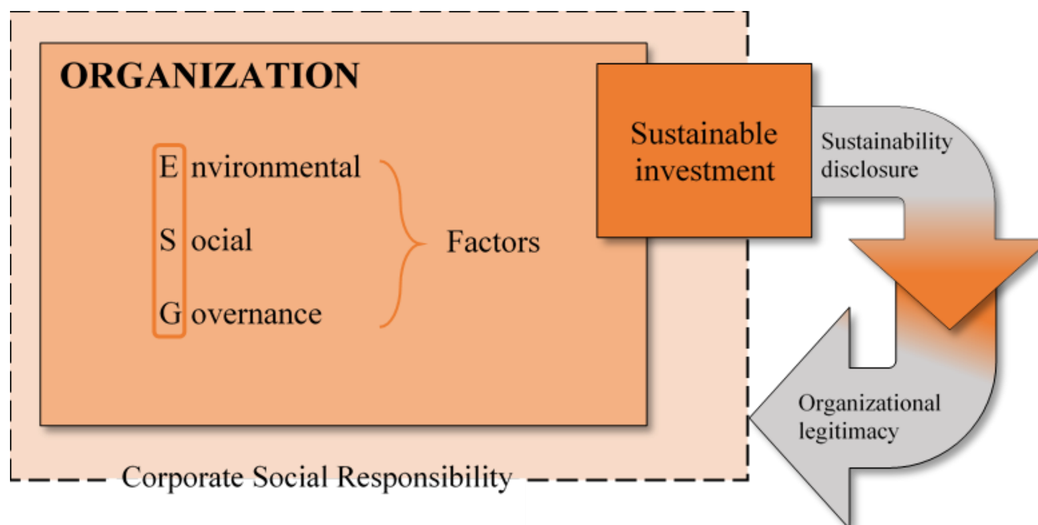

Figure 1 Theoretical framework

The most relevant concepts in this research are organizational legitimacy, corporate social responsibility, ESG, and sustainable investment, all of which are explained in detail later in the study. Additionally, sustainability disclosure is embedded into sustainability reporting, which is also included in the main concepts of the study.

1.6. Structure of the thesis

This paper is structured as follows. After the introduction, this thesis is divided into the theoretical background, Sustainability Finance Disclosure Regulation, research methodology, results, and finally, the discussion and conclusion chapter. The study begins by introducing legitimacy theory, as it is the theoretical foundation for this research. Theoretical background also includes remarks from previous research and in-depth definitions for the most relevant concepts of this study which were introduced in chapter 1.3. The chapter focusing on Sustainability Finance Disclosure Regulation follows the theoretical part of the paper, where the regulation and its relevant Articles are explained in detail to familiarize the reader with SFDR.

The empirical aspect of the paper is covered in chapters research methodology, results, and discussion and conclusion. The methodology covers the analysis method used in the research, mixed methods approach consisting of quantitative and qualitative content analysis, as well as insight on data collection is included in the same chapter. The research is conducted in two parts, analyzing fund reports and interviewing professionals of sustainable equity funds. Thus, the fund prospectus and interviews are presented in their own sub-chapters in both research and methodology, as well as results to help the reader separate the two parts of the research. The final chapter of the paper is the discussion and conclusion, which provides the most significant results and the general view of the study and its results, finally offering suggestions for future research on the subject.

2. Theoretical background

This chapter focuses on the literature background of the study, beginning with defining organizational legitimacy and introducing legitimacy theory as the main theory behind the study. After that, the second sub-chapter introduces the most relevant concept of the study: sustainable investment. Additionally, ESG and Corporate Social Responsibility are presented as crucial concepts under sustainable investment. Finally, a brief overview is provided on sustainability reporting including its division into voluntary and mandatory reporting.

2.1. Legitimacy theory

Organizational legitimacy is one of the key principles in the theoretical framework of this study since it is the foundation of legitimacy theory. It is crucial to define legitimacy and what it represents in this study, due to the ambiguousness of the term. More often than not, legitimacy in an organizational context is vaguely defined, the focus being on invoking legitimacy instead (Idowu et al. 2013).

The definition of organizational legitimacy begins with the following question: what kind of an organization is legitimate? Legitimacy has a straight link to the surrounding society since organizations do not exist in a bubble (Fernando & Lawrence 2014; Jeong & Kim 2019). Due to this, organizational legitimacy is external by nature. The properness or appropriateness of an organization's actions depends on the general social order, which is only logical since the stakeholders of the organization are the ones deciding if it is *"good"* or not. Digging deeper, stakeholders gain their knowledge and opinion from the society they live in. This study follows Suchman's (1995, p. 574) definition of legitimacy: "Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." In this study, the most important values have to do with ESG factors, in other words, a socially constructed – and scientifically supported – belief that the well-being of all

humans and nature across the globe must be supported. A legitimate organization takes all corporate social responsibilities into consideration in its actions, and this promise is evidenced by implementing and improving its sustainability disclosures (Idowu et al. 2013).

Next, let's conceptualize organizational legitimacy into legitimacy theory: a theoretical approach to explain organizational behavior in adopting and improving sustainability disclosure of information. Legitimacy theory is among the main social and political theories explaining Corporate Social Responsibility actions of organizations that include a wide spectrum of stakeholders (Deegan 2006; Fernando & Lawrence 2014). The theory assumes that the sustenance of a successful organization obligates ensuring that the organization operates in consonance with the expectations of the society (Deegan 2006).

Legitimacy stands at the intersection between an organization and its institutional environment: individual organization cannot be a source of legitimacy by itself (Jeong & Kim 2019). As stated previously when defining organizational legitimacy, legitimacy is linked with society surrounding the organization. According to legitimacy theory, there exists a social contract between an organization and the society (Deegan 2006). Said contract determines if an organization functions in agreement with the norms and values existing in the surrounding society, or not (Rayman-Bacchus & Crowther 2016). Sustainability can be seen as a norm: organizations are expected to act in a manner that preserves and improves social and environmental sustainability. Understandably, society demands assurance from organizations to provide information that the norms and values are met and respected in their actions (Fernando & Lawrence 2014). This is where sustainability disclosures come into the picture.

Operating in line with the various norms and values of a society can be challenging for organizations due to the complexity and vast quantity of society's expectations. Furthermore, these expectations are constantly changing and evolving, and organizations are required to follow and meet these changes in their operations. Failing at this leads to a legitimacy gap between the organization's behavior and the social contract (Deegan 2006). If an

organization fails to meet its expectations, its legitimacy suffers and in the worst case, it is deemed as illegitimate in the eyes of the society. In the financial market, the problematic behavior often entails increasing the sustainability risks of investments.

An organization's stakeholders are affected by the totality of its choices, which is why the organization carries the responsibility for its actions to the stakeholders. The level of Corporate Social Responsibility is linked to organizational legitimacy since CSR provides a clear representation of the organization's responsibilities. In the context of sustainability reporting, stakeholders create pressure on organizations to provide sustainability disclosures, thus improving transparency and gaining the trust of the stakeholders.

Sustainability reporting has a long history of being categorized as non-financial reporting of organizations since it provides information that cannot be disclosed through traditional financial reporting. Overall, reporting is required in order for the stakeholders, for example, investors, to gain valuable information on the organization. Sustainability reporting incorporates a wider variety of information for more stakeholders, providing a more comprehensive disclosure of information regarding the effects of the organization's actions.

Categorization inside the concept of sustainability reporting can be done through the required level for the reporting: mandatory and voluntary sustainability reporting. The level of mandatory sustainability reporting is rising, proven by the emergence of new legislation in the EU, including the Sustainable Finance Disclosure Regulation and its predecessors. Results in several studies validate that legislation on sustainability reporting increases both the quantity and quality of reports, thus legally obligatory sustainability reporting has proven its efficiency and impact (Chelli et al. 2014; Carini et al. 2021; Carini et al. 2019; Habel & Wolniak 2015). Adversely, voluntary reporting is a strategic tool used in organizations to improve their image with reports that are not mandatory. Despite the categorization between mandatory and voluntary, both types of sustainability reporting are innated from the same notion that organizations must disclose all information regarding their operations affecting the society, which improves the organizational legitimacy of the reporter.

Involuntary sustainability reporting is demanded by governmental or international legislation, whereas voluntary sustainability reports are provided usually due to pressure from stakeholders. This pressure intensifies greatly in surprising occasions where the sustainability of environment or society is at risk, which often leads to an increase in an organization's sustainability reporting (Deegan, Rankin & Voght 2000). Albeit it has been studied that organizations have – at least had - a tendency in the past to highlight positive sustainability news and give less weight to negative information, as seen in Finland during a period in the 80s and 90s (Niskanen & Nieminen 2001). Also, a competing vision is that organizations in high sustainability risk industries can have a tendency to decrease their sustainability reporting, which interestingly could have a legitimizing effect (de Villiers & van Staden 2006). Nowadays organizations understand the value of transparency in surprising events with high sustainability risks: refraining from disclosing the information leads to further damage to its image in an already disadvantageous situation. Bearing in mind that stakeholders are entitled to an organization's sustainability information not only in times of sustainability crisis but at all times. This supports the rising emergence of legislation on sustainability disclosures. (Deegan et al. 2000)

Legitimacy theory can be applied to mandatory sustainability reporting. Regulation on sustainability reporting can be treated as a socially constructed system of values and beliefs (Chelli, Durocher & Jasques 2014). Integrating sustainability into legislation underlines the fact that maintaining and improving sustainability has gained a robust position in society's values. Similar to voluntary reporting, the organization's reasoning behind its mandatory sustainability disclosures lies within meeting the expectations of the society rather than complying with legislation merely because *"it is the law"*. Since it can be expected that regulations are constructed from the basis of the concerns of the general public, sustainability disclosure regulation represents a social contract. By complying with legislation, organizations support their legitimacy. (Chelli et al. 2014)

2.2. Sustainable investment

Traditionally investing is based on modern portfolio theory, in which the selection of investment opportunities is driven by the intent to maximize overall returns within the selected level of risk (Markowitz 1959). Traditional risk-return assessment is behind all investments, but where traditional theories fall short, is taking into account the external effects of investing, such as ecological and social effects. In the never-ending drive for efficiency, investors are designed to fail in the sustainability of their choices when trusting the old faithful investment theories.

As the social and environmental consciousness of investors has risen, traditional investing strategies and theories have been criticized for not considering the effects the investments have on sustainability, creating a need of differentiating “good” investments from the “bad” ones – sustainability-wise. This resulted in the birth of the term sustainable investment, which has been used quite liberally in both academic literature and company material. Regardless, there are commonalities in the variety of definitions provided for sustainable investment. Often the explanations include mentioning ESG factors in some format, differing in the extent to which those factors must be met in the investment. (Haigh 2012)

The most official definitions can be found in legislation. One of the most recent definitions created by the EU can be seen in Regulation 2019/2088, which defines sustainable investment through two different types of targets, following in the lines of ESG factors explained in the next sub-chapter. What makes an investment sustainable is its contribution to 1) environmental objective or 2) social objective. The environmental objective must be measured in order to gain evidence on the objective at hand, whereas the social objectives can include tackling inequality, fostering social cohesion, or furthering labor relations, yet there is no claim for measurement. What differentiates this definition from ESG factors is the fact that Regulation 2019/2088 requires good governance practices in addition to the environmental or social objective of the investment, contrary to the equal tripartition of ESG. European Commission covers sustainable finance by linking sustainable investment decisions to ESG considerations. (SFDR 2019)

Even though this study follows the definition provided in the new regulation to its fullest extent, it is crucially important to see and understand the interpretations of sustainable investment also outside legislation. This helps to justify the importance of the research questions of this thesis, and it highlights the fact that the vocabulary for sustainability is not yet established, especially in the context of finance. Studying sustainable investment options through qualitative analysis requires a deep understanding of the terminology at hand.

United Nations supports the Principles of Responsible Investment (PRI) initiative in its work towards establishing sustainability in investment decision-making and defining clear principles for implementing sustainability (PRI 2022). The six principles provided by PRI are the foundation for the variety of definitions for sustainable investment, including the one provided in this study. These principles can be used to break down the concept of sustainable investment in a concise manner into practical implementation points. Since this research studies also the implementation of SFDR, it holds significance to comprehend the Principles of Responsible Investment in organizations such as fund management companies.

Principle 1:

We will incorporate ESG issues into investment analysis and decision-making processes.

Consideration of ESG issues recurs in definitions for sustainable investment. Comprehending the true meaning of ESG is essential in understanding sustainable investment since the two are profoundly interconnected. Even though the vast number of metrics used in sustainable investment underlines meeting the first principle, critique on their usability and extent has been offered in prior research (Popescu et al. 2021).

Principle 2:

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Another perspective for ESG issues is through ownership, including both investors and investment providers such as fund management companies. Private investors trust the word *"sustainable"*, thus trusting the financial service providers when the products they offer include such wording in their website, fund prospectus, and other disclosures. Fund management companies carry a responsibility when naming their products not to mislead investors.

Principle 3:

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Thorough incorporation of ESG issues extending to the investment objects is the basis for sustainable investment funds due to their nature as a financial instrument. Fund managers must constantly analyze the sustainability information disclosed by the individual investments included in the fund, and take appropriate action to change the investment structure when needed to ensure the sustainability level of the fund. This principle has a clear connection to Sustainable Finance Disclosure Regulation since it enables more opportunities for investors to seek uniform information on ESG issues through legislation.

Principle 4:

We will promote acceptance and implementation of the Principles within the investment industry.

Carrying a broader responsibility is essential when implementing sustainability in investment to avoid the perception of greenwashing in the public eye. Promoting Principles of Responsible Investment within the industry helps corporations to carry their social responsibility and put pressure on the surrounding investment environment to ensure receiving more ESG information on their investments.

Principle 5:

We will work together to enhance our effectiveness in implementing the Principles.

Working together creates a distinct connection to the fourth principle of promoting the PRIs, offering a more practical perspective. Enhancing the effectiveness of the previous principles can be done by developing the operations used in ESG valuation and sharing the gained information publicly.

Principle 6:

We will each report on our activities and progress towards implementing the Principles.

One of the recurring aspects in defining sustainable investment is measurability, as challenging as it seems to be in the financial industry, as proven by recent studies (Popescu et al. 2021). Regulation 2019/2088 specifies that the environmental objective the investment contributes to must be measured by a suitable indicator, thus supporting the sixth principle.

ESG

The acronym ESG stands for the three major factors in sustainable investment: environmental, social, and governance. In the past, these elements have not been considered in investment strategies, due to their intangible nature and difficulty to quantify. The first approach to sustainable investing dates back to the 1960s, when socially responsible investing (SRI) was adopted by the civil rights movement. SRI paved the way for a more profound integration of sustainability issues in investment, what would be later known as ESG and used as a foundation for a large portion of other sustainable finance vocabulary. How ESG differs from its predecessor, is the comprehension and a more specific perspective of what is deemed as responsible investing. While SRI is based on an avoidance strategy of refraining from investments with negative screening, ESG focuses on adding value through directing cash flow to investments with positive effects on sustainability, thus progressing from passive operation to active support towards sustainable investment. (Caplan, Griswold & Jarvis 2013)

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a key term in the sustainability paradigm, with distinct connections to previously explained terminology. European Commission (2011) defines CSR in the EU strategy for Corporate Social Responsibility as “the responsibility of enterprises for their impacts on society”. These impacts include social, environmental, ethical, human rights, and consumer concerns – a broader and more defined outlook on responsibility than for example in ESG. As the name suggests, Corporate Social Responsibility is company-driven, which is recognized in essentially every definition available, including the one from European Commission (Carrol 1991; Idowu, Capaldi, Zu & Gupta 2013; Rayman-Bacchus & Crowther 2016; SAGE Publications 2012). Another inbuilt feature in CSR is practicality. Corporate Social Responsibility denotes not only a philosophy but a set of means with which to obtain said responsibility (Idowu et al. 2013). Carrol (1991) introduces a pyramid dividing CSR into four distinct groups, which represents a categorical view of the impact enterprises have on society. The pyramid is presented below in figure 2.

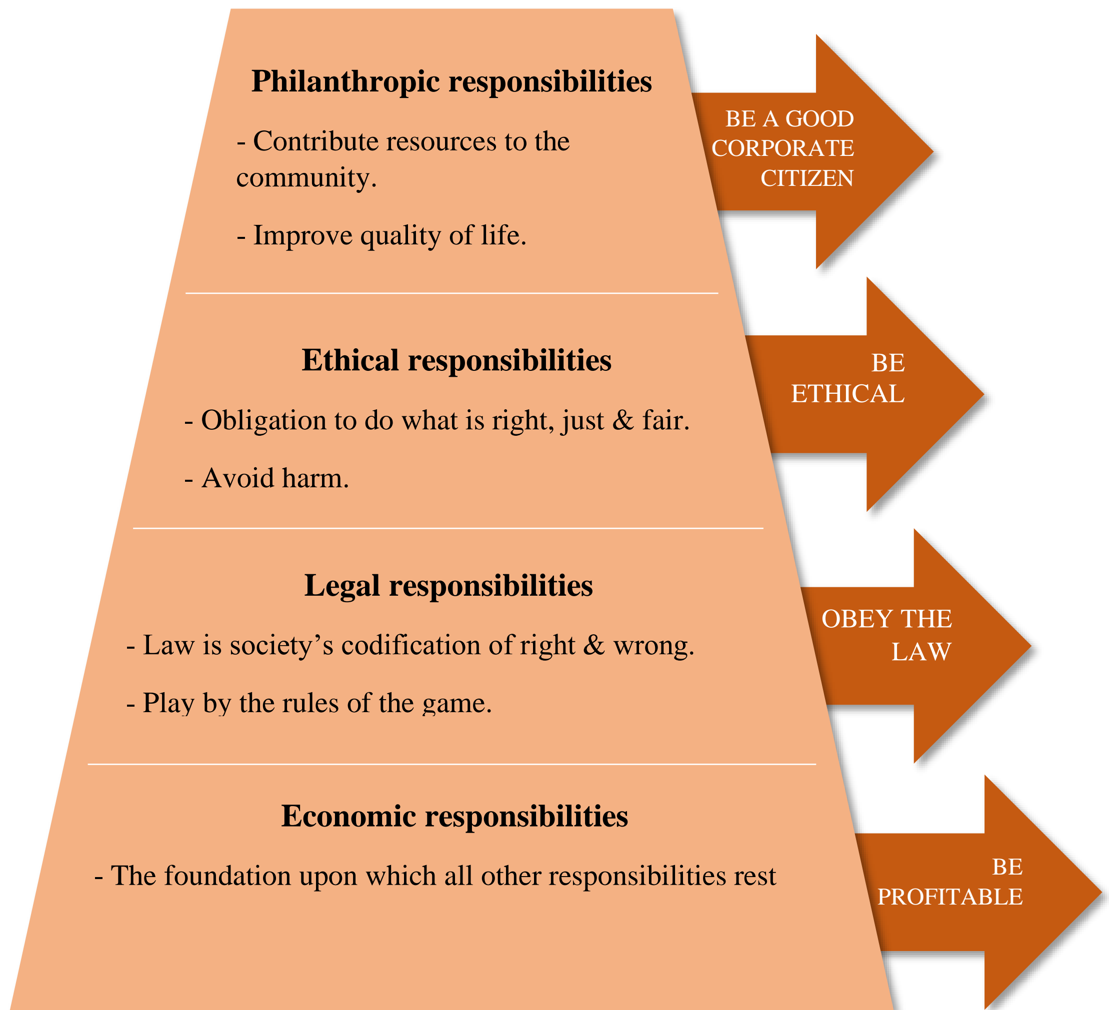

Figure 2 Corporate Social Responsibility pyramid (after Carrol 1991).

The Corporate Social Responsibility pyramid both categorizes the different responsibilities companies have and creates an order of them laying on top of each other. The analysis of the pyramid begins from the bottom, gradually proceeding upward. Economic responsibilities forms a foundation of all the front-coming responsibilities. "Be profitable" is the foundation for all economic activity, without which companies plainly cannot function. Legal responsibilities come second. As business is subject to regulation and legislation, obeying the law is a natural next step in determining the responsibilities of enterprises. Legislation and corresponding regulation can be seen as the rules of society, thus neglecting the obedience is equal to disagreeing with the surrounding society (Chelli et al. 2014). The lower the responsibility lays in the pyramid, the more foundational its effect is in CSR, supporting

the importance of regulation in corporate action since it is the second-lowest category. After the legalities are settled, the next responsibilities are in ethics. Even though disobeying the law can be described as unethical, ethicality expands widely outside regulation, due to the fact that law cannot cover all possible scenarios of its jurisdiction. Ethical responsibilities in CSR are driven by the desire to avoid harm, whereas philanthropic responsibilities on the top of the pyramid are founded on the urge to actively promote goodwill or human welfare. Naturally, philanthropy is voluntary for enterprises, albeit in today's business environment the want to do good is expected as a presumption. At the very least, it is expected that companies declare truthfully their effects on the surrounding society and that the effects are mitigated on some level. (Carrol 1991)

3. Sustainable Finance Disclosure Regulation

This chapter has a focus on elaborating on this study-specific Articles of Sustainable Finance Disclosure Regulation, as well as its connections to other essential EU legislation and international treaty. The official legislative act is presented to analyze fund management companies' implementation of Articles 6, 8, and 9 on the empirical part of the study.

3.1. Articles 6, 8 and 9

According to SFDR, investment funds among other financial instruments can be divided into three categories differing in the inclusion of sustainability risks, thus creating an order for funds from least to most sustainable. Each Article 6, 8, and 9 present requirements for funds' transparency on sustainability matters. For funds to be deemed as following Article 8, they must additionally follow the prior Article 6. Continuing the same paradigm, in order for a fund to follow Article 9, it must furthermore follow the previous Articles 6 and 8.

Article 6 is titled "Transparency of the integration of sustainability risks", which places demands on all financial market participants to follow – regardless of their interest in profiling as a sustainable player in the market. The Article demands descriptions of sustainability risk integration to be provided prior to a contract. The legislation is unambiguous with specifying the timing when the descriptions must be provided, however, it is left undefined where and in what form must the information be offered, leaving room for interpretation. More precisely, investment funds – as well as other financial market participants – are required to provide "the manner in which sustainability risks are integrated into their investment decisions" to answer the question of how sustainability risks are acknowledged in their investments. Additionally, they must disclose the assessment results of the effects the previously provided sustainability risks have on the returns of the fund, forcing investment funds to not only recognize, but to analyze their sustainability risks. The ground-breaking detail in the Article is the requirement to clearly and concisely explain if the said sustainability risks are deemed irrelevant for the investment. All investment funds

must follow Article 6, meaning that also all funds with no special effort in sustainability factors have to provide reasoning on the reasons therefor. (Sustainable Finance Disclosure Regulation 2019)

Proceeding to Article 8, which has a focus on the transparency of the promotion of environmental or social characteristics in pre-contractual disclosures. Quite literally, this Article must be followed by investment funds promoting the inclusion of ESG factors. Firstly, the funds must disclose how the promoted ESG characteristics are met, again leaving room for interpretation on the extent and form of said information. The legislation takes notice of the variety of sustainability indexes being used as a reference benchmark in sustainable investment since the Article places more specific requirements on disclosing information on indexes: consistency of the index with regards to the ESG characteristics of the fund must be analyzed, as well as the methodology used in calculating the index must be provided. (Sustainable Finance Disclosure Regulation 2019)

Purely sustainable investments are processed in Article 9, which includes the largest number and the strictest requirements for investment funds and other financial market participants. The funds that follow Article 9 have sustainable investment as their objective and often they have an index designated as a reference benchmark. Similarly to Article 8, the disclosure must include information on how the index is aligned with the funds' sustainability objective and on the methodology of the calculation of the index, with added information on the differences between the designated index and a broad market index. When an index is not used, the fund must disclose an explanation of the alternatively used manner of how the sustainability objective is accomplished. The regulation recognizes the increased popularity of using reduction of carbon emissions as an objective of financial market participants. Article 9(3) defines that in such cases, the disclosure must include information of said objective with regards to achieving the long-term global warming objectives in the Paris Agreement, creating an apparent connection to the agreement. (Sustainable Finance Disclosure Regulation 2019)

3.2. Connection to the Paris Agreement

As stated in the previous sub-chapter, Sustainable Finance Disclosure Regulation has an indisputable reference to the Paris Agreement, the first of its kind universal lawfully binding agreement on climate change. The agreement parties include the majority of developed countries around the world, including the EU and its Member States. In the framework of this study, the focus is on Finland and the EU as a whole, also due to the specifications of SFDR.

The agreement and SFDR are unquestionably linked through the subject of reducing carbon emissions, one of the most common sustainability objects of sustainable investment funds. Article 6 of the Paris Agreement contains joint approaches to reaching the determined reductions on carbon emissions, through which the agreed long-term goals of avoiding dangerous climate change can be reached. The succession of this avoidance is set to two main limits: the rise of global average temperature must be kept well below 2°C above pre-industrial temperature levels, preferably below an increase of 1.5°C.

The legislative text of the Sustainable Finance Disclosure Regulation includes several references to the Paris Agreement, beginning from the target of the regulation, where the transition to a low-carbon and more sustainable economy is noticed. SFDR cites the agreement directly by reproducing the previously mentioned global average temperature limits. Interestingly, the EU regulation can be seen as a vehicle for the targets of the Paris Agreement to be facilitated inside the European Union with cohesion between Member Countries. The regulation recognizes the possibility for divergence inside the Union in the interpretation and implementation of the Paris Agreement, thus defending and justifying the demand for inter-European sustainability regulation. Additionally, creating a thorough and trend-setting regulation on sustainability disclosures in the financial market goes in line with the EU's reputation as one of the leading forces to combat climate change globally. (Sustainable Finance Disclosure Regulation 2019)

3.3. Connection to Directive 2014/65/EU Article 24 (4)

As stated previously, Sustainable Finance Disclosure Regulation is not the first EU legislation requiring companies to disclose information on their corporate sustainability reporting. SFDR is preceded by directive 2014/65/EU, also known as MiFID 2 (Markets in financial instruments directive 2) which serves partly the same purpose as SFDR, but with a focus on investment services. Fundamentally the two share a similar goal of improving the responsibility of businesses and protection of investors by standardizing practices across the EU.

SFDR Article 6 (3h) references directly to MiFID 2 by stating that the required sustainability information must be disclosed in accordance with MiFID 2 Article 24 (4). Said Article includes more specific requirements on the disclosed information. Investment firms offering investment advice must identify their potential investors' individual sustainability preferences and include that information in their investment advice. MiFID 2 Article 24 (4) states that the sustainability disclosure must include information about the risks associated with the investment – including sustainability risk. The risk information must be offered on an individual investment level of the fund or with respect to the chosen investment strategy – including sustainable investment strategy (MiFID 2 2014). A sustainable investment strategy can be determined by the sustainability preferences of the potential investor. Duarte and Matias (2022) define characteristics associated with investors' sustainability preferences. They state that the potential investor can choose a minimum proportion which will be invested in sustainable investments as SFDR defines, or the potential investor can determine to consider "principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration".

SFDR and MiFID 2 together produce two conditions for the practice of advising investors with sustainability preferences. Firstly, if the investment fund follows SFDR Article 6, and thus is not promoting environmental or social responsibility, the fund cannot be sold to a sustainable investor. Secondly, if the investment fund follows SFDR Article 9, meaning it

aims for sustainability in its investments, the fund can be sold to a sustainable investor. (Duarte & Matias 2022)

However, in addition to the unifying factors between SFDR and MiFID 2, there exists also difficulties in combining the two legislations. The difficulties interesting to this study have to do with SFDR Article 8 and investors with sustainability preferences. Investment funds following Article 8 cannot be defined as purely sustainable, nor not promoting sustainability in their actions, leaving them floating in the middle of Articles 6 and 9 with more definition. These funds can equally either choose to follow or not sustainability preferences, resulting in a heterogenic group of investment funds, even though SFDR tries to categorize financial products into distinct groups. This difficulty relates to MiFID 2 through the aspect of investment advice provided in the fund report and elsewhere. If the investment fund follows SFDR Article 8, it cannot be stated with certainty if the fund can be sold to sustainable investors (Duarte & Matias 2022). More information and analysis are needed on the fund's sustainability characteristics in order to define its suitability for investors following a sustainable investment strategy.

4. Research methodology

This chapter includes both the methodology and how it is used in the research. The first sub-chapter is devoted to introducing the methodology used in the empirical part of the thesis. Content analysis is used to analyze both the fund reports and the interview data from fund managers, and also a multiple case study method is recognized as fitting for the second part of the research, which is interview analysis. The following sub-chapters aim to explain *how* the content analysis was conducted for fund reports in the first part of the research, and for interviews in the second part. We continue by introducing the research setting and design that the research follows. After that, individual sub-chapters are devoted to the two data types: fund reports and interview data. Data description and data analysis are provided separately for fund reports and interviews.

4.1. Content analysis

The family of analysis methods used in this research is content analysis, in its both quantitative and qualitative forms. Whilst remaining in content analysis, due to the differences between quantitative and qualitative analysis methods, this study can be treated to be using a mixed methods approach. However, let's begin with defining content analysis and its similarities shared in both quantitative and qualitative data.

Starting with data, the subject of content analysis is written text, which is analyzed based on the language used - hence the name *content* analysis. Research data can be pre-existing in a variety of forms: annual reports, written information on websites, books, research Articles, etc. Additionally, verbal discussion can be analyzed with content analysis by transcribing the exchange of words into a written format. (Weber 1990) Content analysis can be described to stand at the intersection of quantitative and qualitative research methods since it can be further divided into quantitative and qualitative content analysis methods (Duriau, Reger & Pfarrer 2007). Due to this, the analysis method can be used for both fund prospectus data and interview data in this study. After the research data has been gathered through chosen

methods, it can be studied from three different perspectives: the speaker of the text, the text itself, or the receivers of the text (Weber 1990). Central in the method is realizing the significance language has in human cognition (Sapir 1944; Whorf 1956). This study focuses on the text and its message in both fund prospectus data and interview data.

Quantitative and qualitative content analysis methods begin to differ as research methods after the data has been gathered. Conducting quantitative analysis begins with defining content categories relevant to the study, into which the words in the written data are then systematically classified. This classification enables the researcher to actualize the importance of the different categories with respect to each other and individually. The size–relevance ratio of a content category depends on the purposes of the researcher and the type of the research. In a comparative research such as this one, the research subject with a higher number of words in the content category must be deemed as more relevant in said category. (Weber 1990; Neuendorf 2002) Quantitative content analysis is used in this research to analyze fund prospectus data of sustainable equity funds, in order to obtain an overview of the content of the reports from the perspective of the Sustainable Finance Disclosure Regulation. Following the outline of quantitative content analysis, SFDR is utilized in the creation of content categories.

Especially in the mixed methods approach, qualitative content analysis is used to dig deeper into the knowledge obtained first through quantitative methods (Polizzi 2022). Usage of both quantitative and qualitative methods increases the credibility and validity of research, providing support for a mixed approach. The qualitative content of research data can be studied through thematic analysis, where the data is coded into explicit expressed values. This is implemented by taking text and first highlighting the keywords, which then become the codes assigned to the text. Some codes will repeat in the text, indicating uniting factors in data. (Espedal, Lovaas, Sirris & Wæraas 2022) An adaption of thematic analysis is used in this research when analyzing the fund prospectus data, as well as interview data.

Content analysis has been a widely adopted method of research in the field of organizational study - and more specifically sustainability reporting research (Chelli et al. 2014; Deegan et al. 2000; Carini et al. 2021; Jose & Lee 2007). The reason behind its popularity lies in content analysis' ability to access the values and intentions of text in an easily replicable manner. This has opened possibilities in organizational research when studying company values, mission, or communications, just to name a few. The acceptance of content analysis in sustainability reporting studies is understandable due to a need for a qualitative method to navigate in the heterogenic mass of sustainability reports, especially voluntary ones. Report texts also include an abundance of unestablished language, thanks to the undefined nature of sustainability matters. This creates a need for analyzing the choices of words used in sustainability reporting.

In addition to a mixed method content analysis, this study can be categorized partly as a multiple case study. This research method applies to the second part of the research, which is semi-structured interviews with sustainable investment professionals from fund management companies. Additionally, the main research question of this thesis is suitable for the case study method: *how* does SFDR affect the legitimacy of sustainable equity funds in Finland? Especially "how" questions have a suitable form for a case study since it is used to study in-depth contemporary phenomena (Yin 2014; Farquhar 2012). The legitimacy of organizations can be seen as a characteristic that has a level that can differ from yesterday to today, thus supporting the use of a case study method. Another important distinction regarding the case study method is that it has a focus on real-life context (Yin 2014). Studying legitimacy effects from a regulatory perspective provides the needed context and link to real life. Lastly, since different fund management companies are represented in the interviews, they can be treated as separate cases. Different funds are analyzed both individually and in relation to each other to gain an understanding of the state of sustainable equity funds. Regardless of this aim of the research, the analysis is conducted on a fund level, thus indicating multiple individual cases. We can conclude that the interview analysis fits the description of a multiple case study.

4.2. Research setting

As stated in the introduction, the purpose of this research is to examine the legitimacy effects of the Sustainable Finance Disclosure Regulation in Finnish investment funds, thus how does SFDR affect the rightfulness and social appropriateness of those funds. Information on investment funds is gathered through two distinct channels: fund prospectus and interviews with fund managers. Fund reports are analyzed first to gain an understanding of how the new regulation, more specifically Articles 8 or 9, is implemented in the reports and how they disclose required sustainability information. This analysis also sheds light on the differences and similarities between funds following either Article 8 or 9, a comparison of which is one of the interest points in this thesis. Fund reports are utilized to answer the following research sub-questions: how is the sustainability information required in Article 8 or 9 implemented in the fund prospectus and what are the main differences between funds in accordance with Article 8 and 9.

After the initial information is gained from the analysis of fund reports, said information is processed to dig deeper into the sustainability of the funds in the context of legitimacy. The previously conducted fund report analysis is utilized to define interview questions for the fund managers of those funds especially. In the second part of the research, interviews are used to gain more knowledge and answers to the questions raised from the fund report analysis, thus intensifying the research. Multiple case study design is used by collecting and analyzing interview data from five professionals from four fund management companies. Results of the interviews are analyzed to reveal similarities and differences between the fund management companies. The most important research sub-question answered through interview analysis is how sustainable equity funds are used to improve legitimacy, whereas also the differences between funds following either Article 8 or 9 and the implementation of SFDR are also addressed.

Data for content analysis can be gathered through a variety of means. As stated previously when explaining the method, the data used must be in a written format. However, this does not limit collecting the data into existing written text only, since transcribing can be done to

forge oral discussions into a written format of data (Weber 1990). Due to this, using the same methodology in both fund reports and fund manager interviews is viable.

4.3. Fund prospectus

This sub-chapter has a focus on the first part of the research, analyzing fund reports of Finnish sustainable equity funds. First, the fund prospectus data is presented, including the selection and limitation of the funds. After the data was collected, both quantitative and qualitative content analysis methods were used in the analysis.

Gathering fund prospectus data started with gaining an overall understanding of the market for sustainable investments in Finland. Data on Finnish investment funds was retrieved to gain a perspective of the size and complexity of the market. The size of the overall investment fund market in Finland is 909 individual funds reported to the national financial supervisor at the beginning of 2022. This list was then reprocessed to include only those investment funds that could be deemed sustainable. The reprocessing was conducted using a brief analysis of the fund names. Sustainable investment funds are typically named with using sustainability-related words, such as fossil-free, ESG, development, etc. This analysis was supported by examining the largest fund management companies' catalogs to identify more sustainable funds. Some limitations were made regarding equity funds following SFDR Article 8: selection was limited to a sample of a few funds from five individual fund management companies. As a result, 33 sustainable investment funds were recognized in the Finnish market in total. In order to ensure comparability of the funds, fund type was limited to equity funds only due to the differences of for example corporate bond funds. Fund data was deducted into 23 sustainable equity funds, creating one limitation to the study. Thus, the final sample size for this study is 23 funds. Identification information of the funds can be seen later in table 2.

After the subject of this study, the sustainable equity funds were recognized, the next step was to gather the fund prospectus of each fund. Fund management companies have a few

different techniques in offering fund reports of the funds they manage. Some choose to offer an individual report for each fund, whereas larger companies tend to provide a singular fund report including information on every investment fund they offer. The fund reports were obtained from each fund management company's website in pdf form. The fund management companies behind the 23 sustainable funds were S-Pankki Rahastoyhtiö Oy, OP-Rahastoyhtiö Oy, Nordea Investment Funds S.A., Seligson & Co Rahastoyhtiö Oyj (customer service managed by LähiTapiola Varainhoito Oy), Evli-Rahastoyhtiö Oy and eQ Rahastoyhtiö Oy. The sample of 23 funds used in this study are managed through the largest companies in the market, most of which have chosen to use a joint method of representing fund reports in one extensive report file. Only one fund management company uses individual fund reports for their funds. Both methods combined leads to a total of six fund report documents to examine in this analysis. The language of the reports was Finnish.

Initial information on each equity fund was obtained through manual analysis of the fund report and if needed, the website. The first subject of the investigation was if there was direct information about the SFDR Article the fund follows. In other words, does the fund report mention that the fund follows Article 8 or 9. This information was retrieved primarily from the fund report, using the website as a secondary source. Direct information on the Article was found in 16 funds, which is nearly 70 % of the total sample. All 7 funds without direct mentioning of SFDR Articles belonged to the same fund management company. For these funds, information on which Article they follow was obtained through analyzing the contents of the fund report. The primary indicator for using Article 9 was that it was clearly mentioned that the objective of the fund is sustainable investment. Since there were no clear indicators for this in any of the remaining seven funds, they were all categorized to follow Article 8. The next initial information to gather was if the fund uses an index as a reference benchmark, as explained in chapter 3 Sustainable Finance Disclosure Regulation. Again, the fund reports were analyzed and as a result, all 23 equity funds use an index. Table 2 shows a table of the fund sample with name identifiers and initial information introduced previously. Gathering initial information was followed by the content analysis of the fund reports, which is explained in detail in sub-chapter 4.3.1.

Table 2 Sample of sustainable investment funds used in this study

Fund name	Fund management company	SFDR Article	Index
S-Pankki Fossiiliton Eurooppa ESG Osake	S-Pankki Rahastoyhtiö	9	MSCI Europe Climate ParisAligned Net EUR
S-Pankki Kehittyvät Markkinat ESG Osake	S-Pankki Rahastoyhtiö	8	MSCI Emerging Markets Daily Net TR EUR
S-Pankki Passiivinen Eurooppa ESG Osake	S-Pankki Rahastoyhtiö	8	MSCI Europe Climate ParisAligned Net EUR
LähiTapiola Eurooppa Keskisuuret ESG	Seligson & Co Rahastoyhtiö Oyj	8	Morningstar Developed Europe Mid Cap Target Market Exposure NR EUR USD
LähiTapiola Hyvinvointi ESG	Seligson & Co Rahastoyhtiö Oyj	8	Morningstar Developed Markets Target Market Exposure NR USD
LähiTapiola Kasvu ESG	Seligson & Co Rahastoyhtiö Oyj	8	Morningstar Developed Markets Target Market Exposure NR USD
LähiTapiola Kehittynyt Aasia ESG	Seligson & Co Rahastoyhtiö Oyj	8	Morningstar Developed Markets Asia Pacific Target Market Exposure Select
LähiTapiola Kuluttaja ESG	Seligson & Co Rahastoyhtiö Oyj	8	Morningstar Developed Markets Target Market Exposure NR USD
LähiTapiola Pohjoismaat ESG	Seligson & Co Rahastoyhtiö Oyj	8	VINX Benchmark CAP Net Index EUR
LähiTapiola USA Keskisuuret ESG	Seligson & Co Rahastoyhtiö Oyj	8	Morningstar US Mid Cap Target Market Exposure NR USD
Maailmanlaajuiset Tähdet BP	Nordea Investment Funds, Luxembourg	8	MSCI ACWI Index (Net Return)
Pohjoisamerikkalaiset Tähdet BP-EUR	Nordea Investment Funds, Luxembourg	8	Russell 3000 Index (Net Return)
European Stars Fund BP	Nordea Investment Funds, Luxembourg	8	MSCI Europe Index (Net Return)
Pohjoismaiset Tähdet BP	Nordea Investment Funds, Luxembourg	8	MSCI Nordic 10/40 Index (Net Return)
Kehittyvät Tähdet BP	Nordea Investment Funds, Luxembourg	8	MSCI Emerging Markets Index (Net Return)
Aasialaiset Tähdet A	Nordea Investment Funds, Luxembourg	8	MSCI All Country Asia Ex. Japan – Net Return Index
OP-Ilmasto -sijoitusrahasto	OP Varainhoito Oy	8	MSCI World Climate Paris Aligned
OP-Puhdas Vesi -sijoitusrahasto	OP Varainhoito Oy	8	S&P Gb Water USD NTR
OP-Vähähiilinen Maailma -sijoitusrahasto	OP Varainhoito Oy	8	MSCI ACWI Low Carbon Leaders Net USD
Evli Suomi Select	Evli-Rahastoyhtiö Oy	8	OMX Helsinki Cap GI
Evli GEM	Evli-Rahastoyhtiö Oy	8	MSCI Emerging Markets TR Net (USD)
Evli Maailma X	Evli-Rahastoyhtiö Oy	8	MSCI World TR Net (USD)
eQ Sininen Planeetta	eQ Rahastoyhtiö Oy	9	MSCI World Equity Net Return

Choosing, collecting, and limiting fund prospectus data resulted in a presentable sample of sustainable equity funds registered in the Finnish market. Fund reports were analyzed using both quantitative and qualitative content analysis, starting with the quantitative testing of the data to gain an initial understanding of the sustainability content of fund reports.

Studying the Sustainable Finance Disclosure Regulation regarding the Articles relevant to this research resulted in a selection of words indicating the information required by the regulation. Thus, content categories were established to analyze the content of fund reports in a quantitative manner. The terms recognized to describe SFDR were reference index, ESG, sustainability risk, carbon, Paris Agreement, sustainability, SFDR, responsible, 2019/2088, responsibility, environment, society, and governance. Due to the previously mentioned nature of fund reports in large corporations, quantitative content analysis was conducted for both individual information on specific funds in the fund report *and* the general information in the fund report, including all information provided in the document. This helped to gain information on the contents of fund reports in different fund management companies, thus enabling comparison between funds.

Qualitative content analysis provides support for the initial quantitative analysis, extending the information gained from the first analysis. Each fund report was analyzed with regard to the requirements of Articles 8 and 9. The most important question was if the required information was provided in the fund report or not. The qualitative analysis offers an understanding of how the equity funds have implemented sustainability information specifically to fund reports.

4.4. Interviews

The second part of the research was interviewing professionals in sustainable finance from four fund management companies following a multiple case study design. This sub-chapter provides information on the interview data and data analysis used in the latter part of this study.

Prior to the interview process, interview selection was conducted based on the aims and delimitations of the research. Interviewees were pulled from the fund management companies of the same funds used in the first part of this study in order for the interview analysis to reflect the same funds. All five interviewees obtain Finnish citizenship and are each working in one of the said fund management companies, working directly or indirectly with sustainability and equity funds. The selection of interviewees includes both females and males, all of whom have built a career in sustainable finance or investment. Additionally, knowledge of SFDR regulation at some level was a prerequisite for interviewees. This resulted in a range of professionals with a focus on SFDR from different perspectives, such as fund management, sustainability management, fund analysis, or more specifically, ESG analysis.

A list of interview questions was provided for all participants beforehand in order to provide them some time to prepare for the context of the interview better. The interview questionnaire can be found in appendix 4, which included nine questions and a final open question for conversation outside the specified questions. The questions were categorized into four distinct themes: SFDR generally, information requirement of Articles 6, 8 and 9, effects of SFDR, and organizational reliability. Results from the first phase of the study, fund report analysis, were utilized when defining the interview questions. Since not all information required by Articles 8, or 9 was found in fund reports, it was beneficial to ask the interviewees about the whereabouts of the required information. Also, fund report analysis raised the question of what would be the role or significance of fund reports as information sources, which was included in the interview questionnaire. The nature of the interviews was semi-structured, which enables conversation also outside the bounds of the defined interview questions. Thus, other questions and further discussion were encouraged. This was disclosed to the interviewees early on before the interviews.

All interviews were conducted remotely via a video call during March and April 2022. The expected interview time was 25-45 minutes, which realized quite well. Most of the interviews required approximately 45 minutes each, with the exception of one interview that

lasted for nearly 31 minutes. The language of the interviews was Finnish, being the native tongue of all participants. Using the strongest language of both parties in an interview is justified since it helps interviewees feel more comfortable in an interview setting, thus encouraging them to communicate their thoughts more thoroughly. After the data was collected by transcribing, compressing, and categorizing, it was ready for qualitative content analysis.

5. Results

This chapter is dedicated to present the results of the analyses explained in the previous chapter. The aim is to answer questions such as what kind of information was found in the analysis? We begin with the content analysis results of the fund prospectus for both quantitative and qualitative analysis. The next sub-chapter is devoted to the results of the fund manager interviews conducted after the fund prospectus analysis.

5.1. Content of fund prospectus

The research began with analyzing the fund reports of sustainable equity funds through both quantitative and qualitative analysis methods. This sub-chapter about analysis results is divided into two parts, creating a dedicated space for both analysis methods.

5.1.1. Quantitative content

As the content categories were identified and fund report text was scrutinized for them, we gained initial results for the research. The aim was to see if the information required by the Sustainable Finance Disclosure Regulation was disclosed in the fund reports. The results of the quantitative analysis include numerical data on both the fund level and fund management company level. As fund report texts were analyzed for the occurrence of the previously defined keywords, it is crucial to take into account the differing sizes of fund reports. Smaller fund report documents contain less text, resulting in fewer occurrences of the terms. This is notable especially since the fund report data is not uniform among fund management companies.

Table 3 below presents the results of the analysis on a fund management company level. Each value represents the number of times the term occurred in the fund report text. The row TOTAL calculates the sum of the occurrences, thus representing an overall evaluation of the

fund report individually. Individual evaluations are modified into a format more suitable for comparison between different-sized fund reports, which is presented in the last row. The formula for the evaluation row is total occurrences divided by pages.

Table 3. Quantitative content analysis results by fund management company

	S-Pankki	Nordea	Evli	LähiTapiola	OP	eQ fund
index	9	299	25	19	65	7
ESG	115	705	88	260	36	1
sustainability risk	13	331	5	56	6	8
carbon	26	0	14	74	20	7
Paris Agreement	3	59	0	0	0	1
sustainability	20	412	41	232	7	17
SFDR	2	160	17	2	0	1
responsible	45	389	90	20	17	11
2019/2088	3	2	1	11	0	1
responsibility	54	408	107	108	23	21
environment	32	248	24	218	14	9
society	22	210	8	108	7	9
governance	5	180	9	111	4	6
TOTAL	**349**	**3403**	**429**	**1219**	**199**	**99**
pages	33	185	30	101	37	8
EVALUATION	11	18	14	12	5	12

The value of total occurrences differs between fund management companies greatly. Reasons behind this can be found in the length of the fund report documents: Nordea's fund report is the most comprehensive with 185 pages in total, whereas eQ has a singular fund report for eQ Sininen Planeetta fund with 8 pages. Most of the fund report documents are 30-37 pages in length, LähiTapiola falling through the net with 101 fund report pages. Due to these differences, it is more fruitful to examine the modified values that take into consideration different document lengths. Even when modified, Nordea seems to gain the highest score in the quantitative evaluation, from which we can draw an expectation that the funds under Nordea's management follow SFDR regulation thoroughly, whereas OP stands out with the lowest score in the quantitative analysis. This could indicate deficiencies in disclosing SFDR information in their fund reports.

A table of quantitative content analysis results for individual equity funds is provided in the appendices (Appendix 1). Looking at the analysis, the most common words used in fund reports were ESG (208 occurrences), sustainability (119 occurrences), responsibility (112 occurrences), and environment (104 occurrences). Out of the most popular terms, only ESG occurred in every fund report. The least common words are the ones purely connected to legislation: 2019/2088 (2), Paris Agreement (7), and SFDR (16). Identificators for Sustainable Finance Disclosure Regulation, such as its EU act number 2019/2088 and the acronym SFDR, could be the most reliable indicators that the new regulation is addressed in the fund report. The funds with occurrences of the two terms are eQ Sininen Planeetta, S-Pankki Fossiiliton Eurooppa, all six Nordea's funds, and all three Evli's funds. The data sample contains two dark green funds, meaning that they follow Article 9, both of which mention the act number 2019/2088 in their fund reports.

Regarding the analysis by the fund, each fund was given a total score summing the occurrences of all terms in the content analysis, the average of which being 41. Comparing the individual funds, the highest score was obtained by eQ Sininen Planeetta (with a total of 99 occurrences), which was the only fund with a separate fund report. Fund report information on all other individual funds was obtained from the joint fund report of the fund management company. The analysis was conducted only on that part of the document that specifically addressed the fund in question. It must be noted that these joint fund reports oftentimes have general chapters with information related to all of the funds, and this analysis excludes that information. Following eQ with high total scores were Nordea's six funds with total occurrences between 62 and 64. The lowest total scores were found in OP's funds with a total of 4 and 5 occurrences in total.

Values for total occurrences on a fund level were not modified as in the management company analysis due to a more evenly distributed size of the fund reports. Most of the individual fund report texts were one-pagers, with the most distinct exception of eQ Sininen Planeetta. Thus, the results of the analysis are comparable between individual equity funds.

5.1.2. Qualitative content

After the quantitative analysis was conducted, the fund reports were scrutinized more closely through a qualitative approach. The text was analyzed with regard to the chosen Articles of Sustainable Finance Disclosure Regulation to see if the required information was disclosed in the text. As stated previously, funds must choose which Article (6, 8, or 9) to follow, which affects the requirements laid on fund reports. Sustainable funds follow either Article 8 or 9, both of which have a connection to Article 6, which is why all funds must follow Article 6(1). Below table 4 provides a clear representation of the requirements placed in Articles 6(1), 8, and 9.

Table 4. Overview of the requirements in SFDR for sustainable funds

Article n:o	Required sustainability information	Who must disclose the required information
Article 6(1a)	How sustainability risks are integrated into investment decisions	All funds
Article 6(1b)	How sustainability risks likely affect the return	All funds
Article 8(1a)	How the promoted ESG characteristics are met	Light green funds following Article 8
Article 8(1b)	If index is used: how the index is consistent with the promoted ESG characteristics	Light green funds following Article 8 that use a reference index
Article 8(2)	If index is used: information on how it is calculated	Light green funds following Article 8 that use a reference index
Article 9(1a)	If index is used: how it is aligned with the objective of sustainable investment	Dark green funds following Article 9 that use a reference index
Article 9(1b)	If index is used: how and why does it differ from a broad market index	Dark green funds following Article 9 that use a reference index
Article 9(2)	If no index is used: how the goal of sustainable investment is achieved	Dark green funds following Article 9 that do not use a reference index
Article 9(3)	If reducing carbon emissions is set as a goal: how are the objectives of the Paris Agreement reached with it	Dark green funds following Article 9 that specify reducing carbon emissions as their objective

Content of the fund reports was analyzed regarding only the Articles they follow. The most comprehensive results were obtained on Articles 6(1a) and 6(1b) since all 23 funds in the sample must follow said Articles and their requirements. The results stating if the funds follow the requirements or not can be found summarized in two tables in appendices 2 and 3. Next, the most relevant results of the qualitative analysis are presented.

Article 6(1a): How sustainability risks are integrated into investment decisions

All 23 funds disclosed information regarding how they integrate sustainability risks into the investment decisions of the fund. Fund reports contained information on the strategies and measures used in managing of the fund in a manner that either promotes ESG characteristics (Article 8) or aims for sustainable investment (Article 9). These strategies and measures can be grouped into three categories repeated in several fund reports: exclusion strategy, sustainability analysis, and industry selection. Virtually all 23 funds utilize the exclusion strategy as stated in their fund reports. Traditionally non-sustainable and controversial industries are excluded in investment decisions: tobacco, gambling, and gun production. However, funds differ from each other in *how specifically* they define their exclusion strategy. For example, LähiTapiola funds disclose a detailed list of companies that are excluded from investing:

- Companies that have broken norms regarding universal human rights, labor, environment, or corruption
- Companies producing controversial guns or components used in their production
- Companies whose turnover includes over 5 % of adult entertainment products or services, producing traditional guns, producing tobacco, or contributing to gambling
- Companies whose main purpose is to provide instant credit to consumers
- Companies with the lowest score in external ESG rating and no plan of clear action to improve their score
- Companies whose turnover is or exceeds 25 % in producing coal, lignite, or peat used in energy production, or whose energy production is or exceeds 25 % in coal, lignite, or peat

Other funds have interpreted the regulation to disclose generalized information on their exclusion strategy and other strategies. For example, Nordea and OP (9 funds combined) have decided to merely state that they exclude investments in tobacco and fossil fuels among other industries. The third interpretation of Article 6(1a) is to make a reference to the

principles of sustainable investment that are used on the company level. The three S-Pankki fund reports state that they use an exclusion strategy following the principles of sustainable investment in the fund management company. Evli has a similar approach in their three funds.

In contrast to the exclusion strategy, a few fund reports include information that the fund actively selects investments in industries with a high level of sustainability. For example, OP-Ilmasto fund concentrates on industries such as "renewable energy, energy efficiency, green building, prevention and measurement of pollution, recycling and water supply and sewerage". Other funds using a similar approach are LähiTapiola Hyvinvointi ESG and OP-Puhdas Vesi.

Virtually all 23 funds state in their fund reports using a sustainability analysis or ESG analysis when selecting investments for the fund. There seem to be two approaches when disclosing information on sustainability analysis. Funds either simply state that they are analyzing ESG factors of their investments or they provide a list of example metrics inspected in their sustainability analysis. These metrics include CO2 emissions, carbon footprint, ESG risk ratings of different suppliers (Morningstar, MSCI), green turnover, etc.

Article 6(1b) How sustainability risks likely affect the return

Whereas all 23 funds seem to follow Article 6(1a), the following information requirement is not met as often. Out of all nine specific requirements inside Articles 6, 8, and 9, "how sustainability risks likely affect the return" is the one with the most omissions. Only 30,4 % of the fund reports include some information on the effects of sustainability risk, leaving 16 of the total of 23 funds lacking. Two fund management companies, Nordea and eQ disclose information on sustainability risk effects. eQ fund report states that "the possible realization of sustainability risk in the investment object can affect negatively in the value of the object". Nordea's six fund reports all state that "excluding specific sectors and/or instruments is expected to reduce the sustainability risk of the fund, …, and on the other hand these exclusions can increase the centralized risk of the fund, which in turn individually examined

can lead to a higher volatility and a larger downside risk." When analyzing this disclosure, it must be noted that it is still not clearly mentioned how sustainability risk affects *the return*.

Requirements of other Articles

Analyzing the rest of the requirements made by Articles 8 and 9 did not lead to as clear or interesting results compared to the requirements shared with all sustainable funds. The expression of Article 8(1a) provides a challenge by stating "how the promoted ESG characteristics are met", which is quite similar to the requirement in Article 6(1a) "how sustainability risks are integrated into investment decisions". Even though the questions are presented differently, in practice the answers are quite similar: how funds integrate sustainability risks in their investment decisions are the same manners that they use to promote meeting ESG characteristics. Due to this, it is difficult to separate the disclosed information into the two Articles in light green fund reports. Another difficulty is related to the requirements placed on a reference index. Even though all 23 funds use an index, only five of them use the index in investment selection. Therefore, 18 funds use a reference index only to follow the returns of their investments compared to the index that does not meet sustainability requirements. Additionally, only one fund (S-Pankki Fossiiliton Eurooppa) defined reducing carbon emissions as its object, leaving only one data point to examine the interpretation of Article 9(3).

5.2. Content of interviews

This sub-chapter is devoted to the findings from the qualitative content analysis of the interviews. The interviewees answered to a total of ten questions, while the structure of the interview situation went back and forth in the question list due to its semi-structural nature. Four major themes were recognized in the question set: SFDR generally, information requirement, effects on regulation, and organizational reliability. Even though the answers did overlap between the questions, findings are presented following these four groups, since they provide a useful breakdown of the different aspects of the interviews.

Before presenting the results of the content analysis, let's distinguish how the interview data was coded under content analysis. The so-called Gioian method was used to exploratively code the answers from the interviews relevant to the scope of this study, after which the coded data was categorized into groups. Additionally, if there were recurring themes repeating between several interviews, those expressions were combined into a group of their own. This enables the researcher to extract the most significant findings from the interview in a rigorous and concise manner (Gioia, Corley & Hamilton 2013). The most important categories found are increased reporting burden, online information, interpretation issues, customers' level of understanding, and existing sustainability measures. These categories are visualized in a table that can be found in appendix 2, where granular data is combined into recurring expressions, and further into categories. The following findings are based on these categories.

SFDR generally

Since the interviewee group consists of sustainable investment professionals, they all share a need and probably an interest to follow the surrounding regulation affecting sustainable finance and investment. Due to this, they all have their own understanding of the purpose and effect of SFDR, with both similarities and differences between each other's views.

All interviewees mentioned one major practicality in the purpose of SFDR: increased reporting, which can be seen as both a purpose and an effect of the regulation. Increased reporting requirements are both a driving force of the regulation, and a nuisance the regulation generates. As comes to other practical effects of the regulation, only a few interviewees reported changes in their funds' investment portfolio due to SFDR. Changes were due to a change in the underlying index to follow the Paris Agreement, which in turn affected the investment portfolio of the fund. Different perspectives arose from changing the investment portfolios of funds: others deemed changing the investments in their fund portfolios inappropriate only to fulfill a requirement, whereas some reported minor or major changes in portfolios due to the precision of Article 9.

Another shared interpretation of the purpose of SFDR on a higher level is improving the transparency of information provided by fund management companies to their customers and other stakeholders. The entire pool of interviewees mentioned the effect on transparency at some point during their interview. One practical example of this was repeated: SFDR creates a new classification for funds according to their sustainability or lack thereof. This is how the interviewees described their views on the purpose of SFDR from the perspective of their company:

> *"The regulation gives a stamp of sustainability." (Interviewee 1)*
>
> *"There are fewer question marks in sustainability." (Interviewee 3)*
>
> *"Regulation protects customers from misleading information." (Interviewee 4)*

Another discussion point in practically all of the interviews was, that even though SFDR is a new set of regulation, it merely continues and supports the existing measures towards sustainability in fund management companies. Thus, the regulation aims to standardize existing actions in funds, as well as disclosing information about them. One interviewee emphasized that the regulation does not obligate anyone to sustainability, only to provide information on it. Other differences in the views on the purpose of SFDR are mainly differences in focus points, which can be explained by the varying backgrounds in the interviewees' roles inside their respected companies.

Information requirement

The next theme of the interview analysis is the information requirement established in SFDR Articles 6, 8, and 9. The focus of the discussion was on disclosing sustainability information in line with said Articles, especially from the point of view of fund reports, and defining funds to follow either Article 8 or 9.

As stated previously, SFDR's information requirement was acknowledged by all the interviewees, yet the aim was to establish the whereabouts and the manners in which that sustainability information is disclosed in the fund management companies. Interviewees shared a commonality about the location of information required in Articles 6, 8, and 9. As suspected, in the modern age, the information is available online either on their website or documents embedded on their website. Information sources for customers include short website descriptions, monthly, biannual, or annual reports, principles of responsible investment, and fund reports. Nearly all interviewees stated that fund reports contain the sustainability information required in the Article the specific fund follows, thus proving the role of fund reports in implementing SFDR. Since the level of requirements differs between Articles, 9 being the most demanding, the content of sustainability disclosures also differs between funds following either Article 8 or 9. A common view was that the information disclosed regarding Article 9 funds is more detailed and offered more frequently than of those following Article 8. This stems from the fact that dark green funds must keep sustainable investment as their objective at all times, whereas light green funds experience a bit of flexibility. More often than not, sustainability information was reported to provide on investment level in dark green funds only. While discussing information requirement in fund reports, a majority of the interviewees reported that the sustainability information of funds following Article 8 is combined into one place, and thus cannot be found in individual fund reports.

Choosing between Articles 8 and 9 for funds is a great point of interest in both this study and the fund market overall. Interviewees state that the classification decision is based on an analysis of the fund profile, fund strategy, or investments in the fund. Answers did not go into detail on what this analysis might look like, whereas the challenges in the classification were discussed a great deal. Most of the interviewees experienced challenges in defining funds, yet disagreements arose from which of the two Articles was deemed more difficult. Others stated that Article 9 funds are easy to define due to the strict nature of the regulation, whereas others noted that the market has similar funds classified into either of the Articles, thus highlighting the challenges in classifying dark green funds. Some felt that Article 8 is an in-betweener of funds following either Article 6 or 9, which leaves quite a bit of room in fund profiles of light green funds. Due to this, classifying funds to follow Article 8 seems

like an evident route in classifications, according to one interviewee. Another interviewee stated that some funds have been classified into light green due to singular investments in their portfolio, which does not comply with requirements in Article 9. Again, this highlights the strictness of classifying dark green funds. Here are some comments regarding the classification of Article 9 funds:

> *"Dark green funds have a stronger charge in the regulation regarding sustainability." (Interviewee 1)*
>
> *"Classifying Article 9 funds begins from a thematic approach." (Interviewee 4)*
>
> *"Article 9 funds are easier to classify due to a more highlighted sustainability aspect in them." (Interviewee 3)*

Many interviewees stated that classifying funds is open to interpretation at this point of the regulation. Some expect to see changes in already defined classifications, and fund management companies moving their funds from one Article to another.

While discussing the role of fund reports in providing sustainability information to customers and potential customers, all interviewees agreed that there are challenges in customers' understanding of the information provided to them. Understanding fund reports demands knowledge of the financial market and its regulation, which is not an area of interest or expertise for potential customers. Also, it was mentioned that the customer might not understand what the information in fund reports means in practice especially for them as an investor. Despite this commonality between interviewees, there were differences between their approaches on its significance: how large of an effect does this have on fund management companies' willingness to provide information and how is it addressed? Below are the interviewee's comments on the role of fund reports:

"Fund report is very regulated, which is why it is hard to use in differentiating from the competitors." (Interviewee 1)

"Fund report is an important information source when searching basic information of the fund." (Interviewee 2)

"Fund report is a good summary on what kind of a fund it is." (Interviewee 5)

A few interviewees pointed out that providing the regulatory information is the fund management company's job, whereas the understanding of the provided information is the responsibility of the customer. Another interviewee stated that they as fund management companies must do the work of increasing the significance of fund reports., even though shaping fund report text into reader-friendly is found to be a tedious task due to the regulatory claim of it. "Customers do not read fund reports, since it is a long and boring juridical document", one interviewee stated. Despite the challenges in fund reports, all interviewees admit it to have at least a somewhat important role in providing information to customers. Over half of the interviewees named fund report as the most important channel for customers to gain information, whereas the others highlighted website as an information source. They feel like short, informal texts on the website are more understandable and desirable for customers, even though the regulatory benefits are lost in those types of disclosures: they cannot be regulated in for example what information cannot be left out of the text.

Effects on regulation

The third theme of the interview analysis combines the regulation effects from both the customer's and the company's point of view. The company's viewpoint focused on the challenges they experience in implementing SFDR Articles 8 and 9. Repeated challenges include retrieving data, regionality of EU regulation, room for interpretation in the regulation, and its unfinished nature at the moment.

SFDR regulation creates new requirements on the investment information of funds. This forces fund management companies to retrieve information in a more cohesive and thorough

manner, which has proven to be challenging. A few interviewees reminded that SFDR requires funds to disclose information regarding their investments before the investments themselves are required to provide such information. This leaves an awkward gap between the two parties during the early stages of the regulation. The unfinished nature of the regulation presents itself in such a manner. Several interviewees pointed out that the ambiguous wording in the regulation creates a problem of different interpretations, which also is connected to the incompleteness of SFDR. One interviewee even stated that at the moment the regulation does not succeed in its core purpose, which is unifying information since there are so many different interpretations. They continued that "the problem is how are we supposed to interpret the regulation when there are so many alternatives". These problems present themselves in different classifications of similar funds, as discussed in the previous sub-chapter.

Over half of the interviewees specified a challenge in the nature of the regulation. Since SFDR is an EU regulation, it is not worldwide, leaving many foreign investments out of scope for European investment funds. The more specific reason behind this is said to be the impossible task of retrieving mandatory data. Since the investments fall out of the scope of SFDR, they are not always inclined to provide the sustainability information required in the regulation. One interviewee mentioned the USA specifically as a large profitable market outside legislation, the use of which is now limited in fund portfolios.

Regarding data, retrieving is not the only issue found in implementing SFDR: confirming the quality of data has proven to be another difficult aspect for fund management companies. One interviewee identifies the problem as "the heterogeneity of analyses", whereas another frames it as "different ways to analyze and produce data". Different evaluators will do different analyses, which is built in their nature since the evaluators compete against each other in their own market. The same interviewee states that "analyses will always be different" due to the previous fact. This affects implementing SFDR and retrieving investment data since company evaluators are used to gain independent third-party data on said investment.

Interviewees were also asked to evaluate the effects of SFDR from the customer's point of view and how they experience it. The core purpose of the regulation is to protect customers, after all. Interviewees found both benefits and drawbacks SFDR has generated for private investors.

The benefits of SFDR for the customer are highly linked to the quantity and quality of sustainability data, which is agreed upon by all interviewees. This increase in data quality and quantity decreases the problem of greenwashing in the financial market, one interviewee stated. A higher amount of quality data limits information asymmetry in the market, especially from the customers' point of view. SFDR forces financial market players to provide unified information in the same manner across organizations, which in turn eases customers' ability to compare and analyze investment opportunities. Information is said to be more transparent, defined, and clear, thus indicating that SFDR does succeed in its core purpose.

However, it is also clear that the interviewees recognized that the information requirement has its drawbacks for customers as well. Recognized problems include information overload due to the increase in reporting of an already difficult subject in customers' minds. One interviewee stated that at worst, it can lead to a situation where customers choose not to invest at all or they choose to forget sustainability factors altogether in their investment decisions because the subject is so difficult. The issue of information overload is highly linked to the understanding problems some potential customers face in the midst of a vast amount of investment information available. Several interviewees expressed their concern on customers' ability to comprehend the offered information: how is the information interpreted and how does that interpretation turn into action? An example was provided by one interviewee: SFDR requires financial investment providers to ask their customers if they want only sustainable investments. If the answer is yes, the investment alternatives offered to the customer must all be sustainable, thus limiting the pool of possible investments radically. One interviewee continued by stating that investors are driven by other factors outside sustainability in their investment decisions, thus SFDR clarifies only one factor

amongst others. Other factors that the interviewee recognized as examples were geography, industry, and interest versus equity in investment decisions.

The majority of the interviewees reminded that the issues SFDR creates are mostly towards themselves as fund management companies, instead of private customers investing in the funds. Funds are required to do the work of implementing SFDR in their operations, whereas investors are on the receiving end of the information, with no legislative requirements. As mentioned previously in this chapter, SFDR does not force anyone into sustainability, which also includes the customers. The problems rooted in the several interpretations of the regulation are on the fund management companies' side, yet it creates a snowball effect for the customers side as well when the core purpose of SFDR is not fulfilled. Customers may receive misinformation due to this problem on fund management's end. One interviewee provided a practical example of the issue by talking about the categorization of funds into Article 8 or 9: funds can interpret the regulation either strictly or loosely, which leads to heterogeneous groups in Article 9 funds. Thus, the loosely categorized dark green fund may not be as sustainable as the customer assumes, compared to other funds following Article 9.

Interpretation-related problems are not limited to the wording of SFDR only. As stated previously in the theoretical part of this study, the vocabulary in sustainability is not established, meaning that the terms are not understood in a universal manner. This includes the customers' understanding of the terminology in sustainable investment. One interviewee recognized this as a drawback of SFDR on the customers' side as well: even though SFDR dictates which words can and cannot be used in each situation, for example, *"sustainable"*, every customer can have their own interpretation of what these terms mean. Even if the regulation limits the use of words in different funds' information and marketing, the practical effects on customer understanding can stay limited.

Organizational reliability

The last theme of the interviews was organizational reliability, in which the discussion was directed to the possible legitimacy effects of SFDR. While discussing if the regulation

improves the reliability of the interviewees' fund management companies, different views and arguments were presented and there was diversity between the interviews. The answers were clearly divided into two groups, where the majority of the interviewees believed that SFDR improves their companies' reliability, whereas two interviewees believed the contrary.

While the majority of the interviewees agreed that SFDR improves the reliability of their respected fund management company, there were different views on the extent of the improvement. Many interviewees stated that even though the regulation does increase reliability, the level of improvement is relatively modest. This is due to a high existing level of sustainability in the funds, the same reasoning behind why the increase in reporting is not experienced as a major change in fund management companies' operations. Regarding the extent of the reliability improvement, one interviewee recognized the effect to have a larger impact than others. Here are some comments from the interviewees supporting the statement that SFDR does improve their funds' reliability:

> *"It creates an improvement, even though the change is not dramatic, but a verification from a third party." (Interviewee 1)*
>
> *"(Our) company is already ranked as a relatively sustainable player, and SFDR improves this image." (Interviewee 3)*
>
> *"SFDR improves reliability because companies must put a lot of effort and resources to implement the regulation." (Interviewee 5)*

Focusing on the opposite arguments presented by a few interviewees, some professionals do not see SFDR affecting their reliability greatly or directly. One of the interviewees also shared that their fund management company has been known for its sustainability for a while already, and that is the reason why the effects of SFDR on their reliability are not significant. However, they did recognize the power of the regulation and the small effect it has on their reliability and legitimacy. Another interviewee argued that mainly voluntary acts of sustainability, such as voluntary reporting, increase reliability and legitimacy. The argument behind this was that mandatory or forced regulation as SFDR does not differentiate market

players compared to each other, which is why there are no reliability improvements for a single fund management company. Interestingly, the view on reliability effects was drastically different when discussing SFDR on a higher level regarding the whole financial industry. The interviewee stated that the regulation improves the reliability of the entire financial industry due to SFDR's effects on public opinion about the industry. Below is a quotation from the interviewee regarding the matter:

> *"(SFDR) turns the financial market more acceptable in the society, especially after the financial crisis. The financial industry is not profoundly non-sustainable, since it is used i.e., to pay pensions, but the atmosphere has been more doubtful after the crisis." (Interviewee 2)*

Interviewees were also asked if SFDR has an effect on the market position of their equity funds, especially those following either Article 8 or 9. There was a consensus on the matter, indicating that the regulation does affect the market positions, whilst the specifics of the effects varied. Many views were shared on what kind of effects there might be and how they happen.

One repeating subject in the interviews was the market position effects for dark green funds specifically. An interviewee stated that the regulation can increase volatility in funds following Article 9 due to indirect rules in their investments, which SFDR creates. Another professional focused on dark green funds through the information requirement, since they are more regulated, and more information is required. Their view on the market position effects for dark green funds was that SFDR improves their position compared to other investment options in the financial market, whereas there are no effects for Article 8 funds' position. One interviewee stated that the market position effects of SFDR are not evenly major for all funds. They believed that the reason behind major effects can be found in the customers who acknowledge sustainability strongly in their investment decisions, thus pointing towards Article 9 funds.

Another commonality in the interviews was related to the overall interest in sustainability and climate-related matters they had recognized in the financial market and their customer base. One interviewee stated that the regulation increases public interest towards sustainability, thus supporting the increasing amount of information shared on sustainability in modern society. They acknowledged that media provides reports on climate issues more frequently than ever, which creates interest towards sustainability matters for private investors as well. Discussing media coverage and current world events, the COVID19 pandemic and its effects on social factors were mentioned. As all of the interviewees agreed upon, environmental factors are the most commonly and perhaps easily tackled in the financial market, which moves the focus away from the social and governance factors of ESG. The ongoing pandemic has highlighted the social aspects of sustainability, as one interviewee stated. Fast transition to remote work and sustaining employee well-being during an unpredictable time period has worked as a test for companies in how well they incorporate social sustainability in their operations. Another interviewee predicted that as private investors are going to acknowledge sustainability risks more due to SFDR, they will use the categorization it provides. Again, this relates to the interpretation problem of the regulation and the heterogeneity that exists in Article 9 funds. The interviewee stated that the market position effects are going to be negative for those funds that follow the regulation more strictly than the loose interpretation.

6. Discussion & conclusions

The aim of this study was to examine what kind of effects the Sustainable Finance Disclosure Regulation have on the legitimacy of sustainable investment funds. Considering the time period of this thesis, SFDR is still an unfinished piece of EU regulation on sustainable finance, which is why this research contributes to a very limited set of existing research on the impacts of SFDR. Due to the same reason, the subject of the study is quite compelling and current in 2022 when the empirical research was conducted. This final chapter of the study consists of discussion and conclusions of the previously presented findings, followed by limitations and directions for recommended further research.

6.1. Discussion

The findings of the empirical research indicate that Sustainable Finance Disclosure Regulation has certainly impacted sustainable investment funds in a variety of ways. These impacts include both concrete and abstract changes in investment funds' internal management and external image through private investors' eyes.

The discussion part of this study is divided into sub-chapters, and each individual research sub-question is given its dedicated chapter. The aim is to provide answers to the previously defined research questions, as well as to present any possible new findings created in this research. These answers and findings will be connected to previous research and theory presented earlier in the study.

6.1.1. Implementation of SFDR into fund prospectus

The first research sub-question of the study is: *how is the sustainability information required in Article 8 or 9 implemented in the fund prospectus?* The findings related to this research question can be found in the first part of the research, which is the content analysis of the

fund prospectus, which essentially analyses if the requirements set in SFDR Articles 6 and 8 or 9 are met in the fund reports of the research group. The findings provide an overview of what kind of information is disclosed in the fund reports in order to fulfill the requirements of SFDR.

According to the research, funds provide SFDR-required sustainability information quite well in their fund reports. Overall generalization is that the more sustainability-driven the fund is, the better they comply with disclosing information on the sustainability aspects of the fund. This can be seen in the dark green fund reports qualitative analysis, which is in appendix 3: all requirements from Article 9 are met and the relevant information is disclosed in the fund report of these funds. Appendix 4 of the light green fund reports qualitative analysis shows more deficiencies in sustainability disclosures. This proves that fund management companies are more willing to provide sustainability information on dark green funds with an undoubtfully sustainable nature. Interestingly, this conclusion is disrupted by the fact that not all dark green funds seem to disclose all information required from every investment fund by Article 6. Providing information on how sustainability risks most likely affect the return of the fund is a difficult task for fund management companies regardless of the category of their funds, Article 8 or 9. Funds are providing information on the integration of sustainability risks, whereas their impact on the return leaves more room for speculating. The reasons behind this can be divided into two categories. Calculating and forecasting the effects of sustainability risks into return can be difficult and non-established in fund management companies, which is why they are reluctant to provide such information. Another theory is that fund management companies choose not to publish information regarding return effects in the fear of making the fund seem like more volatile than they are.

6.1.2. Categorization of dark green and light green funds

Another point of interest in this research is the categorization of funds created by SFDR, which is why the second research sub-question is: *what are the main differences between funds in accordance with Article 8 and 9?* The empirical findings prove that there are

differences between dark green and light green funds themselves, as well as the perception of these funds in the sustainable fund market.

Differences in reporting are rather simple to spot from the fund reports of dark green and light green funds, as discussed in the previous sub-chapter. More thorough reporting, including fund reports as well as other channels, is the first major difference between the two categories. The message from the professionals in the field is clear: more information is provided about dark green funds. As the color of the fund darkens, the quantity and quality of sustainability disclosures are increased.

The discussions with interviewees regarding dark green-light green categorization provoked interesting views on the interpretation of SFDR in the market, the consensus being that the regulation leaves significant room for interpretations, including the selection between following Article 8 or 9 in a fund. The findings suggest major and minor difficulties in defining what kind of funds must follow Article 8 or 9. This hints that the main differences between the two fund categories are not so easy to spot. The differences between the characteristics of dark green and light green funds can be extracted from the legislative text of Articles 8 and 9, yet the information seems to get lost during implementation. Whilst discussing defining funds to follow either Article with professionals in the field, everyone reports that analyses are conducted in order to define the fund into dark green or light green. Clearly, the results of these analyses differ, whether it is due to different analysis methods or different interpretations of the regulation in the background.

6.1.3. Improving legitimacy with sustainable funds

The third research sub-question in the study is used to connect SFDR to legitimacy: *how are sustainable equity funds used to improve legitimacy?* After researching the practical effects of SFDR Articles 6, 8, and 9, it is time to analyze how these changes and improvements in light green and dark green funds are affecting the legitimacy of the fund management companies.

Fund management companies use sustainability to improve their legitimacy, whether it is intentional or not. Professionals of the industry clearly recognize an increase in sustainable investments in the market, indicating that ESG factors have made their way into societal values. Sustainable Finance Disclosure Regulation is another indicator of this shift in values, and it is treated as a socially constructed system of values (Chelli et al. 2014). Fund management companies comply with the regulation in order to meet the expectations set to them by the surrounding society, thus proving that they aim to provide sustainability information on their funds - especially those sustainable.

Since SFDR requires more sustainability information on dark green funds, their usability in improving legitimacy is high. As seen in the low quantity of dark green funds in the Finnish market, and as supported by the statements by professionals in the field, there are some restraining factors in determining funds to follow Article 9 instead of 8. The limitations set by Article 9 in the funds' investments, i. e. refraining from all non-sustainable investment opportunities, make it challenging to categorize many funds into the dark green group. However, this means that those fund management companies who are able to include Article 9 funds in their offering experience greater legitimacy effects created by their funds.

It seems like fund management companies do not utilize the full power of SFDR in increasing their legitimacy in the eyes of the stakeholders in society. The companies must not only to categorize their funds into light green and dark green ones but to truly comply with the regulation in order to support their organization's legitimacy. The legitimacy effects are bypassed if the legislation is not complied with by not disclosing the necessary sustainability information required in Articles 6, 8, and 9. Since the information is provided more consistently and thoroughly for dark green funds, it can be concluded that especially dark green funds are used to increase the legitimacy of fund management companies. There is room for improvement in light green funds, as well as complying with the mutual requirements stemming from Article 6 for all funds regardless of their category. The reason behind these deficiencies lies within the incompleteness of the Sustainable Finance Disclosure Regulation: fund management companies are not given enough instructions on

the extent and the form of the sustainability information required by the legislation. SFDR is in need of developing and improving the regulation in order to fulfill its purpose more effectively.

Professionals of sustainable finance have recognized the positive effects SFDR has on the reliability of investing and the industry as a whole. They see the benefits of unified information and improved transparency of it for the private investor. These findings support the views of legitimacy theory in that complying with regulation and providing mandatory reporting supports the organizational legitimacy. Even the criticism on the regulation and its deficiencies supports the fact that disclosing relevant and high-quality information does have a positive impact on the reliability and legitimacy of the fund management company.

Digging into *how* light green and dark green funds are used to improve legitimacy, the answer lies in disclosing information. Including sustainable investment alternatives in fund management companies' portfolios does not increase legitimacy if there is no information on the matter. Society must acknowledge these steps made towards sustainable finance by the companies in for the legitimacy increase to realize. Fund management companies provide information on their website, fund prospectus, monthly, biannual, and annual reports, separate ESG reports, and principles of responsible investment. A high number of channels are being used to meet the expectation to provide sustainability information regarding investment funds.

6.2. Conclusions

The purpose of this thesis was to examine the impact of Sustainable Finance Disclosure Regulation has on sustainable investment funds in Finland. Legitimacy theory was used as the theoretical support for the research to determine the effects SFDR has on the legitimacy of fund management companies. The recent nature of the regulation provided a new ground for research adding to the existing research on sustainable investment funds and regulatory effects. Not much research had been conducted on SFDR, which underlines the importance

of this research and its aim to increase knowledge on how sustainability-related regulation impacts investment funds. This aim was reached in the research by studying first how SFDR is implemented and then analyzing its effect on the legitimacy of sustainable investment funds. Thus, the main research question of this study is shortly answered below.

How does the Sustainable Finance Disclosure Regulation 2019/2088 affect the legitimacy of sustainable equity funds in Finland?

→ *Complying with SFDR by categorizing funds and disclosing sustainability information increases the legitimacy of the fund management company*

Content analysis revealed that fund management companies are complying with the Sustainable Finance Disclosure Regulation quite well: they have categorized funds to follow either Article 6, 8, or 9 and they provide most sustainability information required by the Articles. Since mandatory reporting supports organizational legitimacy, it can be concluded that SFDR affects the legitimacy of fund management companies by increasing it. The means used in the legitimacy increase include determining if their funds follow either Article 8 or 9, making the relevant alterations to the funds, providing the required information on sustainability risks, ESG factors, sustainability goals, and indexes used, and messaging that information clearly. These results follow the path with previous research, where sustainability information is linked to improvements in the perceived legitimacy of organizations (Kuo & Chen 2013; Chelli et al. 2014; Deegan et al. 2000; Carini et al. 2021). Next is the summary of the main findings of this study in figure 3.

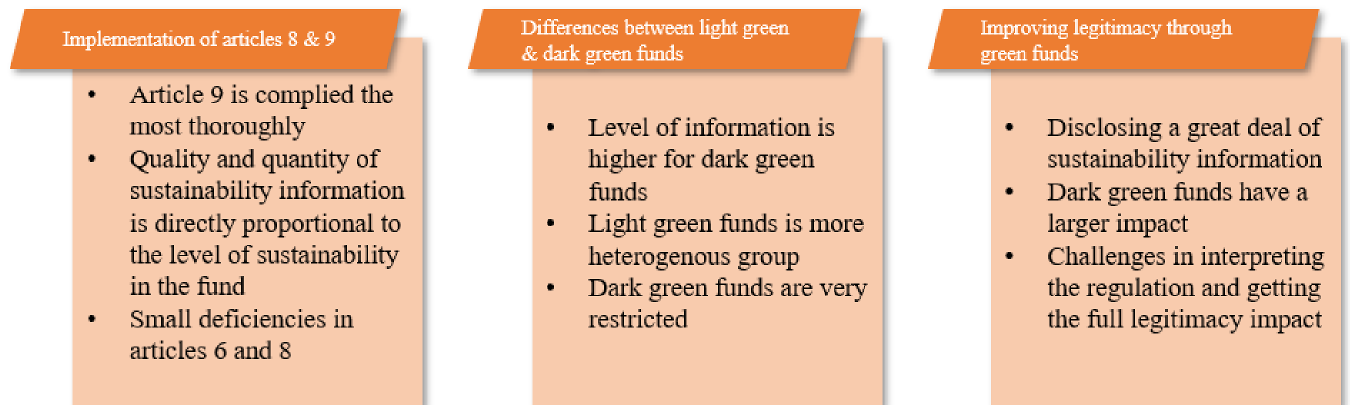

Figure 3 Summary of the main findings of the study

Professionals presenting the industry in this study deem fund reports as an important source of information about the fund for private investors. Due to this, information requirement is met mostly through fund reports as an information channel, even though deficiencies in providing all information required in Articles 6 and 8 do exist. Quality and quantity of sustainability information go hand in hand with the level of sustainability in the fund: more information is provided on greener funds, which puts dark green funds at an advantage in legitimacy improvements.

When comparing light green and dark green funds, both groups have their unique characteristics also outside regulatory requirements. The amount of information is different between the groups, whereas they share a common challenge of retrieving quality data on sustainability. Fund management companies are struggling to find relevant data on investments of the funds due to problems such as regulatory differences in different parts of the world, finding data that has not been gathered by the investment company itself, comparing analyses of different providers, and so on. Funds following Article 8 are found to be a quite heterogeneous group of funds, with reasonable differences between the level of sustainability risk in light green funds. Professionals of the industry recognize this as a problem and predict alterations to the regulation, which is to be seen in recent years. A

common understanding is that dark green funds are much more regulated than light green ones, which limits the number of said funds in the market. One can eagerly wait for how large of a proportion of new funds are going to follow Article 9 in the upcoming years.

Light green and dark green funds are used to improve the legitimacy of the fund management company. This is reached through complying with the information requirement of the legislation and not only providing mandatory reporting but ensuring the quality of the information provided. Especially dark green funds have an impact on organizational legitimacy, which is why also all deficiencies in complying with Article 9 must be avoided. Many interpretations of the Sustainable Finance Disclosure Regulation create their own challenge in improving legitimacy as well. Interpreting the regulation strictly or using it as more of a guideline in sustainability disclosures has a great impact on the societal perception of the level of sustainability in the fund.

Reflecting on the previous research on the alliance of sustainability reporting and regulation, this study supports the effect of increased sustainability disclosures being used to legitimize companies' existence, as studied by Deegan et al. (2000) and more recently Chelli et al. (2014) and Carini et al. (2021). Regarding the form and comparability of sustainability disclosures, it can be concluded that according to this research, there is significant room for improvement. Even though one of the aims of SFDR is unified information, it is not completely met, separating the results of this study from research by Carini et al. (2019), where they found sustainability disclosures to be more uniform after EU Directive 2014/95. Differences were found in the quality of sustainability disclosures in fund reports used in this thesis, supporting Jose and Lee's (2007) assessment of disclosures of Fortune Global 200 companies and their results on the discrepancy in the quality of the disclosures.

6.3. Managerial implications

Managerial implications drawn from this research are targeted at sustainable investment professionals in both the private sector, such as fund management companies, and the public

sector, which refers to supervisory authorities in the euro area and Finland specifically. Sustainability reporting can be used to legitimize organizations, and its significance should not be underestimated.

Fund management companies are the organizations complying with SFDR, thus providing sustainability information through reporting. As stated in the findings of this study, the quality of sustainability disclosures is directly proportional to the level of sustainability of the underlying fund, meaning that light green funds' disclosures could be improved. Transparency and granularity of data could be developed in order to better answer to the requirements of the regulation. As light green funds fall between funds following Article 6 and those following Article 9, their relevance can be undervalued, which is proven by the heterogeneity what is the pool of light green funds in Finland. Interviews with sustainable investment professionals revealed inconsistencies in sustainability reporting, which can be traced back to the immaturity of the regulation. Due to this, the managerial contributions of this study are aimed at the public sector as well.

Challenges in interpreting SFDR speak more about the maturity of the regulation than its acceptance. Additionally, as seen in this research, there are difficulties in sustainability reporting due to inconsistent data measurements, non-established terminology in the field of sustainability, and incomplete data sources from other companies. Luckily, the regulation is still undergoing development, and Regulatory Technical Standards are being constructed by the EU commission. Unluckily, the entry into force of these standards is delayed greatly, leaving the financial industry of the EU with imperfect instructions on the implementation of SFDR (FIN-FSA 2022). The regulation and further instructions should be clarified in order to fund management companies and other financial market players to gain the legitimacy effects produced by disclosing sustainability information.

6.4. Limitations & directions for further research

Researching the effects of the Sustainable Finance Disclosure Regulation remains as a fruitful topic long after this study due to the recent nature of the regulation. Studying the development of the regulation is needed in order to gain and upkeep relevant knowledge on SFDR and its impact on the financial market. Especially the evolvement of Article 8 and 9 - the categorization between light green and dark green funds - remains as an interesting topic of research since professionals of the industry are predicting alterations to the regulation regarding these Articles. As the deficiencies of the regulation are recognized, it is crucial to continue research on the topic in order for the legislation to serve its purpose as well as possible.

While this research expands the knowledge on Sustainable Finance Disclosure Regulation and its effects on investment funds, there are some limitations in the study, thus further research is required on the matter. Firstly, this research is limited purely to the Finnish market, in which the investment environment is quite limited due to its small size. The geographical limitation extends to the interviewees as well since they all were Finnish. Especially due to the many interpretations of SFDR, the findings might differ between countries if another European market was studied. While being a limitation of this study, this also opens up a possibility for further research on the matter. This research was also limited to include only equity funds in the analysis due to comparability benefits. Opening the sample pool of funds to include also for example corporate bonds would cover more of the existing sustainable investment alternatives in the market.

Another limitation can be found in the limited sample size of the interviews, as is typical for qualitative research of any subject. The reason for the low number of interviews can be found in the market size in Finland. The pool for potential interviewees is already small, and that combined with occasionally low interest in participating in interviews and using precious time for them by busy professionals created a challenge in obtaining interviewees.

One notable limitation of the study is the choice of research method. Even though both quantitative and qualitative analyses were conducted, and data was gathered through both interviews and fund prospectus analysis, the research could have benefitted from another research method. Semi-structured style of the interviews might have repressed some valuable answers from the interviewees, even though not on purpose. For example, a group interview setting could provide more findings on the different interpretations of Sustainable Finance Disclosure Regulation, and on the other hand similarities between views from professionals in the field.

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APPENDICES

Appendix 1. Quantitative content analysis results

	index	ESG	sustain-ability risk	carbon	Paris Agree-ment	sustain-ability	SFDR	respon-sible	2019/2088	respon-sibility	environ-ment	society	gover-nance	TOTAL
eQ Sininen	7	1	8	7	1	17	1	11	1	21	9	9	6	**99**
OP-Ilmasto	1	1	0	2	0	0	0	0	0	0	1	0	0	**5**
OP-Puhdas vesi	1	1	0	1	0	0	0	0	0	0	1	0	0	**4**
OP-Vähähiinen	1	1	0	2	0	0	0	0	0	0	0	0	0	**4**
Kehittyvät Tähdet	4	22	4	0	1	5	2	7	0	7	4	4	3	**63**
Maailm. Tähdet	4	22	4	0	1	5	2	7	0	7	4	3	3	**62**
Pohj.am. Tähdet	4	22	4	0	1	5	2	7	0	7	4	4	3	**63**
Eur. Tähdet	4	21	4	0	1	5	2	7	0	7	5	5	3	**64**
Pohjoism. Tähdet	4	22	4	0	1	5	2	7	0	7	4	4	3	**63**
Aas. Tähdet	4	20	4	0	1	5	2	7	0	7	5	5	3	**63**
S-Pankki Fossiiliton Eur.	1	6	0	7	0	0	0	2	1	2	1	2	0	**22**
S-Pankki Kehittyvät Mark.	0	7	0	2	0	1	0	3	0	3	1	1	0	**18**
S-Pankki Passiivinen Eur.	0	9	1	2	0	1	0	3	0	3	1	1	0	**21**
LähiTapiola Eurooppa Keskis.	1	5	3	7	0	9	0	1	0	5	9	5	5	**50**
LähiTapiola Hyv.	1	5	3	7	0	9	0	1	0	5	10	5	5	**51**
LähiTapiola Kasvu	1	5	3	7	0	9	0	1	0	5	9	5	5	**50**
LähiTapiola Kehit. Aasia	1	6	4	3	0	7	0	1	0	5	9	5	5	**46**
LähiTapiola Kuluttaja	1	5	3	7	0	9	0	1	0	5	9	5	5	**50**
LähiTapiola Pohjoism.	1	5	3	7	0	9	0	1	0	5	9	5	5	**50**
LähiTapiola USA Keskis.	1	4	3	7	0	9	0	1	0	6	9	5	5	**50**
Evli Suomi Select	1	6	0	0	0	3	1	1	0	1	0	0	0	**13**
Evli GEM	1	6	0	0	0	3	1	2	0	2	0	0	1	**16**
Evli Maailma X	2	6	0	0	0	3	1	2	0	2	0	0	1	**17**

Appendix 2. Gioian method categorization for interview analysis

	Q1	Q2	Q3	Q4	Q6
I1	SFDR strengthens the existing measures towards sustainability and brings it visible for customers	Increased volume of reporting. More defined reporting and classifying funds. No major changes in portfolios.	Where: website, principles of responsible investment, monthly reports & fund reports How: information is combined for all article 8 funds and not provided on investment-level, f. ex. excluded investment areas	Fund profile is analyzed if sustainability risks have been taken into account and on what level. Art. 8 easier to define, whereas art. 9 limits possible investments more.	Art. 9 creates the largest dilemma: regulation is unfinished, data is hard to retrieve, data accuracy is debatable and sense of proportion can darken in specific sustainability aspects. Also SFDR is only regional.
I2	It standardizes sustainability information provided to customers by increasing reporting and creates a classification	Mandatory reporting increases, which results in a change from in-house to outsourcing.	Where: website, material provided straight to customer incl. impact report & biannual reporting How: biannual goes quarterly, one combined report covering all art. 8 funds, whereas art. 9 is reported on an investment-level	Iterative process of analyzing individual funds and comparing them to the article requirements. Rules have been changed to follow the regulation, whereas investment portfolios or strategies have remained unchanged.	Regulation is not world-wide, leaving investments out of scope, which complicates retrieving data. Analyses are always heterogenic due to their nature, thus classifying is difficult. It is challenging to explain to customers why such specific information is meaningful for them.
I3	It improves transparency of sustainability and practically speaking increases reporting	Changes in reporting and retrieving data. No changes in portfolios.	Where: website on funds responsibility reports How: combined reports show which article is followed, whereas investment-level analyses provided separately for asset management clients	Funds have been analyzed through their investment strategy. Art. 9 funds easy to classify due to the highlighted role of sustainability, whereas some possible art. 9 funds have remained as art. 8 due to singular investments.	Classifying funds leaves room for interpretation, resulting in differences between funds in the same class. Challenges include retrieving data, data quality and regionality of the regulation.
I4	It adds reporting and creates a new classification and protects customers for misinformation. SFDR is a continuum of existing work towards sustainability.	Increased reporting which requires a lot of manhours. Updating and sharing same information in several locations.	Where: fund reports and website in principles of responsible investment How: sustainability risk information there, specific ESG info not provided but only overall in fund rules. Fund-level sustainability reports include more information on art. 9 funds	Classifying funds is open to interpretation at this point. Art. 9 funds have been classified through a thematic approach, whereas the rest of the funds have fallen into art. 8 quite naturally due to previous sustainability work.	Regulation is unfinished, which leads to ambiguos implementation and constant monitoring of new instructions. Financial providers must report data that is not yet provided by investment companies. Art. 9 is challenging due to its strict nature.
I5	Increased reporting and a new classification, thus evaluating sustainability of funds. Regulation does not obligate to sustainability.	The increase in reporting is not as major, since the company has extensive sustainability information already. Article 9 guides investments due to its precision which creates changes in portfolios.	Where: fund reports and voluntary ESG reports How: fund report includes all information required in the articles, whereas ESG report has more concrete information	Straight-lined process, where funds are analyzed based on their sustainable investments. Content of investment portfolios have been changed in a few occasions due to a shift to a Paris Agreement-aligned index.	Regulation does not succeed at the moment in its core purpose, which is unifying information into comparable, since there are so many different interpretations of it.
Similarities	4/5: increased reporting and a new classification 3/5: improved transparency of information	5/5: increased reporting 2/5: no changes in portfolios -> 1/5 did report changes	5/5: website 4/5: fund report 3/5: information is combined for all art. 8 funds	1/5: changes in portfolio 2/5: art. 8 easy to define	3/5: SFDR is regional 4/5: retrieving data is challenging 3/5: regulation has room for interpretation 2/5: regulation is unfinished
Categories	**Increased reporting burdain**		**Online information**	**Interpretation issues**	

Q5	Q7	Q8	Q9
Importance of fund report comes from regulation, yet it is hard to differentiate through it. It is important if the information is understood and since it prevents greenwashing.	Benefits: decreases greenwashing and unifies information provided to investors Drawbacks: limited significance of sustainability in customers investment decisions, thus SFDR clarifies only one dimension among other more significant ones	Yes it improves, but not dramatically. SFDR provides a verification of responsibility from a third party.	Regulation is mandatory, thus the effects are not significant. Comparing the amount of funds following art. 8 or 9 can affect the position.
Importance is greater to retail customers than institutional ones who get more personalized service. Useful to search basic information about funds, used less than often, yet more than fund rules.	Benefits: reaching information is more defined and clear Drawbacks: problems in investors understanding and implementing it into action, also art. 8 includes such a wide range of funds, comparing and trusting them can be difficult	Does not improve, since regulation is mandatory for everyone. SFDR does improve the reliability of the whole financial industry.	Effects can be found in art. 9 funds, which come under a microscope. Providing more information improves their market position compared within and outside their class.
More important information channels include short descriptions on website and monthly reports. Understanding fund reports requires customers to study regulation, which is rare.	Benefits: transparency and comparability of information is better Drawbacks: information overload especially for less educated investors on the subject	Yes it improves a bit, since the company is already ranked responsible, which SFDR confirms. The regulation improves reliability of the whole financial industry by decreasing greenwashing.	Effects are limited due to the extent of on-going sustainability analysis. Sustainability-aware customers create the effect.
Website and sustainability reports are more important than fund report, since it is a long and regulated juridical document, thus not reader-friendly.	Benefits: improves transparency and highlights sustainability by limiting greenwashing Drawbacks: comparability does not actualize due to many interpretations of the regulation, inequality in investors needs and limits of sustainable investing, information overload	Does not improve, since the company is already acknowledged as responsible on both product and reporting level.	SFDR improves the market position, since sustainability awareness is rising on the society. Information provided must be understood by the customers to actualize the improvement.
Fund reports provide a great summary of the fund, thus they hold a great importance in providing information. Challenges in customers' knowledge and understanding the provided information.	Benefits: everyone provides the same information, amount of information is increased Drawbacks: reliability and comparability of information is questionable and investors must understand how the regulation affects their investments	Yes it improves, since companies must use a great deal of resources to implement the regulation, thus improving transparency. More specific implications depend on how well the ambigousness is removed in the future.	Effects depend on the interpretation of the regulation: those who have interpreted strictly are in a lower position compared to the ones with more liberal interpretation.
3/5: fund report most important channel 2/5: highlight website 5/5: challenges in customers' understanding -> different approaches on its significance	3/5: unified information and better comparability 4/5: understanding problems 3/5: comparability is not perfect due to ambiguousness	3/5: yes improves 2/5: does not improve -> out of which 1/5 improves the whole industry	5/5: there are effects No consensus on specific effects or how they happen
Customers' level of undestanding		**Existing sustainability measures**	

Appendix 3. Dark green fund reports qualitative analysis

	Article 6(1a) Integration of sustainability risks	Article 6(1b) Sustainability risk effect on return	Article 9(4) Calculation of the reference index	Article 9(1a) Alignment of the index and sustainability goals	Article 9(1b) Index vs a broad market index	Article 9(2) Achieving the goal of sustainable investment without index	Article 9(3) Reducing carbon emissions as a goal: connection to the Paris Agreement
eQ Sininen	Disclosed	Disclosed	Index not used	Index not used	Index not used	Disclosed	Goal not set
S-Pankki Fossiiliton Eur.	Disclosed	Not disclosed	Disclosed	Disclosed	Disclosed	Index used	Disclosed

Appendix 4. Light green fund reports qualitative analysis

	Article 6(1a) Integration of sustainability risks	Article 6(1b) Sustainability risk effect on return	Article 8(1a) Meeting the promoted ESG characteristics	Article 8(1b) Consistency of the index with the promoted ESG characteristics	Article 8(2) Calculation of the reference index
OP-Ilmasto	Disclosed	Not disclosed	Disclosed	Disclosed	Not disclosed
OP-Puhdas vesi	Disclosed	Not disclosed	Disclosed	Not disclosed	Not disclosed
OP-Vähähiil.	Disclosed	Not disclosed	Disclosed	Not disclosed	Not disclosed
Kehittyvät Tähdet	Disclosed	Disclosed	Disclosed	Index not used	Index not used
Maailm. Tähdet	Disclosed	Disclosed	Disclosed	Index not used	Index not used
Pohj.am. Tähdet	Disclosed	Disclosed	Disclosed	Index not used	Index not used
Eur. Tähdet	Disclosed	Disclosed	Disclosed	Index not used	Index not used
Pohjoism. Tähdet	Disclosed	Disclosed	Disclosed	Index not used	Index not used
Aas. Tähdet	Disclosed	Disclosed	Disclosed	Index not used	Index not used
S-Pankki Kehittyvät Mark.	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
S-Pankki Passiivinen Eur.	Disclosed	Not disclosed	Disclosed	Disclosed	Disclosed
LähiTapiola Eurooppa Keskis.	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
LähiTapiola Hyv.	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
LähiTapiola Kasvu	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
LähiTapiola Kehit. Aasia	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
LähiTapiola Kuluttaja	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
LähiTapiola Pohjoism.	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
LähiTapiola USA Keskis.	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
Evli Suomi Select	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
Evli GEM	Disclosed	Not disclosed	Disclosed	Index not used	Index not used
Evli Maailma X	Disclosed	Not disclosed	Disclosed	Index not used	Index not used

Appendix 5. Interview questions

Generally on SFDR *Yleisesti SFDR:stä*

Q1. What is the purpose of SFDR regulation from the perspective of your company? / *Mistä SFDR-sääntelyssä on kyse yrityksenne näkökulmasta?*

Q2. How does the increase of information requirement due to SFDR regulation affect your operations regarding equity funds? / *Miten SFDR-sääntelyn asettama tiedonantovelvollisuuden lisääntyminen ja tarkentuminen näkyy toiminnassanne sijoitusrahastojen osalta?*

Information requirement *Tiedonantovelvollisuus*

Q3. How and where do you provide information about integration of sustainability risks? How about ESG factors, if an equity fund promotes these factors in accordance with Article 8? How about sustainable investments, if an equity fund has sustainable investment as its objective in accordance with Article 9? / *Miten ja missä tarjoatte tietoa kestävyysriskien huomioimisesta sijoittajalle? Entä ESG-tekijöistä, jos sijoitusrahasto edistää näitä tekijöitä artiklan 8 mukaisesti? Entä kestävistä sijoituksista, jos sijoitusrahaston tavoitteena on kestävä sijoitus artiklan 9 mukaisesti?*

Q4. How is it defined on a fund level if it follows either Article 8 or 9? / *Millä tavalla on määritelty rahastokohtaisesti, seurataanko artiklaa 8 vai 9?*

Q5. What do you think is the importance of fund prospectus/report in providing information to an investor? / *Millaiseksi koette rahastoesitteen merkityksen tiedon tarjoamisessa sijoittajalle?*

Effects of regulation *Sääntelyn vaikutukset*

Q6. What do you think is challenging in implementing SFDR regulation and why? Especially regarding Articles 6, 8 or 9? / *Mitkä asiat koet haasteellisiksi SFDR-sääntelyn implementoinnissa ja miksi? Erityisesti artiklan 6, 8 tai 9 osalta?*

Q7. What kind of benefits do you think SFDR regulation brings to investors and why? How about drawbacks? / *Minkälaisia hyötyjä koet SFDR-sääntelyn tuovan sijoittajalle ja miksi? Entä haittoja?*

Organizational reliability *Organisaation luotettavuus*

Q8. Do you think that SFDR-regulation improves reliability of your company? / *Koetteko, että SFDR-sääntely parantaa yrityksenne luotettavuutta?*

Q9. What kind of effects do you think SFDR-regulation has on the market position of your sustainable equity funds? / *Minkälaisia vaikutuksia koette SFDR-sääntelyllä olevan kestävien sijoitusrahastojenne asemaan markkinoilla?*

Other *Vapaa sana*

Q10. Is there anything else you would like to highlight? / *Onko jotain muuta mitä haluaisit korostaa?*