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How Transparency and the EU Sustainable Regulation Can Unlock Cheaper Capital



Introduction

The EU sustainable finance ecosystem is gradually being transformed in a single information system linking corporate behavior with financial decision-making. Corporate Sustainability Reporting Directive disclosures, European Sustainability Reporting Standards, the EU Taxonomy and the European Green Bond Regulation become central pillars of the system and translate business models into structured, comparable data that banks, investors and shareholders can use in risk assessment, and capital allocation. Emissions trajectories, ESG performances, value-chain exposure and Taxonomy alignment affect how financial institutions understand transition risk and evaluate corporate strategies.

From Classification to Capital Allocation: The EU Transmission Logic

The core of this transformation lies not in a predefined “green discount” but in an integrated information architecture, an integrated regulatory “transmission system” that connects corporate behavior with financial performances and decision-making. Information and data related to sustainability and generated in the real economy are converted into structured disclosures, classified through specific rules and standards, and then channelled into financial products and investment decisions. Capital allocation is therefore shaped through three interlocking pillars.

The relevance of this architecture becomes visible only when it meets the market for green and sustainability finance. CSRD/ESRS disclosures and Taxonomy alignment operate as entry tickets to specific funding channels: European Green Bonds under the EuGB label, sustainability-linked loans with performance KPIs, and investment products classified under SFDR. These instruments require verifiable evidence that proceeds or targets are linked to environmentally sustainable activities, a requirement that can only be met through the standardised datasets generated by the framework.

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As a result, sustainability information is no longer descriptive but transactional. It determines whether a company can be included in green bond programmes, qualify for Taxonomy-referenced credit facilities, or be held by funds marketed as sustainable under SFDR. Asset managers and banks, themselves bound by disclosure and product-governance rules, translate these requirements into mandates and lending policies. Capital is therefore channelled toward firms able to document credible transition pathways, while those lacking traceable data face narrower financing options.

This is the practical meaning of “unlocking” capital allocation: not a guaranteed price advantage, but structured access to pools of finance that are legally and contractually tied to sustainability criteria. The framework aligns corporate reporting with the architecture of green and sustainability markets, turning ESRS data and Taxonomy mapping into the connective tissue between real-economy transition and financial flows.

Disclosure of GHG Data: The Operational Backbone

European Green Bonds, Sustainability-Linked Loans and Taxonomy aligned investments – projects and green products require verifiable and water-tight evidence that corporate transition claims are grounded in recognised methodologies. Without a common technical language, the transmission from disclosure to capital allocation would remain theoretical. For this reason, the EU framework relies on

internationally established accounting methodologies, with greenhouse-gas information functioning as the central operational input.

The methodological foundation for corporate GHG accounting is provided by the **GHG Protocol**, developed by the World Resources Institute and the World Business Council for Sustainable Development. The Protocol does not create legal obligations; it establishes globally accepted rules for defining organisational boundaries, selecting calculation approaches, and categorising emissions into **Scope 1, Scope 2 and Scope 3**. European regulation builds upon this foundation: **ESRS E1** references these methodologies and transforms them into mandatory disclosures whenever emissions are material under the double-materiality assessment. Consequently, what remains optional in the original Protocol becomes operationally required within CSRD reporting for most value-chain-exposed sectors. The table below illustrates the two reporting routes defined by the Protocol, which serve as the technical starting point for ESRS-aligned GHG disclosures.

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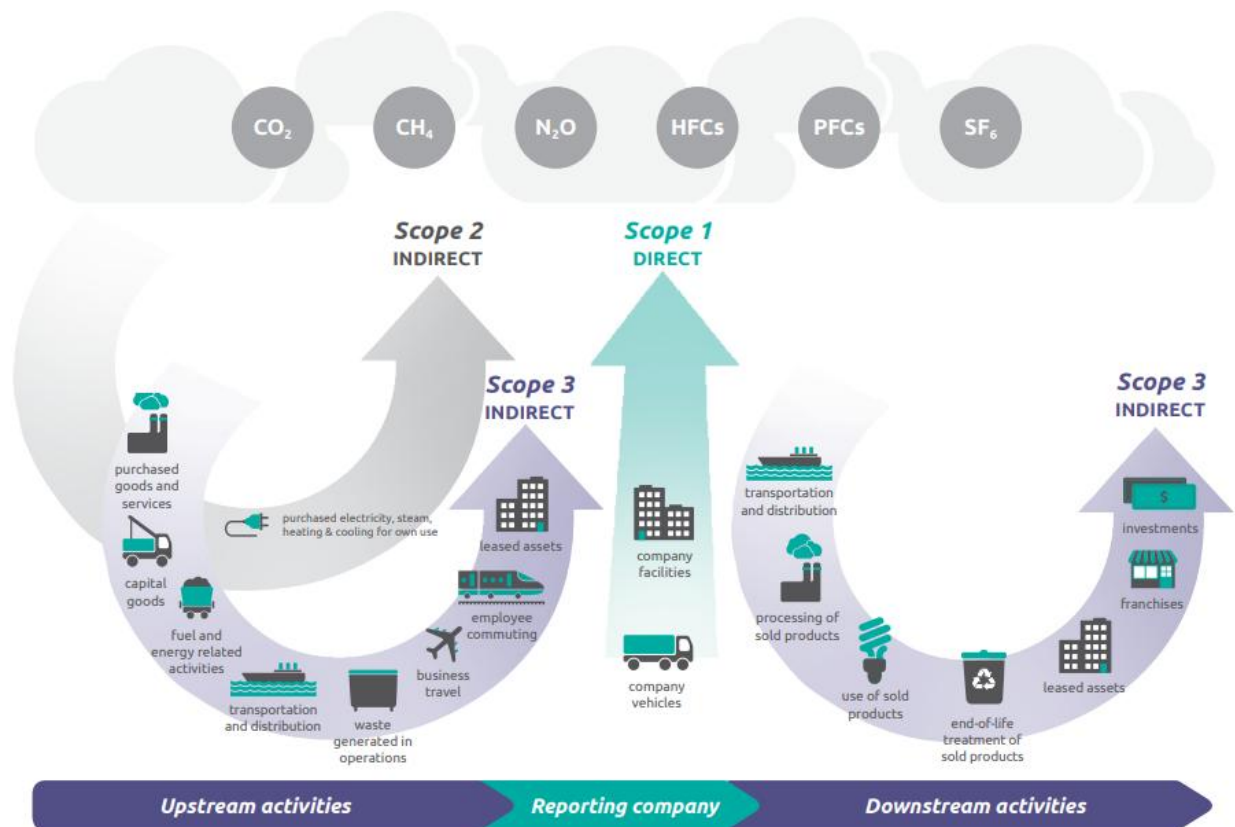


Figure 1 Overview of GHG Protocol scopes & emissions across the value chain, Source: [GREENHOUSE GAS PROTOCOL](#)

Once embedded in ESRS reporting, GHG information acquires a new financial relevance.

This relevance is anchored in binding EU legislative packages. The EU Emissions Trading System (EU ETS I) attaches legally enforceable compliance costs to verified emissions from power generation, industry, aviation, and maritime transport, while the gradual phase-out of free allowances increases

financial exposure for carbon-intensive activities. The upcoming EU ETS II will expand this regulatory logic to buildings and road transport fuels, widening the scope in which emissions data generate a direct economic impact. By linking tonnes of CO₂ to balance-sheets, these regimes transform ESRS-reported GHG figures into parameters that the interested parties need to take into consideration when assessing transition plans and phase-out narratives.

Emissions trajectories and, in particular, Scope 3 exposure translate operational realities into metrics that banks and investors can incorporate into Sustainability-Linked Loan KPIs, Taxonomy narratives, and transition-plan evaluations. The credibility of these instruments depends on consistent boundaries, transparent emission factors and documented methodologies that allow external reviewers to trace how targets relate to actual business activities.

The directional change from ESG marketing narrative to structured ESRS disclosures therefore, requires companies to establish a robust data set with harmonised procedures across operations, clear scope definitions, audit certifications, and verification-ready documentation. The ESG - sustainability datapoint universe accounts around 1,200 potential items, affecting environmental, social, and governance aspects, activated through materiality assessments. Where GHG data lack value-chain coverage, transparency in data collection and calculation methodologies or methodological coherence, firms struggle to demonstrate alignment between reporting obligations and the requirements of labelled financing instruments.

Double Materiality: The New Credibility Test

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Under CSRD, double materiality is not an additional disclosure layer but the filter that determines which sustainability information becomes financially relevant. Firms need to examine each topic by deepening into two complementary lenses. Impact materiality assesses how corporate activities affect the environment and society across the value chain, while financial materiality examines how those factors influence cash flows, asset values and access to finance and funding mechanisms.

This process transforms sustainability into a risk-modelling exercise. Energy costs, carbon pricing, supplier dependencies, and technology pathways must be translated into forward-looking financial assumptions. Only issues that pass this test enter ESRS reporting, transition plans, and Taxonomy narratives. In this sense, double materiality has become the credibility gateway for sustainable-finance markets: claims that are not grounded in a documented assessment carry limited weight for lenders and investors.

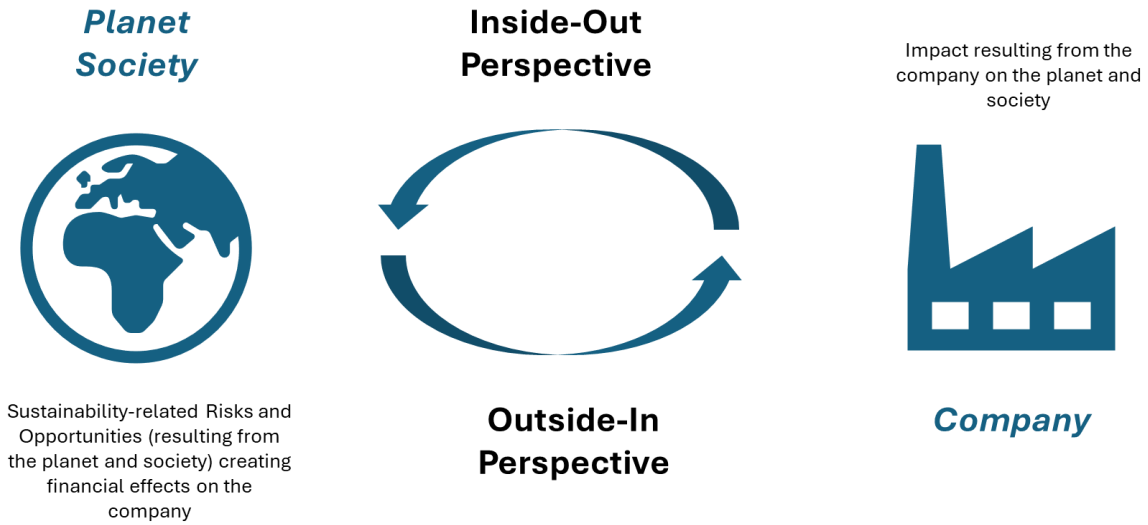


Figure 2 The concept of Double Materiality

4 The shift toward process-based credibility reflects patterns already visible in financial markets. Greenwashing risk and practices are usually concentrated in sectors with multi-layered and interconnected supply chain, such as aviation, automotive, mining and financial services, where tracing downstream and upstream emissions is most demanding. These are also sectors that require substantial external financing to fund their decarbonisation pathways. The implication is that data architecture and materiality discipline increasingly determine who can participate in labelled capital markets.

Banks, investment committees, and credit departments must be able to transparently trace how corporate commitments derive from a documented double-materiality assessment and from ESRS-aligned data inventories. When this chain of evidence is incomplete, transactions and lending face delays, higher due-diligence costs, or outright exclusion from sustainable-finance programs or funding opportunities.

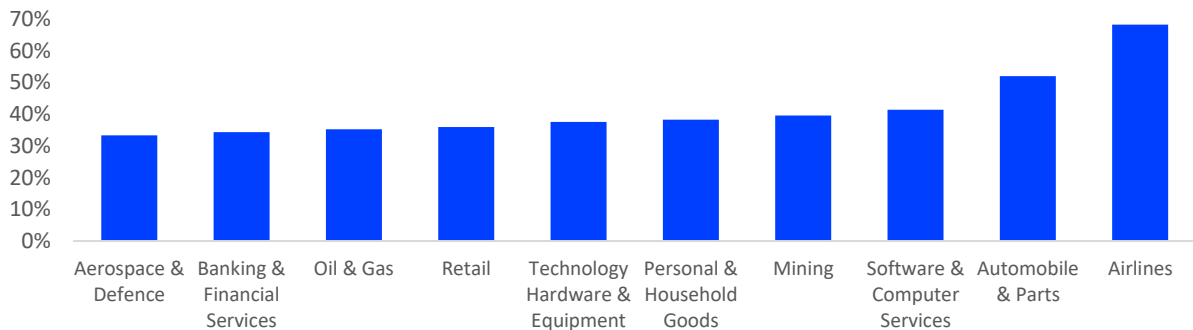


Figure 3 Top 10 sectors flagged for greenwashing risk in 2024 and again in 2025, Source: [RepRisk](#)

This dynamic explains why double materiality has become the decisive credibility test. It forces companies in high-risk sectors to connect transition narratives with quantifiable metrics and specific KPIs: energy costs under carbon pricing, supplier dependencies, technology pathways and CapEx plans. Firms that succeed in translating these elements into coherent ESRS disclosures can participate in green bonds and sustainability-linked structures; those that do not remain confined to conventional financing channels, regardless of their public commitments.

The country distribution of greenwashing-risk incidents set the institutional basis for this test. The concentration of cases in highly regulated markets should not be read as evidence of greater misconduct, but as a function of detection and reporting intensity: mature supervisory frameworks and deep capital markets make inconsistencies between claims and underlying Scope 3 realities more likely to be identified.

In such environments, firms are exposed to closer scrutiny of boundaries, methodologies, and double-materiality reasoning. The figure, therefore, illustrates the practical meaning of credibility: only companies able to document ESRS-aligned value-chain data can withstand this level of verification. Those that translate material impacts into coherent disclosures can participate in green bonds and sustainability-linked structures; those that do not remain confined to conventional financing channels regardless of their public commitments.

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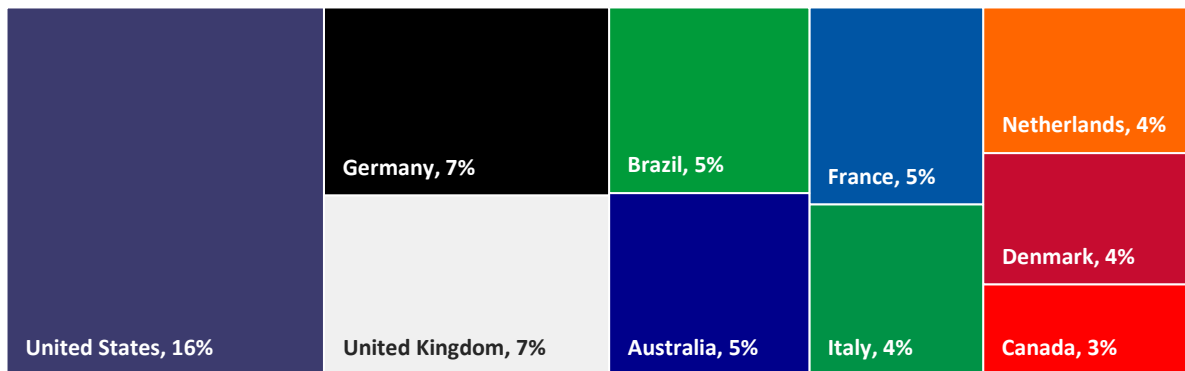


Figure 3 Top 10 countries for Greenwashing risk incidents by country, Source: [RepRisk](#)

By linking ESG performance with CSRD disclosures, the Taxonomy and market instruments such as EuGB and sustainability-linked loans, EU creates a common information infrastructure – a sustainability regulatory/practices ecosystem through which investors, banks and shareholders can assess transition risk. Double materiality and robust methodologies determine which corporate commitments enter this infrastructure and which remain rhetorical. In this environment, participation in labelled finance becomes a function of governance quality and data integrity. Transparency is therefore not an end in itself but the mechanism that enables credible capital allocation to firms capable of documenting their transition pathways within the Union’s regulatory architecture.

Abbreviation table

Term	Definition
CSRD	Corporate Sustainability Reporting Directive. EU directive that requires large undertakings and listed companies in the EU to publish sustainability information (environmental, social and governance) in accordance with European Sustainability Reporting Standards (ESRS), based on the double materiality principle and subject to external assurance.
ESRS	European Sustainability Reporting Standards. Delegated standards adopted under the CSRD which specify detailed disclosure requirements for environmental (E1–E5), social (S1–S4) and governance (G1) topics, including structure, metrics and narrative information to be reported by in-scope undertakings.
EU Taxonomy	EU classification system that defines when an economic activity is considered environmentally sustainable, based on technical screening criteria and minimum safeguards for six environmental objectives, with the aim of preventing greenwashing and supporting informed sustainable investment.

Sources

- 6 [1] [In Focus, Issue 08 | Behind the Abbreviations: Decoding the EU Sustainable Finance Framework – from ESG to CSRD, SFDR, ESRS, and the Omnibus Puzzle](#)
- [2] [EU Taxonomy](#)
- [3] [The European Green Bond Regulation](#)
- [4] [Corporate Sustainability Reporting Directive \(CSRD\)](#)
- [5] [Corporate Value Chain \(Scope 3\) Accounting and Reporting Standard, Supplement to the GHG Protocol Corporate Accounting and Reporting Standard, GREENHOUSE GAS PROTOCOL](#)
- [6] [Where biodiversity risks grow, greenwashing follows, Special Report, RepRisk](#)