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Classifying ESG funds under SFDR: why Article 8 is more prevalent than Article 9

Accounting and Finance

Master's thesis

Author:

Siiri Ratamo

Supervisors:

Dr. Annika Hasselblad

Associate Prof. Jan Pfister

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The European Union aims to shift capital toward sustainable economic activities as part of its broader climate and environmental goals. A central instrument in this effort is the Sustainable Finance Disclosure Regulation (SFDR), which requires investment funds to classify themselves under Articles 6, 8 or 9 based on their sustainability profile. Article 6 applies to products that only either consider ESG risks or explain why such risks are not relevant. Article 8 covers products that promote environmental or social characteristics and may include sustainable investments, but do not have sustainability as a core investment focus. Article 9 is reserved for products that make only sustainable investments and have a clear sustainability objective, making them most directly aligned with the EU's ambitions. Understanding how these categories are applied in practice is therefore essential for evaluating whether the SFDR is effectively supporting the allocation of capital in line with the EU's sustainability objectives.

This thesis builds on that policy context by examining the factors that influence fund managers' classification decisions under the SFDR, particularly in cases where sustainability is a relevant consideration, but funds are still categorised under Article 8 rather than Article 9. In such cases, the choice of Article 8 often relates to its lower compliance demands and broader flexibility. The research is based on a qualitative case study of the Finnish market, using nine semi-structured interviews with professionals involved in fund categorisation. To support the analysis, the study draws on the neoclassical economic paradigm and the prosocial paradigm, which offer contrasting perspectives on how sustainability considerations are approached within financial institutions.

The study produced several key findings. First, Article 9 is often avoided due to unclear definitions and concerns over legal and reputational risk. Second, its restrictive investment criteria are seen as incompatible with portfolio diversification and performance expectations. Third, weak demand for Article 9, particularly from retail investors who often cannot distinguish between the SFDR categories, further reduces the incentive to pursue it. In contrast, Article 8 is perceived as a safer and more commercially viable option, offering greater flexibility in how sustainability is defined and implemented. The findings highlight how current market structures and regulatory ambiguity may limit the effectiveness of the SFDR in fully achieving its intended sustainability impacts.

Key words: sustainable finance, ESG investing, SFDR

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Euroopan unioni pyrkii ohjaamaan pääomaa kestävään taloudelliseen toimintaan osana laajempia ilmasto- ja ympäristötavoitteitaan. Keskeinen väline tässä pyrkimyksessä on kestävä rahoituksen tiedonantoasetus (SFDR), jonka mukaan sijoitusrahastot on luokiteltava 6, 8 tai 9 artiklaan kestävyysaspektien huomioimisen perusteella. Asetuksen artiklaa 6 sovelletaan tuotteisiin, joissa ainoastaan joko otetaan ESG-riskit huomioon tai selitetään, miksi tällaiset riskit eivät ole merkityksellisiä sijoitusprosessissa. Artikla 8 kattaa tuotteet, jotka edistävät sijoituspäätöksillään ympäristön ja yhteiskunnan kestävä kehitystä, mutta tämän ei tarvitse olla rahaston päätarkoitus. Artikla 9 koskee rahastoja, jotka tekevät ainoastaan kestäviä sijoituksia ja joilla on selkeä kestävä kehityksen edistämisen tavoite. Ne vastaavat siis suorimmin EU:n tavoitetta pääoman ohjaamisesta kestävyttä edistäviin kohteisiin. Näiden luokkien käytännön soveltamisen ymmärtäminen on olennaista arvioitaessa, onnistuuko SFDR tehokkaasti tukemaan pääoman kohdentamista EU:n tavoitteiden mukaisesti.

Tämä tutkielma pohjaa kyseiseen sääntelykehukseen ja tarkastelee niitä tekijöitä, jotka vaikuttavat rahastonhoitajien SFDR:n mukaisiin luokittelupäätöksiin. Tutkielmassa keskitytään erityisesti rahastoihin, joissa kestävyys on olennainen tekijä, mutta rahasto luokitellaan silti artiklan 8 eikä artiklan 9 mukaisesti. Tutkimus on Suomen markkinoille sijoittuva laadullinen tapaustutkimus, jonka empiirinen aineisto kerättiin yhdeksästä puolistrukturoidusta haastattelusta rahastojen luokitteluun osallistuvien ammattilaisten kanssa. Analyysin tukena tutkimuksessa hyödynnetään usklassillisen taloustieteen paradigmaa ja prososiaalista paradigmaa, jotka tarjoavat erilaisia tulkintoja siitä, miten rahastoja tarjoavat yhtiöt lähestyvät kestävyysasioita.

Tutkimus tuotti useita keskeisiä havaintoja. Ensinnäkin artikla 9:n mukaista luokistusta vältetään usein sen epäselvien määritelmien sekä oikeudellisten ja maineeseen liittyvien riskien vuoksi. Toiseksi sen tiukat sijoituskriteerit nähdään yhteensopimattomina sijoitussalkun hajauttamisen ja tuotto-odotusten saavuttamisen kanssa. Kolmanneksi vähäinen kysyntä artikla 9-rahastoille erityisesti yksityissijoittajien keskuudessa, jotka eivät usein erota SFDR-kategorioita toisistaan, vähentää entisestään kannustimia sen tavoitteluun. Sen sijaan artikla 8 nähdään turvallisempänä ja kaupallisesti toimivampana vaihtoehtona, sillä se tarjoaa enemmän joustavuutta kestävyystekijöiden määrittelyssä ja soveltamisessa. Havaintojen perusteella nykyiset markkinarakenteet ja sääntelyn epäselvyys voivat rajoittaa SFDR:n tehokkuutta sen tavoittelemien kestävyysvaikutusten saavuttamisessa.

Avainsanat: Kestävä rahoitus, ESG-sijoittaminen, SFDR

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List of abbreviations

| | |
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| AIFMD | Alternative Investment Fund Managers Directive |
| CSRD | Corporate Sustainability Reporting Directive |
| EFAMA | European Fund and Asset Management Association |
| ESAs | European Supervisory Authorities |
| ESRS | European Sustainability Reporting Standards |
| FIN-FSA | Finnish Financial Supervisory Authority |
| MiFID II | Markets in Financial Instruments Directive II |
| NFRD | Non-Financial Reporting Directive |
| PAIs | Principal Adverse Impacts |
| PRI | Principles for Responsible Investment |
| RTS | Regulatory Technical Standards |
| SDGs | Sustainable Development Goals |
| SFAP | Sustainable Finance Action Plan |
| SFDR | Sustainable Finance Disclosure Regulation |
| UCITS | Undertakings for Collective Investment in Transferable Securities |

1 INTRODUCTION

1.1 Background and motivation

In recent years, the transition toward a more sustainable economy has become a defining objective of the European Union, closely tied to its broader climate and environmental commitments such as the European Green Deal and the Sustainable Finance Action Plan (SFAP). As part of this policy shift, financial markets are increasingly recognised as powerful levers for achieving sustainability goals, with the capacity to redirect substantial capital flows toward economic activities that generate positive environmental and social outcomes. As these expectations grow, the financial sector is expected to move beyond traditional profit maximisation and play an active role in supporting the low-carbon transformation of the European economy (European Commission, 2018b; EU Technical Expert Group on Sustainable Finance, 2020).

To facilitate this reorientation, the European Union has introduced a range of regulatory instruments aimed at embedding sustainability considerations into financial decision-making. Among these, the Sustainable Finance Disclosure Regulation (SFDR) has emerged as one of the key components of the EU's broader sustainable finance strategy. Adopted in 2019 and applicable since March 2021, the SFDR seeks to enhance the transparency, comparability and reliability of sustainability-related information disclosed in financial markets. It requires financial market participants and financial advisors to report on how they integrate environmental, social and governance (ESG) factors into their investment processes and how their financial products align with specific sustainability objectives. By establishing harmonised disclosure requirements, the regulation aims to mitigate greenwashing risks, enable more informed investment decisions and ultimately channel capital more effectively toward sustainable economic activities (European Commission, 2019; The Joint Committee of the European Supervisory Authorities, 2021a).

At the centre of the SFDR framework is a three-tier classification system that categorises investment funds under Articles 6, 8 or 9 based on their sustainability profile. Article 6 applies to products that either integrate ESG risks solely as part of their financial risk analysis or explain why such risks are not considered relevant, but do not promote ESG characteristics or pursue sustainability objectives. Article 8 covers funds that promote environmental and/or social characteristics and may include sustainable investments, but without having sustainability as a core investment focus. Article 9 is reserved for products that have a dedicated sustainable investment objective and aim to contribute to clearly defined sustainability outcomes (European Commission,

2019). In theory, this categorisation allows investors to distinguish between degrees of sustainability ambition and align their investments with personal or institutional values.

Despite this structure, early evidence shows that a relatively small proportion of funds are classified under Article 9 (Morningstar, 2025b), which is intended for products with the most ambitious sustainability goals. Instead, the majority of ESG-labelled funds fall under Article 8. Scholars have pointed to “category fuzziness” (Cremasco & Boni, 2022) as a key reason for this pattern: the boundaries between the three categories remain vague, allowing funds with quite different levels of sustainability commitment to present themselves in similar ways. Such ambiguity raises the risk that classification is used as a marketing device rather than a reliable guide for directing capital. While both Article 8 and Article 9 funds can contribute to sustainability, the distinction between them is important. The effectiveness of the regulation depends on whether financial flows are steered efficiently, meaning that capital is channelled toward activities that generate measurable sustainability outcomes. Inefficient steering, in contrast, allows capital to be absorbed by products that only partially or superficially integrate ESG criteria, limiting their contribution to long-term transition goals (Scherer and Hasaj, 2023).

These challenges are reinforced by the hybrid reporting structure of the SFDR and its reliance on self-disclosure. Fund managers can either apply the detailed technical screening criteria of the EU Taxonomy or rely on the broader, more general principles set out in the SFDR, which has led to inconsistent interpretations and difficulties in comparing funds (Cochran et al., 2024). Without robust verification, the credibility of disclosures rests largely on managerial judgment, and examining these decision-making processes can shed light on why disclosure practices diverge and how managers balance regulatory requirements with organisational priorities. In this context, greenwashing can be understood not simply as deliberate deception, but more broadly as the misalignment between stated sustainability objectives and the investment practices actually pursued under the regulation. Understanding the factors that influence classification decisions is therefore essential to evaluating the regulation’s ability to meet its broader policy goals (Cremasco & Boni, 2022; Cochran et al., 2024).

Academic literature on the SFDR is rapidly growing, but it has so far focused largely on the legal interpretation of the regulation (Garcia-Torea et al., 2024; Cochran et al., 2024), its interaction with other policy instruments such as the EU Taxonomy (Schütze & Stede, 2021; Hummel & Bauernhofer, 2024) or on quantitative characteristics of funds, including changes in performance or capital flows (Ferriani, 2023; Scherer & Hasaj, 2023; Scheitza & Busch, 2024; Spaans et al., 2024).

Yet there is comparatively little qualitative research that investigates how fund managers themselves reason through classification decisions or navigate the organisational and regulatory pressures shaping those decisions. By examining these aspects directly, this thesis aims to contribute to a more practice-oriented understanding of how the SFDR is implemented on the ground. Several recent studies have highlighted the need for further research on how the regulation is implemented and how market actors respond to its requirements (Akomea-Frimpong et al., 2021; Debrah et al., 2022; Alessi et al., 2024; Hummel & Jobst, 2024). This reflects a broader academic recognition that the success of the SFDR depends not only on its legal architecture but also on the behavioural and institutional dynamics influencing fund classification decisions.

To address this research gap and investigate how fund managers reason through classification choices, it is useful to consider the theoretical assumptions that shape how sustainability is linked to financial performance. Financial institutions, and particularly asset management companies, serve as key intermediaries in the flow of capital and therefore play a critical role in determining whether investments support the broader transition toward a more sustainable economy (Schoenmaker & Schramade, 2019; OECD, 2020). Classification decisions under the SFDR are not made in isolation but occur within broader institutional and regulatory contexts that influence how sustainability is integrated into financial practice. To explore these influences, this thesis applies two paradigmatic lenses that offer contrasting views on how ESG fund classification can be understood. The first lens builds on the neoclassical economic paradigm, operationalised through the principal–agent theory, which frames classification primarily as a response to incentive structures and profitability concerns. The second lens builds on the prosocial paradigm, grounded in evolutionary science, which views classification as shaped by group functioning and long-term sustainability commitments that can also enhance performance.

The tension between these perspectives reflects a broader debate about the role of financial markets in sustainability transitions. Do fund managers approach classification decisions primarily through the lens of short-term client interests and legal defensibility, or do some see sustainability as a strategic priority that supports performance and competitiveness over time? This study seeks to develop a holistic understanding of how the classification process is navigated in practice and what these choices reveal about the evolving role of sustainability in the financial markets.

1.2 Research question, methodology and contributions

The purpose of this thesis is to explore how the Sustainable Finance Disclosure Regulation is interpreted and operationalised within asset management firms and other financial institutions offering investment funds. While the SFDR offers formal definitions and categories, its implementation requires fund managers to make decisions within the constraints and expectations of their organisational environments. This study examines how such judgments unfold, particularly in relation to the distinction between Article 8 and Article 9 product classifications.

This thesis is guided by the following research question:

What factors influence ESG fund managers' decisions to classify funds under Article 8 rather than Article 9 within the SFDR framework?

To address this question, the study adopts a qualitative research design. Qualitative methods are particularly well suited to exploring how individuals interpret and negotiate complex regulatory environments, as they allow for a deeper understanding of subjective reasoning and organisational context. Semi-structured interviews were chosen as the primary data collection method to provide participants with the flexibility to reflect on their experiences while still allowing the research to focus on key themes related to fund categorisation, regulatory interpretation and internal decision-making processes. This approach is well established in organisational and financial research for capturing both shared practices and individual variation (Eisenhardt, 1989b).

The empirical focus of this study is on the Finnish asset management sector. Finland provides a particularly compelling setting due to its leading position in the European sustainable fund landscape. As of 2023, it had the highest domestic market shares of Article 8 and 9 funds in Europe, indicating a strong emphasis on sustainability-related characteristics within the market. This prominence is supported by a longstanding tradition in ESG investing, which has made Finnish institutions early adopters of sustainability practices in finance (European Fund and Asset Management Association, 2023). While Finland operates under the same regulatory obligations as other EU member states, its well-established ESG culture and relatively compact financial sector make it a manageable yet analytically rich case for qualitative inquiry.

This study contributes to sustainable finance research by offering insight into how fund classification under the SFDR is approached from within the industry (Garcia-Torea et al., 2024; Schütze & Stede, 2021; Scherer & Hasaj, 2023). By examining fund managers' perspectives, the thesis moves beyond formal policy analysis to explore how sustainability requirements are

understood and applied in practice. Very few studies to date have examined how fund managers themselves view the SFDR, despite their central role in implementing its requirements. The findings aim to complement existing legal and quantitative studies by providing a qualitative view into the interpretive and institutional factors that shape the categorisation. In doing so, the study responds to calls for more grounded, practitioner-focused research on how the SFDR unfolds in everyday decision-making and offers timely input to the evolving policy debate, which is particularly relevant as the European Commission continues to review the SFDR framework. At the same time, it contributes to academic discussions on the role of financial institutions in guiding capital toward sustainable economic activities.

1.3 Structure of the thesis

This thesis is structured into nine chapters, each contributing to a systematic exploration of fund classification under the SFDR. The first chapter introduces the topic, outlines the background and motivation for the study and presents the research question and methodological approach. It also clarifies the scope of the research and highlights its main contributions. Chapter two provides the policy and market context for sustainable finance in the European Union. By defining key terms, reviewing ESG investment trends and outlining the broader regulatory landscape, this chapter offers the conceptual and institutional background needed to situate the study. Chapter three focuses specifically on the Sustainable Finance Disclosure Regulation. It explains the regulation's structure and objectives, the classification system for investment products and the associated disclosure requirements. This chapter is included to ensure a clear understanding of the regulatory framework that forms the basis of the empirical analysis.

Chapter four presents the theoretical foundation of the thesis, introducing the neoclassical economic paradigm and the prosocial paradigm as tools for interpreting fund managers' decision-making. Chapter five outlines the research methodology, including the qualitative approach, data collection through semi-structured interviews and the analytical process. Ethical considerations are also addressed. Chapters six and seven present the empirical findings and analyse them in relation to the theoretical framework along with reflecting on the methodological choices. The analysis explores how fund managers perceive and apply the SFDR, what factors influence their classification decisions and how these decisions are shaped by internal and external organisational dynamics. Chapter eight presents the main findings and suggests directions for future research. Chapter nine

concludes the thesis with a summary of the research. Supplementary materials, including the interview guide and data handling documentation, are provided in the appendices.

2 SUSTAINABLE FINANCE AND THE EUROPEAN POLICY CONTEXT

2.1 Conceptual foundations of sustainable finance

Sustainable finance involves integrating environmental, social and governance (ESG) factors into investment decision-making within the financial industry, therefore promoting long-term investments aimed at sustainable economic growth. First, environmental aspects typically include climate change mitigation efforts, circular economy initiatives, biodiversity conservation and pollution reduction. Second, social factors may encompass addressing inequality, improving labour relations, investing in community development, promoting inclusivity as well as protection of human rights. Lastly, governance aspects involve the internal management structures of both private and public organisations, employee engagement and executive remuneration practices, all of which are critical in embedding social and environmental priorities into financial decisions (Schoenmaker & Schramade, 2019).

Within the European Union policy framework, sustainable finance refers to financial practices aimed at promoting economic growth in ways that reduce negative environmental impacts and actively contribute to achieving the climate and environmental goals outlined in the European Green Deal, while simultaneously considering social and governance issues. Additionally, sustainable finance emphasizes transparency regarding ESG risks that could influence financial stability and encourages managing these risks with effective governance practices for corporations and financial institutions (European Commission, n.d.).

Historically, sustainable finance has evolved from earlier frameworks of corporate responsibility, particularly Corporate Social Responsibility (CSR). Originating from the mid-20th century, CSR represented a company's voluntary actions to address ethical, social and environmental concerns beyond its legal obligations. Before, CSR focused primarily on philanthropy, ethical behaviour and reputation management. Over decades, CSR frameworks have expanded significantly, laying the foundation for modern ESG practices by introducing the concept that businesses have responsibilities outside of only shareholder value creation (Carroll & Shabana, 2010).

The transition from traditional CSR to a more structured ESG integration began in the late 20th and early 21st centuries, driven largely by increasing global awareness of climate change, social inequality and resource scarcity (Latapí Agudelo et al., 2019). This transition was complemented with a shift in investor priorities, where long-term sustainable growth became more and more valued alongside financial returns. The growing body of empirical evidence indicating that firms

proactively taking ESG criteria into account could manage risks better and potentially achieve superior long-term performance further accelerated this transition (Friede et al., 2015).

One significant development supporting this shift towards sustainable finance was the establishment of international frameworks such as the United Nations Sustainable Development Goals (SDGs) and the Principles for Responsible Investment (PRI). These frameworks have provided standardized objectives and metrics for investors and corporations, influencing global financial practices by embedding sustainability into mainstream financial markets. Additionally, regulatory developments, particularly within the European Union, have played a crucial role in reinforcing the adoption of sustainable finance practices (Busch et al., 2016).

Despite the progress made in advancing sustainable finance, there are still several challenges. A major concern is the issue of greenwashing, where companies or investment products are marketed as sustainable without strong evidence or meaningful impact (Wu & Shen, 2013). This issue highlights the need for standardized and transparent reporting frameworks. However, the sustainable finance landscape keeps facing significant difficulties in developing universally accepted evaluation criteria, which makes it challenging to compare sustainability performance across organisations and regions (Chatterji et al., 2016).

Moreover, the effectiveness of sustainable finance in achieving genuine environmental and social improvements is actively debated. Some critics argue that even though ESG investing has grown dramatically, measurable real-world impact remains unclear, with investment decisions sometimes still influenced mostly by traditional financial metrics rather than genuine ESG integration goals (Busch et al., 2016). This critique underscores the ongoing tension between financial objectives and sustainable outcomes, highlighting the complexity of fully integrating ESG criteria into investment decision-making.

2.2 ESG investing: motivations, growth and market dynamics

Since the early 21st century, ESG investing has evolved from a niche concept into a mainstream investment strategy, reflecting broader shifts in the global financial system. Once limited to ethically minded investors, it is now widely embraced by asset managers, institutional investors and regulators. Broadly defined, ESG investing refers to the strategy of evaluating companies based on their environmental, social and governance practices to better manage risks and achieve sustainable returns (Busch et al., 2016). ESG considerations are now viewed not only as ethical or reputational

concerns but also as factors that can influence financial performance and risk management (Amel-Zadeh & Serafeim, 2018).

The academic literature introduces a variety of motivations behind the adoption of ESG investing. A central rationale is the need to mitigate long-term risks that may not be fully captured by traditional financial metrics. Environmental issues such as deforestation or water scarcity can have far-reaching effects on asset values and supply chains, while social or governance failures can increase instability and undermine corporate performance. In this sense, integrating ESG factors can be viewed as a proactive way to manage emerging risks before they materialize financially. At the same time, all motives for ESG integration are not only instrumental. Some investors adopt ESG criteria as part of a normative commitment to ethical investing or in response to growing stakeholder expectations for responsible corporate behaviour. These value-based motivations reflect a change in how investors perceive their role in the financial system not being only capital allocators but also being agents of social and environmental accountability (Richardson, 2009).

Busch et al. (2016) identify four distinct investor types based on their underlying motivations to incorporate ESG criteria into investment decisions. First, financial investors use ESG criteria to help improve financial performance and manage risks. They believe that sustainability issues can affect a company's future success. By analysing ESG information, these investors aim to identify firms that are better prepared for long-term challenges and can maintain a competitive advantage in changing market conditions. Second, deontological investors follow ethical principles and avoid companies they see as irresponsible. Their investment decisions are based not only on financial return but also on moral values. This group often supports strategies like exclusion screens, where the goal is to ensure their money does not contribute to harmful activities. Third, consequential investors aim to influence corporate behaviour through their investments. They try to steer capital toward companies with better sustainability practices and may use tools like shareholder activism and engagement. While some actively use these methods, others may face challenges such as limited influence or resources. Fourth, expressive investors focus on how their investment choices reflect their identity and values. They are concerned that being linked to harmful companies could damage their reputation or go against their beliefs. For large institutional investors, this also connects to the idea of long-term responsibility, as environmental damage in one part of their portfolio could hurt other holdings as well. The four categories are not mutually exclusive and in practice investment strategies often reflect a mix of underlying reasons (Busch et al., 2016).

These varied motivations help explain the widespread appeal of ESG investing across different types of investors and financial institutions. The appeal is reflected in the rapid increase in ESG-labelled assets under management, the creation of ESG funds and regulations and the growing use of ESG data in investment analysis (Hartzmark & Sussman, 2019). As illustrated in Figure 1, the geographic distribution of ESG investment activity reveals notable regional trends. Europe has consistently accounted for the largest share of global ESG assets. While ESG investing has also expanded in the United States and other regions, the European market remains the most mature both in terms of volume and investor engagement (Morningstar, 2025a). This dominance may be influenced by a combination of regulatory momentum, public policy support and stronger investor demand for sustainability-oriented products (Eurosif, 2022).

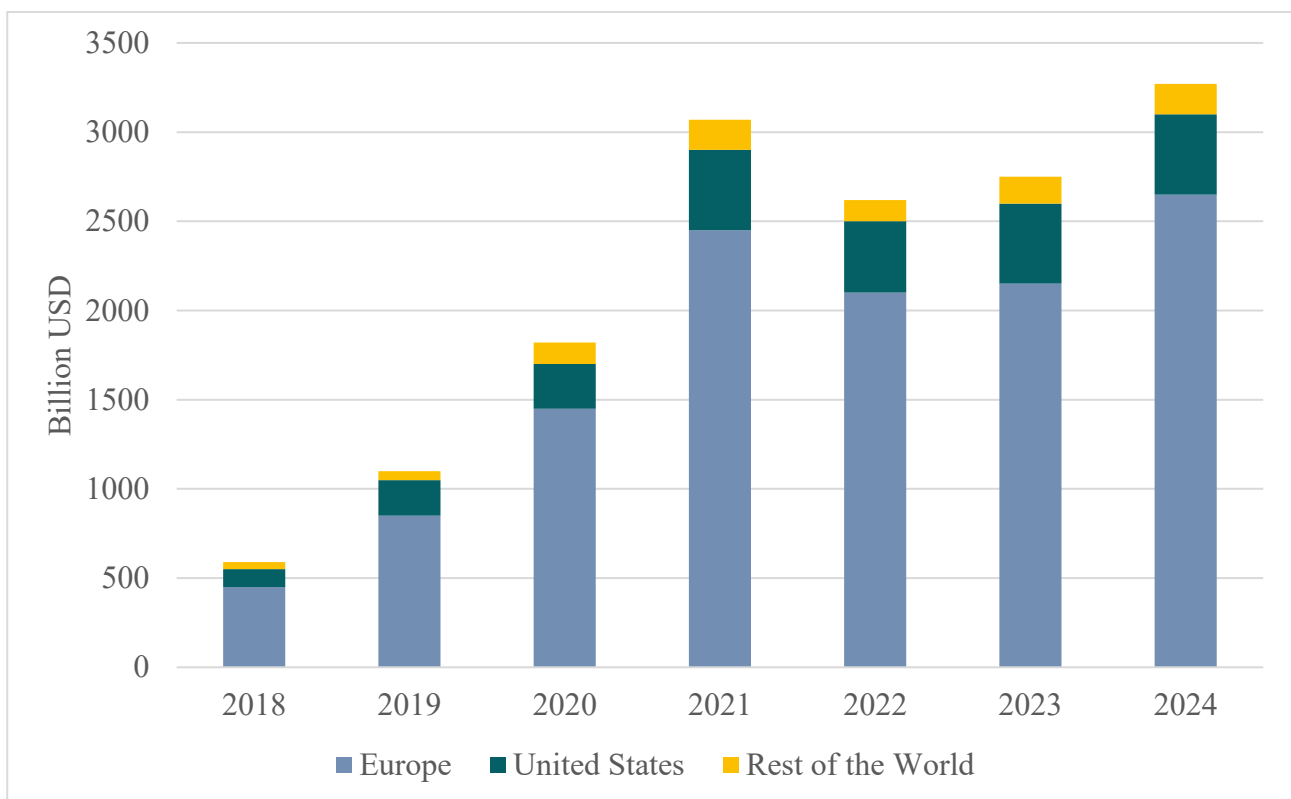


Figure 1. Global ESG assets under management in billions of USD by region, 2018–2024 (Morningstar, 2025a).

The growth in ESG assets has gone hand in hand with a deeper integration of ESG considerations into mainstream investment practice. Ferriani (2023) highlights that many large asset managers now expect companies to report on ESG-related risks and actions as part of their regular financial disclosures. At the same time, scholars have highlighted the growing influence of normative pressures on investor behaviour. Dyck et al. (2019) demonstrate that institutional investors are increasingly expected to align their strategies with stakeholder hopes related to climate goals,

diversity and human rights. These demands often come from regulators, civil society and asset owners and can influence investment decisions even when financial incentives are not the main driver (Dyck et al., 2019).

Nonetheless, the rapid expansion of ESG has brought new challenges. One widely discussed issue in the academic literature is the inconsistency across ESG data providers and scoring methodologies, which can lead to conflicting evaluations of a company's sustainability performance (Berg et al., 2022; Christensen et al., 2022; Bissoondoyal-Bheenick et al., 2024). Another key challenge relates to the lack of transparency and comparability in how financial products incorporate and communicate ESG factors. This has made it difficult for investors to understand what "sustainable" truly means in different funds, raising concerns about greenwashing and misleading claims (Bodellini, 2023; Abouarab et al., 2025; Cochran et al., 2024). The next subchapters turn to regulatory frameworks that aim to address these issues. Particular attention is given to Europe, which holds the largest concentration of ESG assets and has taken a leading role in shaping sustainability disclosures through initiatives like the SFDR.

2.3 The regulatory landscape for sustainable finance in Europe

2.3.1 The EU Sustainable Finance Action Plan

In 2018, the European Commission introduced the Sustainable Finance Action Plan (SFAP) as a strategic framework to integrate sustainability into the European financial system. The plan was developed in response to the increasing recognition that the financial sector plays a crucial role in achieving the EU's long-term climate and sustainability objectives. The SFAP consists of three core objectives closely aligned with the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development Goals (SDGs). The core objectives of the SFAP include 1) redirecting capital flows toward sustainable investments and away from environmentally harmful sectors, 2) enhancing the management of financial risks associated with climate change and environmental degradation and 3) increasing transparency and promoting long-termism in financial and economic activities. By implementing these goals, the plan seeks to mobilize investments that drive the transition toward a low-carbon economy (European Commission, 2018b).

The regulatory landscape for sustainable finance within the EU was further reinforced with the introduction of the European Green Deal in 2019, which is a policy initiative designed to make

Europe the first climate-neutral continent by 2050. This framework sets an intermediate target of reducing greenhouse gas emissions by at least 55% by 2030, compared to the levels of 1990 (European Commission, 2021c). The Green Deal outlines extensive public investment plans to support sustainability objectives. Still, the scale of the transition required cannot be achieved through public sector financing alone. The private financial sector plays an essential role in mobilizing additional capital, ensuring that sustainability considerations become integral to investment decision-making. Recognizing this, the Green Deal package highlights the importance of the financial sector in achieving its objectives, leading to a comprehensive overhaul of sustainable finance regulations.

As part of the EU's commitment to integrating sustainability into financial and corporate practices, sustainability disclosure regulations are also developing. The Non-Financial Reporting Directive (NFRD), which was adopted in 2014, marked the EU's first major legislative step toward mandatory sustainability reporting. This directive required large public-interest entities operating in the EU with over 500 employees to disclose non-financial information, including corporate sustainability and diversity policies, starting from the 2017 financial year (European Commission, 2014). The introduction of the NFRD established a foundation for transparency in corporate sustainability practices, setting the stage for following legislative advancements aimed at strengthening disclosure obligations.

Building on this regulatory framework, the EU introduced additional sustainability disclosure mandates to enhance transparency and ensure that financial market participants (FMPs) integrate sustainability risks into their decision-making processes. Among these, the SFDR, which first version was adopted in 2019, obliges fund managers, financial advisers and other FMPs to provide detailed information on how they consider sustainability risks and the environmental or social impacts of their investments (European Commission, 2019). The Taxonomy Regulation, introduced in 2020, complements the SFDR by establishing a standardized classification system for identifying environmentally sustainable economic activities (European Commission, 2020).

In November 2022, the EU adopted the Corporate Sustainability Reporting Directive (CSRD), which replaces the NFRD and significantly expands the scope of sustainability reporting requirements. Effective from the financial year 2024, the CSRD introduces more detailed and standardized sustainability reporting obligations covering a broader range of companies, including large non-listed entities and over time, certain small and medium-sized enterprises. A key change introduced by the CSRD is the requirement for independent auditing of reported sustainability

information, which was previously voluntary under the NFRD (European Commission, 2022b). The CSRD also mandates that sustainability disclosures follow the European Sustainability Reporting Standards (ESRS), ensuring that sustainability-related data is integrated into management reports to enhance corporate accountability. The evolution of the EU's sustainability regulatory framework is illustrated in Figure 2, which outlines the timeline of key global and European sustainability initiatives, including the adoption and implementation of major legislative measures.

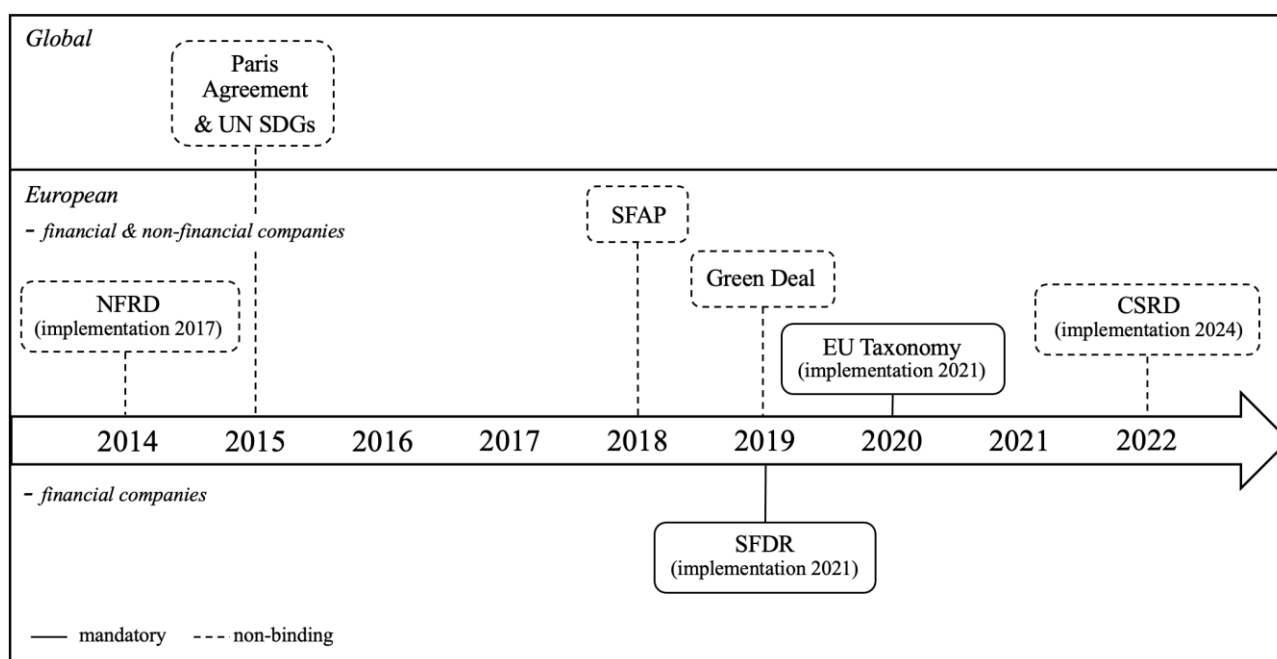


Figure 2. Timeline of the adoption and implementation of major global and European corporate sustainability initiatives (modified from Dinh et al., 2022)

2.3.2 Connections between SFDR, EU Taxonomy and CSRD

The sustainability disclosure requirements within the EU regulatory framework are closely connected and play a fundamental role in shaping corporate sustainability reporting in Europe. In the context of mutual funds and sustainable finance, the three primary regulatory standards following the Sustainable Finance Action Plan are SFDR, CSRD and the EU Taxonomy Regulation. These regulations form the core of the EU's strategy to enhance transparency and accountability in sustainability-related disclosures, ensuring that fund managers and financial advisors provide reliable and comparable information on sustainability matters. The SFAP itself is part of the broader European Green Deal and also includes amendments to existing financial legislation, such as UCITS, MiFID II and AIFMD, which are relevant as they further shape how

sustainability considerations are integrated into fund management and investment services (European Commission, 2018a). These amended regulations are discussed in subchapter 2.3.3. Figure 3 illustrates how the regulatory initiatives are positioned within the EU's sustainable finance agenda.

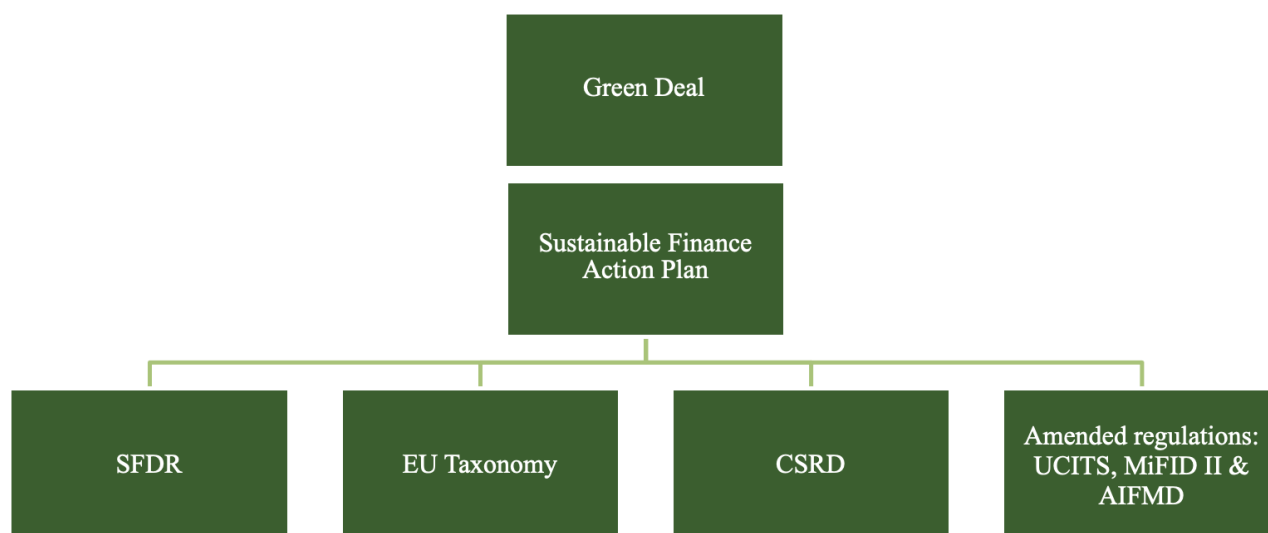


Figure 3. Overview of the EU Action Plan on Sustainable Finance

A key aspect of the sustainability reporting landscape is the classification system introduced in the EU Taxonomy Regulation, which supports environmental reporting across all three regulatory mandates. Certain disclosure obligations in the SFDR are based on the Taxonomy, while the ESRS, developed under the CSRD, are likewise obliged to line up with the Taxonomy classification system. The SFDR also leans on the Taxonomy when disclosing information about funds that do not have a defined sustainability objective, known as SFDR Article 6 funds. In these instances, FMPs or financial advisors must use predefined statements from the Taxonomy Regulation to disclose the absence of sustainability objectives transparently. Consequently, the Taxonomy Regulation serves as a foundational framework, ensuring that the EU has a standardized approach to sustainability reporting (Hummel & Bauernhofer, 2024).

The EU Taxonomy Regulation provides a classification system for determining whether an economic activity qualifies as environmentally sustainable based on specific technical screening criteria. The regulation defines six environmental objectives: 1) climate change mitigation, 2) climate change adaptation, 3) sustainable use and protection of water and marine resources, 4)

transition to a circular economy, 5) pollution prevention and control and 6) protection and restoration of biodiversity and ecosystems. To be considered environmentally sustainable under the Taxonomy, an activity must substantially contribute to at least one of these objectives while ensuring that it does not significantly harm any of the others according to the “Do no significant harm” criteria. Additionally, the activities must follow minimum safeguards, which require compliance with frameworks such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises (European Commission, 2020).

One notable distinction between the SFDR, the CSRD and the Taxonomy Regulation is their stakeholder focus. While the SFDR primarily targets FMPs and financial advisors, the Taxonomy and the CSRD extend their reach to a broader set of stakeholders (Hummel & Jobst, 2024). The scope of reporting obligations also varies between financial and non-financial companies. More specifically, the Taxonomy Regulation and the CSRD impose sustainability reporting requirements across all industries, whereas the SFDR solely applies to specified companies in the financial industry. Furthermore, while the SFDR and the CSRD encompass all three aspects of sustainability, environmental, social and governance, the current Taxonomy Regulation concentrates solely on environmental sustainability (Macpherson, 2024).

Article 8 of the EU Taxonomy Regulation establishes a connection with both the SFDR and the CSRD by requiring FMPs under the SFDR and companies under the CSRD to disclose specific sustainability-related information in their non-financial statements. If an investor or financial product claims alignment with the EU Taxonomy, they must report the extent to which their investments meet the established criteria (European Commission, 2021b). In addition, both the SFDR and the CSRD are grounded in the principle of double materiality, which requires disclosures on how corporate activities impact society and the environment, as well as how sustainability issues affect financial performance. This approach broadens the purpose of sustainability reporting beyond investor needs, also reinforcing its role in promoting accountability and transparency in corporate conduct (Owens, 2025). The main characteristics of the SFDR, EU Taxonomy Regulation and CSRD are presented in Table 1.

Table 1. Summary of the applicability and purpose of the SFDR, CSRD and EU Taxonomy

| REGULATION | SFDR | CSRD | EU TAXONOMY |
|----------------------|--|---|--|
| Applicability | Financial market participants and financial advisors | Large or Listed Companies & Subsidiaries of Non-EU Companies | Companies subject to SFDR and CSRD |
| Purpose | <ul style="list-style-type: none"> • Improve comparability of sustainability reporting and prevent greenwashing • Promote sustainable investment flows | <ul style="list-style-type: none"> • Strengthen the consistency of sustainability reporting • Encourage corporate contribution to sustainable economic transformation | <ul style="list-style-type: none"> • Define environmentally sustainable economic activities • Improve comparability of sustainability reporting and prevent greenwashing • Promote sustainable investment flows |

The SFDR and the Taxonomy Regulation apply directly across all EU member states, ensuring consistent implementation without room for national variation. This consistency strengthens the comparability and reliability of sustainability disclosures across jurisdictions. Furthermore, the swift adoption of these frameworks reflects the urgency with which EU policymakers have approached sustainability regulation, aiming to accelerate the transition toward a more sustainable financial system (Hummel & Jobst, 2024).

2.3.3 Other regulations impacting funds and their sustainability integration

While the Sustainable Finance Action Plan introduced targeted sustainable finance regulations such as SFDR and the EU Taxonomy, sustainability considerations have also been integrated into financial market regulations that were not originally designed with ESG factors in mind. These include the Undertakings for Collective Investment in Transferable Securities (UCITS) directive, the Markets in Financial Instruments Directive II (MiFID II) and the Alternative Investment Fund

Managers Directive (AIFMD). Although these regulations are not dedicated sustainable finance rules, they play a crucial role in shaping how investment funds operate by incorporating sustainability-related requirements. By mandating the integration of ESG factors into fund management, risk assessment and investor disclosures, they extend the influence of sustainable finance principles across a broader segment of the financial sector (European Commission, 2018b).

The UCITS Directive, which regulates retail investment funds in the EU, was not originally designed with a sustainability focus, but later it has been aligned with the SFDR's requirements. UCITS funds that promote environmental or social characteristics (Article 8) or have sustainable investment as their core objective (Article 9) must comply with enhanced sustainability disclosure obligations under the SFDR (European Commission, 2019). These amendments ensure that funds marketed as ESG-compliant provide clear, transparent and comparable information, reducing the risk of greenwashing (European Securities and Markets Authority, 2022).

Similarly, MiFID II, which governs financial markets, investment firms and investor protection, has been updated to integrate sustainability considerations into investment advice and portfolio management. Since August 2022, investment firms and financial advisors are required to assess clients' ESG preferences and ensure that sustainability factors are taken into account when offering financial products. These amendments try to ensure that investors seeking ESG investments are matched with funds that align with their sustainability expectations (European Securities and Markets Authority, 2023).

Lastly, AIFMD, which governs alternative investment funds such as hedge funds, private equity and real estate funds, has also been amended to incorporate sustainability-related considerations. Alternative investment funds must now comply with the SFDR's disclosure requirements, ensuring that ESG risks and sustainability objectives are transparently reported to investors (European Commission, 2021a). This is particularly relevant for private markets, where alternative investment funds are playing an increasing role in financing renewable energy projects, sustainable infrastructure and impact investments (Casady et al. 2023).

3 SUSTAINABLE FINANCE DISCLOSURE REGULATION

3.1 Overview and structure of the SFDR

3.1.1 Introduction and key objectives

The Sustainable Finance Disclosure Regulation, introduced as part of the Sustainable Finance Action Plan, plays a central role in EU's regulatory framework aimed at promoting sustainable finance. Officially known as Regulation (EU) 2019/2088, the SFDR represents a significant step toward enhancing transparency and accountability among asset management firms, financial advisors and other FMPs regarding their approach to sustainability risks and impacts (European Commission, 2019).

SFDR was developed primarily in response to growing concerns about greenwashing and purpose-washing, both having become more and more prevalent in recent years. Greenwashing refers to misleading practices in which financial products or services are inaccurately promoted as environmentally sustainable or socially responsible without genuine alignment with sustainability claims (Wu & Shen, 2013). FMPs claiming sustainability objectives without acting toward these goals can be identified as greenwashers (de Freitas Netto et al., 2020). Purpose-washing, on the other hand, takes place when investors receive misleading information regarding a fund's genuine objectives for impact or the true potential impact of an investment (Findlay and Moran, 2019). These growing concerns evidenced the necessity to formalise how FMPs structure and manage financial products integrating sustainability factors, which the SFDR defines as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters (European Commission, 2019).

The SFDR applies to a range of FMPs operating within the EU. These include asset management companies overseeing Undertakings for Collective Investment in Transferable Securities (UCITS), which are investment funds that adhere to the UCITS framework, Alternative Investment Fund Managers (AIFMs) as well as investment firms or banks providing portfolio management services and investment advisory activities. Furthermore, the SFDR extends to insurance companies that offer Insurance-Based Investment Products (IBIPs), Institutions for Occupational Retirement Provision (IORPs), pension product manufacturers and providers of Pan-European Personal Pension Products (PEPPs) (Principles for Responsible Investment, 2022).

Moreover, financial entities based outside the EU are also affected if they manage funds domiciled in the EU or market non-EU funds to EU investors. Following the United Kingdom's exit from the European Union, UK-based institutions no longer directly fall under the SFDR's jurisdiction. Nonetheless, the UK has developed its own regulatory approach regarding sustainability disclosures. In November 2021, the UK's Financial Conduct Authority published a discussion paper introducing the Sustainability Disclosure Requirements (SDR) and a proposed system of investment labels for funds promoted with ESG features. While this UK approach shares certain transparency objectives with the SFDR, especially enhancing the clarity and consistency of sustainability-related disclosures, significant differences remain between the two regulatory frameworks, particularly concerning fund classification and labelling criteria (British International Investment, 2023).

The SFDR pursues two overarching objectives: to mitigate greenwashing risks by enhancing transparency and comparability and to channel capital more effectively toward sustainable economic activities. These aims are operationalised through three main requirements. First, it explicitly addresses the need to provide transparent disclosure regarding how sustainability risks are integrated into the investment decision-making processes of the FMPs. By mandating clear communication about the consideration of these risks, investors gain a more accurate understanding of the implications of sustainability issues on potential investment returns (Hurk & van der Klooster, 2024). In practice, this increases the investors' ability to make informed decisions, aligning investments more closely with their sustainability preferences and risk tolerance.

Second, the regulation introduces systematic reporting of Principal Adverse Impacts (PAIs), requiring financial entities to disclose the negative effects their investment decisions may have on sustainability factors. Through mandatory disclosure of PAIs, the SFDR promotes accountability among financial market participants, ensuring they more carefully evaluate the wider consequences of their investment activities (Eurosif, 2021). This requirement also provides investors and other stakeholders with consistent and comparable data to assess sustainability performance across the financial industry.

Currently, the PAIs consist of 64 indicators, categorized into mandatory and optional indicators. For corporate investments, there are 14 mandatory indicators that must either be reported or justified through a comply-or-explain approach. Additionally, investors must select at least one optional environmental and one optional social indicator, when relevant. The indicators are tailored for assessing different asset classes, including corporates, sovereign bonds and real estate. Examples of mandatory indicators are greenhouse gas emissions, exposure to fossil fuel activities and diversity

of company boards, whereas optional indicators cover areas such as water recycling practices, land degradation and reported discrimination incidents (The Joint Committee of the European Supervisory Authorities, 2021a).

Third, the SFDR aims to improve comparability among financial products marketed as sustainable. Through standardized disclosure requirements at both entity and product levels, the regulation reduces ambiguity in the market. Specifically, the SFDR requires financial intermediaries to provide sustainability transparency on their website, in periodic reports, in promotional material and in pre-contractual information (European Commission, 2019). As a result, investors can more effectively compare and evaluate different sustainable investment products, ultimately contributing to greater transparency and increased market integrity. The disclosure requirements at entity and product levels are covered more thoroughly in section 3.1.3.

Together, these requirements are intended to create the conditions for directing capital toward genuinely sustainable economic activities, thereby supporting the broader objectives outlined in the European Green Deal (Hurk & van der Klooster, 2024). Accordingly, the regulation's effectiveness depends not only on limiting greenwashing but also on how fund classification practices shape the actual flow of capital, a dynamic that forms a central focus of this thesis.

3.1.2 Fund classification system

A cornerstone of the SFDR is its fund classification framework, designed to clarify and standardize how investment products within the European Union communicate sustainability-related information. The regulation distinguishes between three main categories: Article 6, Article 8 and Article 9 funds. Each category reflects a different degree of commitment to sustainability goals, and the scope of sustainability reporting requirements increases together with the category (Lamandini et al., 2024).

Article 6 funds, often described as conventional or non-sustainable products, do not have explicit sustainability objectives. Instead, this category includes all funds that fail to satisfy the sustainability criteria set for Article 8 or Article 9 classifications. Although these funds do not actively pursue or promote sustainability, the SFDR still requires them to disclose whether and how they integrate sustainability risks into their investment processes or state clearly if sustainability risks are not considered relevant. However, unlike Article 8 or 9 funds, Article 6 products are not obligated to provide detailed information about PAIs or demonstrate alignment with specific

sustainability criteria beyond basic sustainability risk disclosure. Therefore, Article 6 serves as a foundational category, representing minimal requirements for transparency regarding sustainability (European Commission, 2019).

In contrast, Article 8 funds often referred to as "light green," promote environmental or social characteristics within their investment strategy. While their primary objective does not have to be sustainable investment, these funds must clearly define the environmental or social characteristics they promote and disclose how these considerations are integrated into their investment processes. The SFDR does not impose specific investment targets or a minimum proportion of sustainable investments for Article 8 funds. Although they are not required to invest exclusively in sustainable assets as defined by the SFDR, they must ensure that the ESG features they promote are transparently reported in periodic disclosures and pre-contractual documentation (European Commission, 2019). Consequently, Article 8 funds provide investors with greater assurance regarding the actual sustainability considerations within their portfolios, but they do not represent the most rigorous sustainability standards outlined by the SFDR, as they can include both sustainable and non-sustainable investments.

The concept of promotion under the SFDR has a broad interpretation, covering any direct or indirect claims indicating that sustainability factors are considered in investment policies or objectives (Principles for Responsible Investment, 2022). Specifically, promotion refers to pre-defined environmental or social characteristics, which can range from simple product naming and marketing language to explicit ESG-related statements in the product's strategy and policy documentation. This broad interpretation helps distinguish Article 8 products from Article 6, thus mitigating greenwashing (KPMG, 2022). For instance, any fund described in its materials as sustainable or responsible would be subject to Article 8 disclosures rather than Article 6.

Moreover, promotion also refers to the active integration of ESG considerations into a fund's investment strategies or policies. This allows Article 8 funds flexibility in applying various responsible investment practices, such as exclusionary approaches, ESG integration, active ownership, screening or thematic investing strategies. Though, the regulator has given fund managers the freedom of choice to determine the minimum threshold for such promotion. Ultimately, if an FMP indicates in any documentation or communication related to the product that environmental or social characteristics are considered, the fund must be classified as Article 8 and fulfil the corresponding disclosure requirements. Given the dual interpretation of promotion, Article 8 funds must genuinely and actively implement the ESG factors they claim to support and consider

what kind of impression they give to the investors, aligning their practices with the overall objectives of the SFDR (KPMG, 2022).

Funds classified under Article 9, commonly known as "dark green" or impact funds, represent the highest level of sustainability integration defined by the SFDR. Article 9 products explicitly aim for sustainable investment as their primary objective. According to Article 2(17) of the SFDR, sustainable investments refer to economic activities that contribute positively to environmental objectives, such as improving resource efficiency, biodiversity or the circular economy, or to social objectives, such as addressing inequality, promoting social integration or supporting disadvantaged communities. Such investments must also adhere to good governance practices, particularly regarding staff remuneration, compliance with tax obligations, sound management structures and employee management (European Commission, 2019).

To fulfil their classification, Article 9 funds must continuously and transparently demonstrate how their portfolio aligns with and contributes to the declared sustainability objectives. They are required to strictly apply the EU Taxonomy's "Do no significant harm" principle, ensuring that investments do not negatively affect other environmental or social goals. Comprehensive disclosure obligations, including detailed metrics and PAIs, allow investors to effectively evaluate the sustainability performance of Article 9 funds (Lamandini et al., 2024).

Article 9 products differ from Article 8 funds primarily through their explicit focus on sustainable investments. The underlying assets of Article 9 funds should consist predominantly of investments qualifying as sustainable, though limited exceptions are allowed for liquidity or hedging purposes. If an Article 9 product aims specifically to reduce carbon emissions, it must disclose whether an EU climate benchmark is being used; if not, the product must explain how it maintains efforts toward achieving carbon-reduction goals consistent with the Paris Agreement. Moreover, Article 9 products referencing a specific index must clearly detail in their pre-contractual disclosures how the benchmark aligns with their sustainable investment objective, including the rationale for choosing the benchmark, how it differs from general market benchmarks and where its methodological details can be accessed. If the fund does not reference an index, the pre-contractual disclosures must clearly describe the methods and strategies the fund will use to achieve its sustainability objective (The Joint Committee of the European Supervisory Authorities, 2021c).

The practical implementation of these SFDR categories has not been without challenges. In particular, distinctions between Article 8 and Article 9 funds initially led to market confusion due to ambiguous definitions of promotion and sustainable investment. This lack of clarity prompted

regulatory authorities, notably the European Commission and the Joint Committee of the European Supervisory Authorities (ESAs), to issue detailed guidance through the Regulatory Technical Standards (RTS), introduced as part of the SFDR level 2 implementation. The RTS are described further in section 3.1.4. These guidelines have helped clarify fund classifications, thus reducing uncertainty and improving the consistency of sustainability-related disclosures (Lamandini et al., 2024).

Furthermore, FMPs have responded to the SFDR by adopting varied product-classification approaches, reflecting diverse interpretations of the regulation. The result is a broad spectrum of ESG approaches represented by Article 8 and 9 funds and similar investment approaches may be found in either category. Although the SFDR was primarily intended as a disclosure framework rather than as a sustainability labelling standard, investors in practice may perceive Article 8 and Article 9 designations as implicit sustainability labels. Therefore, investors should closely evaluate individual funds' ESG characteristics and investment processes rather than relying exclusively on their SFDR classification. At present, the SFDR remains neutral regarding investment styles and does not command specific product designs within its categories. Nevertheless, the European Commission has suggested that it may introduce minimum sustainability standards specifically for Article 8 products in the future (Principles for Responsible Investment, 2022).

The varied interpretations of classification requirements have also led to significant differences in how funds are categorized as either light or dark green across EU member states. According to a survey conducted by the European Fund and Asset Management Association (EFAMA), the combined market share of Article 8 and Article 9 funds differed substantially between countries at the end of 2022. In Finland, 97.4% of the total assets under management in funds domiciled in the country were classified under Articles 8 or 9, representing the highest share among EU countries. In contrast, Poland recorded the lowest share, with only 0.9% of assets falling into these two categories. Such variation likely reflects the longstanding history and maturity of ESG investing in Nordic countries, resulting in high proportions of Article 8 and 9 funds in these regions. In contrast, the ESG investment market in Eastern European countries is comparatively less developed, with market shares of Article 8 and 9 funds generally remaining below 5%, with the notable exception of Croatia. Nevertheless, the market share of Article 8 funds grew in nearly all Eastern European domiciles during the second half of 2022, suggesting an ongoing shift towards greater ESG integration in these markets as well (European Fund and Asset Management Association, 2023).

Figure 4 highlights the dominance of Article 8 funds within the EU sustainable fund market in terms of assets under management. These funds, which actively promote environmental or social characteristics, represent the majority of sustainable fund assets. In contrast, Article 6 funds, which do not explicitly pursue sustainability objectives, hold a notably smaller share. Article 9 funds, identified by their explicit sustainable investment objectives, represent the smallest share of total sustainable assets (Morningstar, 2025b).

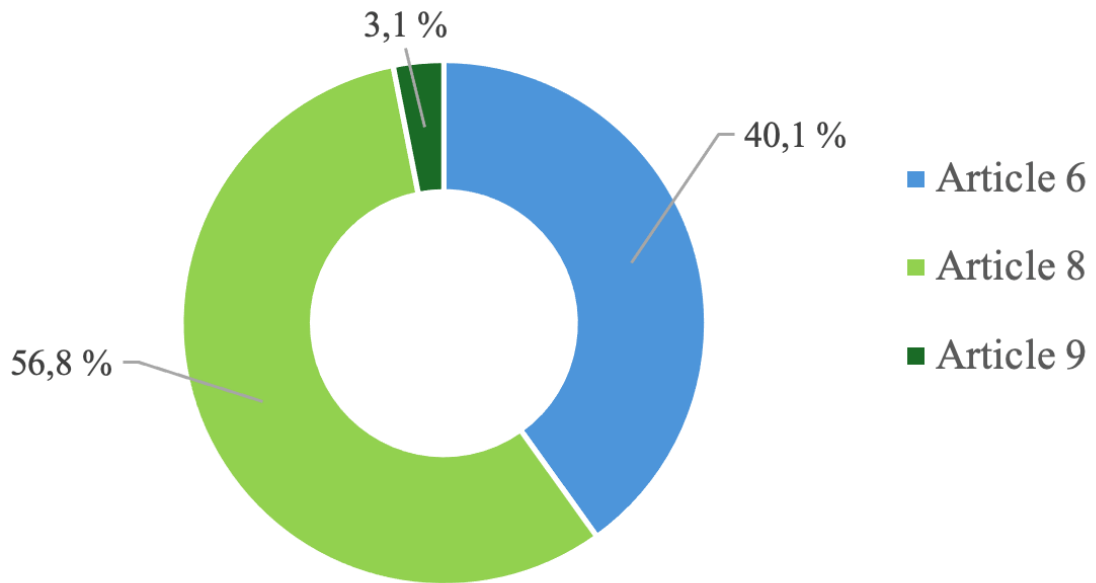


Figure 4. Distribution of funds available for sale in the EU across SFDR categories, presented as percentages of total assets under management at the end of 2024, excluding money market funds, funds of funds and feeder funds (Morningstar, 2025b)

Figure 5 reveals a slightly different picture when examining the distribution by the number of funds. Article 6 funds, despite their lower share in terms of total assets, represent the largest proportion of the total number of funds available for sale in the EU. Conversely, Article 8 funds, while still significant with 11 372 funds, have a comparatively smaller share by number than by assets. Article 9 funds consistently form the smallest category, both in terms of asset size and number of funds (Morningstar, 2025b).

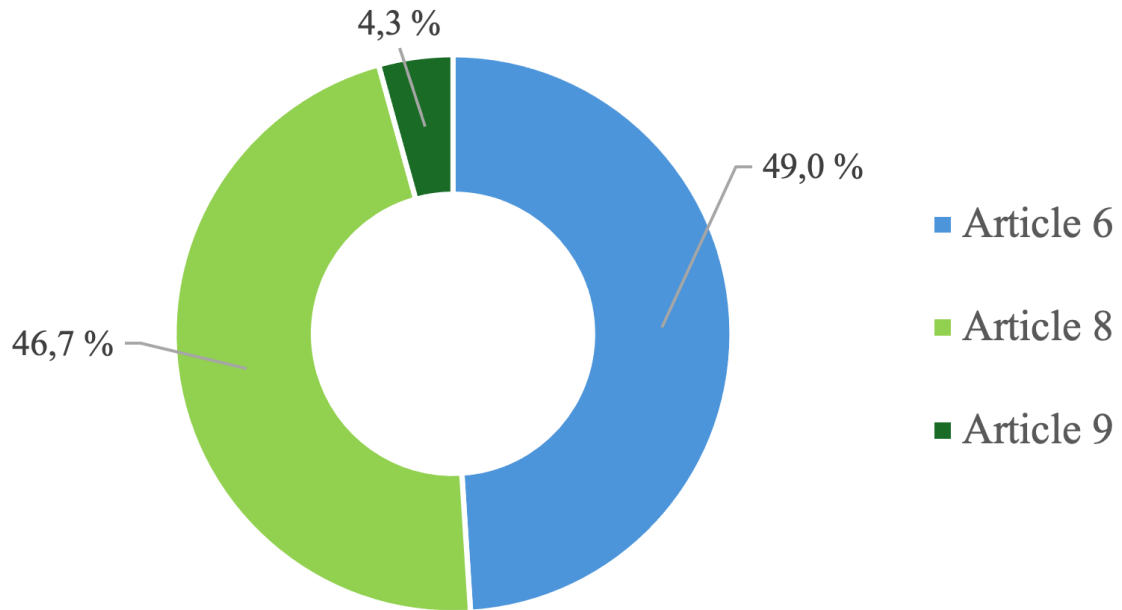


Figure 5. Distribution of funds available for sale in the EU across SFDR categories, presented as percentages of the total number of funds at the end of 2024, excluding money market funds, funds of funds and feeder funds (Morningstar, 2025b)

Despite a gradual decline in fund inflows over the past three years, the total assets held in European sustainable funds reached an all-time high of USD 2.7 trillion by the end of 2024. Active sustainable funds maintained assets close to USD 1.8 trillion, whereas passive sustainable funds increased their market share from below 28% three years earlier to 33%, highlighting investors' ongoing preference for more cost-effective, passive investment strategies. These trends indicate increasing investor confidence in financial products with clear ESG characteristics and measurable sustainability impacts (Morningstar, 2025a).

3.1.3 Disclosure requirements at entity and product levels

The SFDR introduces a layered disclosure framework created to enhance the transparency and comparability of sustainability-related information to ultimately minimize greenwashing. The disclosure requirements operate at two levels: the entity level and the product level. Entity-level requirements focus on the sustainability practices of the FMPs themselves. In contrast, the product-level disclosures relate to the sustainability features of specific financial products offered in the market, such as investment funds, insurance-based investment products and pension schemes (European Commission, 2019).

Under the SFDR, disclosure obligations are divided across different channels depending on whether the information relates to the entity or to the product. Entity-level information, such as remuneration policies and the consideration of PAIs, must be published on the website of the FMP. Product-level information in turn is required across three channels: the website of the FMP, pre-contractual documents and periodic reports. Pre-contractual disclosures inform investors about the product's sustainability approach before investment decisions are made, while periodic reports provide updates on how well the product has met its stated sustainability objectives. The depth of these disclosures varies depending on how the product is classified under the SFDR, with more extensive requirements for Article 8 and 9 products (European Commission, 2019). An overview of these disclosure requirements is presented in Table 2.

Table 2. Summary of the SFDR disclosure requirements (modified from Hummel & Jobst, 2024)

| ENTITY-LEVEL REQUIREMENTS |
|--|
| <p>Website disclosure:</p> <ul style="list-style-type: none"> ○ Policies for integrating sustainability risks into the investment decision-making process or the provision of financial advice. ○ Consideration of PAIs on sustainability factors in investment decisions or financial advice, with a comply-or-explain approach. ○ How sustainability risks are integrated into remuneration policies. |
| PRODUCT-LEVEL REQUIREMENTS |
| <p>Precontractual disclosure:</p> <ul style="list-style-type: none"> ○ Integration of sustainability risks into investment decisions or financial advice, including an assessment of their impact on returns. Applies to all funds, with a comply-or-explain approach. ○ Consideration of PAIs on sustainability factors. Mandatory for entities with over 500 employees: smaller entities must disclose whether they do so. ○ For Article 8 funds: Explanation of how environmental and/or social characteristics are met. ○ For Article 9 funds: Description of how sustainable investment objectives are met. <p>Periodic reports:</p> <ul style="list-style-type: none"> ○ Consideration of PAIs on sustainability factors. ○ For Article 8 funds: Extent to which environmental and/or social characteristics are met. ○ For Article 9 funds: the overall sustainability-related impact, including comparison to reference indices. ○ For Article 8 & 9 funds: Disclosure on alignment with the EU Taxonomy Regulation. <p>Website disclosure for Article 8 & 9 funds:</p> <ul style="list-style-type: none"> ○ Summary of the fund. ○ Description of its sustainability objectives, characteristics and methodologies. ○ Information aligned with precontractual and periodic reporting. |

Additionally, FMPs are required to determine and disclose the proportion of their investments considered sustainable, which is based on their contribution to climate change mitigation and other

environmental and social objectives set by the EU. The requirement to report these environmentally sustainable investment shares is established under the EU Taxonomy Regulation. Moreover, financial advisors must take into account clients' sustainability preferences and provide estimates of the minimum share of a product invested in sustainable activities. For Article 8 funds, setting a minimum target for sustainable investments and reporting the total share is optional whereas Article 9 funds are expected to only make investments with sustainability objectives (Cochran et al. 2025).

3.1.4 Implementation process and future outlook

The implementation of the SFDR has taken place in two phases, often referred to as level 1 and level 2. Level 1 of the SFDR became applicable on 10 March 2021 and introduced fundamental requirements for sustainability-related disclosures. FMPs were required to disclose their policies concerning the integration of sustainability risks into their investment processes, whether or not they considered PAIs on sustainability factors and how remuneration policies were consistent with sustainability considerations (European Commission, 2019).

The SFDR level 1 regulation has been characterized by European policymakers as the initial phase in establishing sustainability disclosure guidelines. Although level 1 set basic requirements for entity level disclosures, the ESAs raised early concerns about the need for further clarifications. Consequently, even before the introduction of level 2 of the SFDR, the ESAs proposed that level 1 requirements should be regarded as preliminary guidelines, serving as an initial framework in anticipation of the more detailed and comprehensive requirements included in the delayed level 2 RTS (The Joint Committee of the European Supervisory Authorities, 2021b). Therefore, while level 1 established the foundational principles for entity level sustainability disclosures, the specific, technical disclosure obligations were fully realized only with the enforcement of the SFDR level 2.

Level 2 of the SFDR, based on the RTS developed by the ESAs, was formally adopted by the European Commission through Delegated Regulation (EU) 2022/1288 and became effective on 1 January 2023. This second implementation phase introduced more detailed and technical disclosure obligations, specifying the exact methodologies, content and presentation formats required for sustainability-related disclosures. In particular, the level 2 RTS clarified definitions related to Article 8 and 9 funds, responding to earlier criticisms that unclear distinctions between product categories undermined investor trust and market integrity. In addition, the RTS enhanced the comparability and reliability of the disclosures on PAIs through standardized metrics, such as those

related to greenhouse gas emissions (European Commission, 2022a). Consequently, the tangible impacts of the SFDR are expected to become increasingly evident following level 2 implementation, as improved standardization the comparability of reported sustainability data.

The level 2 RTS were further refined through Delegated Regulation (EU) 2023/363 that entered to force on 17 February 2023. This adjustment addressed evolving regulatory and market developments by requiring additional disclosures, specifically concerning investments in fossil gas and nuclear energy activities aligned with the Complementary Climate Delegated Act of the EU Taxonomy (European Commission, 2023b). Nevertheless, in 2023, the European Commission initiated a new review process of the RTS aiming to expand the existing disclosure requirements and resolve enduring technical issues. (The Joint Committee of the European Supervisory Authorities, 2023a) In December 2023, the ESAs submitted proposed amendments to the RTS framework (The Joint Committee of the European Supervisory Authorities, 2023b).

Currently, the SFDR implementation landscape remains dynamic, with further regulatory changes anticipated. A review of the level 2 regulation has been underway since 2023, considering potential updates and improvements to better reflect market needs and sustainability objectives. The extensive review is due for publication in mid 2025 (European Securities and Markets Authority, 2024). Moreover, a public consultation by the European Commission regarding the SFDR took place between September and December 2023, presenting two alternative pathways for proposed amendments. The first approach aimed to refine the existing product categories by enhancing distinctions between Article 8 and Article 9 funds. In contrast, the second approach proposed a new framework centred around investment strategy classifications, such as commitments towards particular sustainability goals or strategies focusing on transition efforts, that could differ from the current SFDR categories (European Commission, 2023a).

A noteworthy recent development also relating to the SFDR is the December 2024 briefing note by the EU Platform on Sustainable Finance, an advisory body supporting the European Commission. The European Commission (2024) noted this proposal as a possible step towards refining the existing SFDR product categorisation framework, addressing the increasing demand among investors for clearer distinctions between sustainable investment strategies. The Platform's proposal recommends establishing three distinct product categories that reflect different investor preferences and sustainability approaches. The first category, labelled "sustainable", includes products explicitly contributing positively to sustainability objectives, either through direct alignment with the EU Taxonomy or by aligning with the current definition of Sustainable Investments outlined in the

SFDR. Furthermore, to qualify for this category, financial products must avoid activities that cause significant harm according to the “Do no significant harm” criteria or be based on a more concise definition consistent with the EU Taxonomy (Platform on Sustainable Finance, 2024).

The second category proposed by the Platform is "transition." It specifically targets financial products and portfolios designed to facilitate the transition toward a sustainable and net-zero economy. This classification closely aligns with existing recommendations from the European Commission on financing sustainable transitions, notably emphasizing the need to prevent carbon lock-in investments. Products within this category must explicitly demonstrate their active contribution to achieving meaningful and measurable progress toward long-term sustainability objectives (Platform on Sustainable Finance, 2024).

The third suggested category, referred to as "ESG collection," would include financial products that either exclude significantly harmful activities or that allocate their assets according to rigorous environmental or social criteria. Additionally, this category could cover products employing various enhanced sustainability features. Products within the ESG collection, although committed to ESG principles, would not fulfil all criteria set for either the “sustainable” or “transition” categories, but still represent considerable progress toward sustainable investment goals (Platform on Sustainable Finance, 2024).

The intention to protect retail investors is central to the Platform’s proposal. To enhance credibility, consistency and investor clarity across these three categories, the Platform proposes mandatory minimum safeguards. These safeguards include alignment with the Paris-Aligned Benchmarks (PABs) or the Climate Transition Benchmarks (CTBs). Products failing to meet the criteria for any of the three established categories would be clearly designated as "unclassified", therefore promoting transparency and helping investors in making informed investment decisions (Platform on Sustainable Finance, 2024).

Although the European Commission is not obliged to directly implement the Platform's recommendations, these proposals offer insights into potential future directions for the regulatory evolution of the SFDR. If these recommendations or their elements are adopted, financial market participants would face substantial adjustments in product classifications, reporting methodologies and disclosure requirements. Recognizing the potential complexity of these changes, the briefing note by Platform on Sustainable Finance (2024) emphasises the importance of introducing transition periods and exempt rules, intended to facilitate an effective implementation across the financial sector.

3.2 Advantages and criticism of the SFDR

3.2.1 Positive market effects and investor responses to the SFDR

The SFDR has initiated several improvements to the investment fund industry, especially regarding ESG transparency and investor awareness. While the regulation has also attracted criticism in some areas, recent studies provide increasing evidence of its positive effects, both on fund-level sustainability performance and on broader market dynamics.

One of the most notable effects of the SFDR is the improvement in ESG performance among investment funds. According to Martinez-Meyers et al. (2024), fund-level ESG risk decreased and ESG scores improved across all three environmental, social and governance dimensions after the regulation came into effect. Importantly, this trend was not only observed in self-labelled sustainable funds but also in conventional funds managed by the same companies. This suggests that the regulation influenced broader industry practices and not just those explicitly aligned with sustainability objectives (Martinez-Meyers et al., 2024).

In addition to overall ESG improvements, the SFDR appears to have driven more specific environmental benefits. A study by Dai et al. (2025) found that funds categorized under Articles 8 and 9 significantly reduced their carbon intensity following the regulation. This means that the funds shifted their portfolios away from high emission assets, which points to a tangible environmental impact exceeding only improving transparency.

The SFDR has also played a role in changing investor behaviour. Research by Becker et al. (2022) shows that higher ESG scores were associated with increased capital inflows after the regulation was introduced. This implies that investors responded positively to the regulation and viewed the SFDR labels as indicators of sustainability quality. Spaans et al. (2024) argue that these inflows were not simply passive reactions, but a part of a broader shift where asset managers adjusted their strategies to align with investor expectations shaped by the regulation. In this way, the SFDR has served both as a compliance requirement and as a behavioural incentive for the industry.

There is also support for the idea that the SFDR helps direct capital toward more sustainable causes. Scherer and Hasaj (2023) observe that funds labelled under the SFDR framework attracted more investor interest and financial flows. Similarly, Scheitza and Busch (2024) argue that the regulation has helped promote investment products with a stronger sustainability focus. These studies support the view that SFDR contributes to one of its main policy goals: shifting financial resources toward environmental and socially responsible activities.

Although the regulation was not originally introduced as a labelling tool, over time it has effectively taken on this role. In particular, Articles 8 and 9 have become widely used by market participants to assess the sustainability alignment of different funds. Lamandini et al. (2024) highlight that the adoption of the level 2 RTS and the introduction of more specific reporting requirements have helped to clarify what these categories mean in practice. While the labels are still subject to differing interpretations, they have become reference points for comparing funds based on their ESG characteristics. For many investors, this categorization could help reduce uncertainty and make sustainability claims easier to understand (Lamandini et al., 2024).

Beyond categorisation, the SFDR also contributes to greater transparency across the financial sector. The regulation makes it easier to understand how investment strategies incorporate ESG factors by requiring consistent and detailed disclosures. Lamandini et al. (2024) point out that this information provides a broader picture of sustainability efforts within the fund industry. Although some parts of the data can still be difficult to interpret, the availability of comparable and structured information enables stakeholders to track progress, detect inconsistencies and hold fund providers accountable (Lamandini et al., 2024). As implementation continues and additional reforms are considered, the SFDR provides a foundation for further aligning investment practices with long-term sustainability objectives.

3.2.2 Limitations, misuse and oversight gaps

Despite the SFDR being an important step toward improving transparency in sustainable investing, it has drawn considerable academic criticism. These concerns range from structural issues to practical implementation problems that limit the regulation's ability to achieve its main objectives. One of the most widely discussed shortcomings of the SFDR is its lack of clarity around the classification of investment funds under Articles 6, 8 and 9. These categories were introduced to help investors differentiate between funds with different levels of sustainability ambitions, yet the lines between the three categories remain vague. Multiple studies have identified this problem of "category fuzziness" a term first introduced by Cremasco and Boni (2022). The authors find that Article 6 and Article 9 funds often behave similarly in both financial and sustainability dimensions, which challenges the usefulness of these classifications in the first place. As a result, a broad range of funds with varying levels of commitment to sustainability have been able to label themselves as sustainable, particularly under the more flexible Article 8 category (Cremasco & Boni, 2022).

This ambiguity opens the door for greenwashing, which is among the most significant and recurring criticisms of the SFDR. Several authors argue that fund managers exploit the unclear criteria to present funds as sustainable without making substantive changes to their investment strategies (Busch et al., 2022; Martinez-Meyers et al., 2024; Scheitza & Busch, 2024). Hooghiemstra (2023) adds that while the SFDR is designed to improve transparency it may unintentionally encourage this behaviour if fund managers interpret the disclosure obligations too loosely. A particularly concerning pattern involves funds rebranding themselves with ESG related wording, in other words changing names and marketing materials without adjusting the actual composition or objectives of their portfolios. Without clear sustainability thresholds or minimum standards, even minimal ESG screening can be enough to classify a fund under Article 8 (Hooghiemstra, 2023).

Another critical issue is the hybrid structure of the regulation, especially regarding the reporting of sustainable investments which are especially relevant to funds under Article 9. The SFDR allows fund managers to choose between two approaches: using the EU Taxonomy, which contains detailed definitions for certain types of sustainable investments or interpreting the broader and less defined principles for a sustainable investment laid out in Article 2(17) of the SFDR. These options have created inconsistencies in how sustainability is measured and reported. Managers can either follow stricter technical criteria or opt for their own interpretations of what constitutes a contribution to social and environmental objectives. The lack of standardization not only confuses investors but also makes comparisons between funds unreliable. Cochran et al. (2024) describe this as an unintentionally hybrid framework that gives too much responsibility to fund managers and leads to conflicting disclosure practices across the financial industry.

Related to the interpretation challenges is the issue of regulatory oversight. The SFDR primarily relies on self-reporting, which places significant trust in fund managers to disclose accurate and meaningful information. However, because there is currently no robust mechanism to verify the reliability of these disclosures, the consistency and credibility of reporting ultimately depend on the decisions managers make when interpreting the regulation. Malecki (2023) argues that this gap is especially evident when it comes to ESG ratings and data sources, which are often inconsistent and lack transparency. Because the regulation does not mandate the use of standardized ESG data providers or require third-party assurance, the risk of misleading disclosures remains high. Zetzsche and Anker-Sørensen (2022) also point out that the quality and availability of underlying ESG data are often insufficient for meaningful reporting, which may limit the effectiveness of the SFDR at a fundamental level.

Separate from these enforcement concerns, the credibility of the ESG data ecosystem itself has also been questioned. ESG ratings, which many SFDR disclosures rely on, are produced by a fragmented industry in which different providers apply diverse and sometimes incompatible methodologies. This inconsistency makes it difficult for investors to interpret ESG scores and compare funds in a consistent manner. Charlin et al. (2022) argue that the differences in rating practices reduce the usefulness of ESG ratings as decision-making tools. Since the SFDR based disclosures often rely on these external sources, weaknesses in the ESG ratings industry directly weaken the transparency and reliability the regulation is meant to provide.

The use of the SFDR as a marketing tool rather than a rigorous regulatory standard is another concern raised in the literature. Rather than setting enforceable sustainability requirements, the SFDR might function as a loose framework, leaving considerable flexibility in how terms like sustainable investment are defined and applied. Partiti (2024) argues that this turns the regulation into a label that can be used for commercial purposes, rather than a compulsory standard with measurable outcomes. The concern is especially relevant when it comes to Articles 8 and 9, which are often treated as signals that a fund is sustainable or focused on ESG, although the regulation does not give strict rules about what those labels mean (Partiti, 2024).

The alignment of the SFDR with other EU-level regulations has also been criticized. Rather than forming part of a coherent sustainable finance strategy, the SFDR is often described as misaligned with other frameworks such as the EU Taxonomy Regulation and MiFID II. This creates a fragmented regulatory landscape in which similar concepts are interpreted differently, which makes compliance more difficult and limits the effectiveness of each regulation. Moreover, the inconsistency risks undermining the EU's broader goals set out in the SFAP (Colaert, 2023).

In addition to structural concerns, several studies have questioned the incentive structures embedded in the fund management industry, which remain largely tied to financial performance. Even if a fund is categorized as Article 8 or 9 under the SFDR, the performance targets used to assess fund managers are typically unrelated to ESG or sustainability metrics. As Cremasco and Boni (2022) show, the lack of financial incentives for genuine ESG integration means that many funds continue to prioritise return maximization over sustainability outcomes. In some cases, ESG integration may be minimal or superficial, aimed more at fulfilling marketing expectations and ensuring better fund inflows than delivering real impact (Cremasco & Boni, 2022).

4 THEORETICAL BACKGROUND

4.1 Framing ESG fund decision-making

This chapter establishes the theoretical foundation for analysing ESG fund classification under the SFDR by examining the underlying tensions that influence fund managers' decisions. Principal–agent theory offers a relevant point of departure, as it conceptualises the challenges that arise when authority is delegated under conditions of uncertainty and potentially conflicting interests (Jensen & Meckling, 1976; Eisenhardt, 1989). In sustainable finance, it has been used to show how misalignments between sustainability objectives and financial incentives may encourage opportunistic behaviour or result in symbolic ESG adoption (Hussain et al., 2018). Building on this, six descriptive dimensions are derived: information asymmetries, incentive alignment, time horizons, risk distribution, accountability and the definition of value creation. Together they provide a structured basis for linking theoretical insights with the empirical material.

The way these dimensions are understood depends on the broader worldview through which they are approached. In this thesis, the term paradigm is used to denote such worldviews, drawing on established assumptions about actors, goals and organising principles. Two paradigms are of relevance: the neoclassical economic and the prosocial paradigms. While both recognise the possibility of misaligned or superficial sustainability claims, they differ in how they explain the reasoning behind such behaviour. The neoclassical economic paradigm tends to emphasise individual utility maximisation, contractual incentives and market efficiency (Hausman, 1992; Atkins et al., 2019) whereas the prosocial paradigm stresses the role of cooperation, collective goals and long-term competitiveness in shaping organisational outcomes (Wilson & Wilson, 2007; Pfister et al., 2024). The relevance of applying these theoretical perspectives is underscored by research demonstrating that multiple rationalities often coexist within financial and organisational decision-making (Gond et al., 2012; Contrafatto & Burns, 2013). Within the SFDR context, fund classifications may therefore reflect a combination of financial incentives, risk management concerns and normative commitments.

By forming the analysis around the principal–agent dimensions and interpreting them through the two paradigms, the thesis seeks to highlight how decision-making can be understood in fundamentally different ways. This approach provides a comprehensive account of the factors influencing Article 8 and Article 9 classifications and helps to clarify the broader implications of how sustainability is integrated into financial practice. The following sections present principal–

agent theory in greater detail, outline the dimensions derived from it and then elaborate on the neoclassical economic and the prosocial paradigms that serve as contrasting theoretical lenses.

4.2 Principal–agent theory

Principal–agent theory is a foundational approach for analysing delegation relationships, where one party (the principal) entrusts decision-making authority to another (the agent). Central to this perspective are concerns about misaligned preferences, asymmetric information and the design of contracts that align incentives (Jensen & Meckling, 1976; Eisenhardt, 1989; Shapiro, 2005). In financial markets, these tensions are particularly salient in fund management, where investors rely on fund managers to allocate capital and ensure accountability in relation to desired sustainability outcomes (Ziolo et al., 2023; Bilyay-Erdogan et al., 2024).

In this thesis, principal–agent theory is employed to derive a set of descriptive dimensions that capture structural features of delegation relevant to ESG fund classification. These dimensions provide a basis for examining how classification practices emerge, and they also clarify why regulatory interventions have sought to address agency problems in sustainable investing. In this regard, the EU introduced the SFDR explicitly with the aim of reducing information asymmetries between fund managers and investors. The regulation refers directly to principal–agent relationships, particularly in relation to how sustainability risks and objectives are integrated into investment decisions. Fund managers acting on behalf of investors are required to provide both pre-contractual and ongoing disclosures concerning the sustainability characteristics of their products (European Commission, 2019). While the SFDR defines categories under Articles 6, 8 and 9, the absence of a standardised auditing process leaves fund managers considerable discretion in how the regulation is implemented.

Building on well-established themes in agency literature, six descriptive dimensions can be identified as particularly relevant to the SFDR context. The first dimension, information asymmetry, concerns the inability of principals to fully observe agents' actions or verify outcomes (Eisenhardt, 1989; Shapiro, 2005). In sustainable finance, these asymmetries are amplified by the difficulty of assessing environmental and social performance. The second dimension, incentives and performance measurement, reflects the mechanisms through which agents' behaviour is aligned with principals' objectives. In agency theory, contractual design and financial remuneration are central to alignment (Jensen & Meckling, 1976; Lambert, 2001), yet ESG objectives are not easily

captured by short-term indicators. The third dimension, time horizon, highlights the risk of short-termism, as managers may prioritise results demonstrable within their tenure even when principals prefer long-term sustainability (Stein, 1989; Ziolo et al., 2023).

The remaining dimensions focus on how responsibilities and outcomes are distributed in delegation relationships. Risk allocation addresses how financial, reputational and regulatory risks are shared between principals and agents (Holmström & Milgrom, 1991). In ESG fund management, these risks increasingly include reputational exposure linked to sustainability claims. Accountability and monitoring emphasise the mechanisms through which principals seek to control agent behaviour (Shapiro, 2005). In the SFDR, disclosure requirements serve this role, though their effectiveness depends on the quality and comparability of reported information. Finally, value creation concerns the criteria by which outcomes are assessed. While classical agency models equate value with shareholder returns (Jensen & Meckling, 1976), sustainable finance expands the definition to encompass environmental and social objectives (Ziolo et al., 2023; Bilyay-Erdogan et al., 2024).

In sum, the six dimensions derived from principal–agent theory provide the basis for analysing ESG fund classification decision-making. Together they establish the analytical scaffolding of the thesis by capturing the key tensions that arise when responsibility for investment decisions is delegated to fund managers. Their significance becomes particularly clear when interpreted through broader paradigms that frame contrasting perspectives on how such tensions are understood. For analytical clarity, the empirical chapter draw these dimensions together into three broader themes that reflect how the interview data clustered in practice.

4.3 Neoclassical economic paradigm

The neoclassical economic paradigm emerged with the marginalist revolution and has since become the prevailing perspective in economics and finance. It has shaped how efficiency, value creation and market behaviour are understood, providing the conceptual basis for much of modern financial theory and corporate governance (Blaug, 1997; Colander, 2000). Central to this paradigm is the view of individuals as rational and self-interested, seeking to maximise their utility or profits. Markets are seen as efficient arenas for allocating resources, with prices and competition serving as the main coordinating mechanisms. Within this perspective, contracts and incentive structures are regarded as the primary means of aligning the interests of agents with those of principals, while value is typically defined in terms of shareholder returns (Hausman, 1992).

Applied to the six dimensions outlined earlier, the neoclassical paradigm frames fund classification primarily in terms of rational responses to incentives, risks and monitoring constraints. While principal–agent theory highlights structural tensions in delegation, the neoclassical perspective explains these as predictable outcomes of information costs, incentive structures and regulatory pressures (Colander, 2000). From this standpoint, classification becomes a pragmatic adjustment: managers weigh reputational and compliance costs against expected benefits, treat information asymmetry as a transaction cost to be minimised, and rely on formal reporting as the main channel of accountability. Value creation is defined mainly through financial returns, with sustainability elements recognised only when they can be expressed in measurable indicators (Holmström & Milgrom, 1991; Martinez-Meyers et al., 2024).

The contrast between Article 8 and Article 9 classifications illustrates this dynamic. Article 9 signals stronger sustainability ambition but exposes fund managers to higher disclosure requirements, stricter scrutiny and reputational risks if performance targets are not met. Article 8, by comparison, allows for a lighter sustainability commitment while still carrying an attractive ESG label. The relative ease of qualifying for Article 8, together with its reputational advantages, makes it a rational and cost-effective choice for managers seeking to balance investor demand with regulatory obligations. From a neoclassical economic perspective, such choices also reflect a short-term orientation, where outcomes that can be demonstrated within reporting cycles or regulatory reviews are prioritised, while longer-term sustainability objectives are discounted. Empirical studies confirm that many funds initially classified as Article 9 have been reclassified to Article 8 in response to regulatory tightening, reflecting a cautious and incentive-driven adjustment consistent with neoclassical reasoning (Scherer & Hasaj, 2023; Scheitza & Busch, 2024; Abouarab et al., 2025).

This paradigm also sheds light on the phenomenon of symbolic compliance. Since investors cannot easily verify the actual sustainability performance of Article 8 versus Article 9 products, fund managers may benefit from signalling ESG alignment without making substantial changes to their investment strategies. Symbolic compliance, in this sense, becomes a predictable outcome of weak monitoring and high information costs (Martinez-Meyers et al., 2024; Cochran et al., 2024). Yet, the monitoring mechanisms established by the SFDR remain limited. Reliance on self-disclosure and the absence of systematic third-party verification weaken the capacity to constrain opportunism (Yu et al., 2020). Under such conditions, classification decisions may be influenced as much by external marketing objectives, reputational risk management or legal considerations as by the actual sustainability profile of the underlying assets (Cremasco & Boni, 2022). Constraints such as

inconsistent or incomplete ESG data further reinforce the tendency for managers to adopt cautious strategies that signal compliance without necessarily transforming investment practices. Fund managers' decisions are further shaped by internal performance metrics such as asset growth, product differentiation and client retention, which further encourage strategies that minimise risk and maintain market competitiveness (Busch et al., 2022).

In conclusion, the neoclassical paradigm interprets fund classification as a rational, incentive-driven adjustment to information costs, monitoring limitations and reputational risks. This perspective helps to explain the prevalence of Article 8 classifications, but it also leaves important aspects of decision-making unaddressed, particularly those that extend beyond narrow cost–benefit reasoning.

4.4 Prosocial paradigm

The prosocial paradigm was introduced by Pfister et al. (2024) as a theoretical alternative to the incentive- and compliance-driven assumptions of neoclassical economic reasoning. It builds on the idea that behaviour in organisations cannot be explained solely through self-interest or contractual enforcement, but must also take into account cooperation, shared purpose and long-term commitments. This perspective provides a different economic logic of performance: rather than treating prosociality as an ethical add-on, it conceptualises it as a source of enhanced performance and competitiveness. Groups and organisations that invest in prosocial behaviour, such as cooperation and sustainability, are argued to outperform those relying solely on individual utility maximisation (Wilson & Wilson, 2007).

The theoretical foundation of this paradigm is grounded in evolutionary science. Wilson and Wilson (2007) demonstrate that prosociality is adaptive when selection operates between groups rather than only within them: groups that foster cooperation tend to survive and prosper more effectively than groups dominated by competition among individuals. This insight provides an explanatory anchor for why prosociality pays off in economic as well as social terms. It suggests that collective coordination, rather than individual opportunism, can be the basis for long-term performance advantages. In finance, this implies that fund managers and organisations that internalise sustainability and cooperation may achieve more durable performance and competitiveness than those optimising incentives in the short run.

Institutional research has further elaborated the mechanisms that sustain prosocial behaviour. Ostrom (1990) identified a set of core design principles that enable groups to manage common

resources successfully without succumbing to free-riding or opportunism. These principles, which have been applied more broadly by Wilson et al. (2013), include clear group boundaries, shared decision-making, proportionality of costs and benefits and mechanisms for conflict resolution and accountability. Pfister et al. (2024) explicitly integrate these insights into the prosocial paradigm, showing that prosocial outcomes depend not only on individual motivations but also on institutional designs that support cooperation. This perspective therefore extends beyond personal values, positioning prosociality as an organising principle that can be embedded into structures, rules and performance metrics.

The paradigm's relevance to finance lies in its recognition that professional decision-making often reflects more than incentive alignment. Pfister et al. (2024) show that financial professionals can be guided by internalised commitments to responsibility and sustainability, reinforced by organisational cultures and leadership. This complements evidence from sustainability reporting research, which finds that internal motivations and norms play an important role in shaping disclosure practices, sometimes independently of external regulation (Gray, 2010; Cho et al., 2015). By incorporating these insights, the prosocial paradigm redefines performance as multi-dimensional, encompassing financial returns alongside environmental and social well-being.

Viewed through the prosocial paradigm, the six dimensions derived from principal–agent theory are interpreted in a profoundly different way than under the neoclassical economic paradigm. Information asymmetry is not treated primarily as a cost but as a barrier that can be reduced through trust, transparency and shared norms of disclosure. When actors share information openly, the need for costly monitoring decreases, while mutual understanding and cooperation increase. Incentives are not confined to contracts or financial rewards; stewardship, intrinsic motivation and shared goals become equally important in aligning behaviour with organisational and societal objectives (Pfister et al., 2024). Time horizon is reframed as long-term and intergenerational, with sustainability viewed as an essential component of competitiveness. Risk allocation shifts from contractual transfer to collective responsibility, as reputational and sustainability risks are acknowledged and managed together by groups and organisations. Accountability is embedded in professional norms and shared identities, where reputational standing and trust function as mechanisms of control. Finally, value creation is defined in multi-dimensional terms, linking financial outcomes with environmental stewardship and social well-being (Gond et al., 2012; Contrafatto & Burns, 2013).

This interpretation is supported by growing empirical evidence. Research in financial sociology highlights that prosocial norms coexist with profit motives in financial organisations, shaping expectations of fairness, transparency and relational accountability (Carruthers & Kim, 2011; Davis & Kim, 2015). These findings suggest that even in contexts often assumed to be driven purely by competition, prosocial judgements can play a meaningful role in guiding decision-making. In fund management, this means that classification decisions under the SFDR may reflect not only regulatory compliance or cost–benefit optimisation but also collective commitments to sustainability and professional identities built around trust and responsibility.

From this perspective, Article 9 classification can be understood as more than a regulatory hurdle. For some fund managers, it may represent an opportunity to demonstrate genuine alignment with sustainability goals and to reinforce an organisational or sectoral identity centred on long-term responsibility (Pfister et al., 2024). Choosing Article 9, despite its stricter disclosure obligations and reputational risks, can therefore signal prosocial commitments that extend beyond what is immediately required or financially optimal. While such decisions are not universal, they highlight how prosocial motivations and organisational cultures can shape fund classification in ways that challenge a purely incentive-driven explanation.

Taken together, the prosocial paradigm reframes how performance and sustainability are understood in financial contexts. It underscores how cooperation, shared purpose and long-term orientation can enhance performance and competitiveness, positioning sustainability not as a constraint but as a foundation of economic success. As formulated by Pfister et al. (2024), the paradigm expands the interpretive framework for fund classification under the SFDR by showing that the behaviour of fund managers may be motivated not only by incentives and compliance but also by commitments to collective goals and long-term sustainability.

4.5 Contrasting paradigms in classification

Bringing the neoclassical economic and the prosocial paradigms into dialogue highlights how differently the same classification framework can be understood. Each points to distinct expectations about the factors that guide fund managers and the outcomes that follow from their choices, showing contrasting ways of linking decision-making with sustainability objectives. Table 3 set out these differences across the six analytical dimensions derived from principal–agent theory, providing a basis for comparison.

Table 3. Paradigmatic perspectives on fund classification across six dimensions.

| DIMENSION | NEOCLASSICAL ECONOMIC PARADIGM | PROSOCIAL PARADIGM |
|------------------------------|--|---|
| Information asymmetry | Information is private and costly; disclosure reduces opportunism. | Information is shared; transparency builds trust and lowers monitoring needs. |
| Incentives | Behaviour aligned through contracts and pay tied to outputs. | Behaviour aligned through stewardship, intrinsic motivation and shared goals. |
| Time horizon | Short-term results prioritised; long-term gains discounted. | Long-term sustainability treated as central to competitiveness. |
| Risk allocation | Risks transferred or priced through contracts. | Risks shared collectively, including reputational and sustainability risks. |
| Accountability | Reliance on reporting, auditing and external monitoring. | Grounded in norms, reputation and professional identity. |
| Value creation | Value defined as shareholder returns and market efficiency. | Value defined in multi-dimensional terms: financial, social and environmental outcomes. |

Looking across the dimensions, the most pronounced contrasts appear in the treatment of time horizons and value creation. The neoclassical economic paradigm emphasises short-term results and measurable financial returns, anchored in individual profit maximizing and risk control. The prosocial paradigm instead stresses long-term competitiveness and defines performance in multi-dimensional terms, integrating financial, social and environmental outcomes. Differences are also evident in accountability: while neoclassical reasoning relies on external monitoring to contain opportunism, prosocial reasoning embeds accountability in norms, reputational standing and

professional identity. In this sense, the paradigms diverge not only in their mechanisms of control but also in how they define what counts as effective performance.

Despite these differences, there are points of convergence. Both paradigms acknowledge the challenges created by delegation and the risk of opportunistic behaviour. What sets them apart is how these challenges are addressed. The neoclassical economic paradigm assumes that opportunism must be contained through contracts and disclosure, whereas the prosocial paradigm highlights that cooperation and shared identity, supported by organisational arrangements and cultural norms, can foster alignment effectively. This suggests that the paradigms should be read as complementary perspectives, each stressing dynamics that the other tends to overlook.

These contrasts have direct implications for understanding fund classification. Neoclassical reasoning helps to account for the prevalence of Article 8 classifications, which combine reputational benefits with relatively limited regulatory exposure. The prosocial paradigm, in turn, underscores why Article 9 classifications, though less common, remain analytically important: they signal not only a normative commitment to sustainability but also a strategy for long-term performance and legitimacy. All in all, the paradigms provide parallel lenses that guide the empirical analysis, in which fund managers' reasoning is examined through each.

5 METHODOLOGY

5.1 Research approach

This thesis applies a qualitative research approach to explore how fund managers and other ESG professionals engage with the SFDR when categorising investment funds. The research is exploratory in nature due to the very limited academic work focusing specifically on how classification decisions are made under the regulation. The aim is to understand what influences ESG professionals' choices when classifying funds under Articles 8 or 9, and to explore why Article 9 funds continue to represent a relatively small share of the market. A qualitative approach is well-suited to this objective, as it allows for the examination of a new and evolving phenomenon through the experiences of those directly involved (Eriksson & Kovalainen, 2008; Yin, 2018).

A case study design was chosen, focusing on the Finnish fund management context. Yin (2018) argues that a case study approach is appropriate when researchers seek to explore contemporary events, especially in situations where they cannot directly influence the outcomes and aim to answer "how" or "why" questions. Rather than aiming to evaluate ESG outcomes, the study focuses on how fund managers and ESG professionals make sense of the SFDR and justify their classification choices. Moreover, Finland provides a relevant setting due to its notably high proportion of Article 8 and Article 9 funds compared to other European markets (European Fund and Asset Management Association, 2023).

In designing this study, inspiration was also drawn from the methodological framework proposed by Pfister et al. (2023), which outlines how researchers can move from empirical description to theoretical explanation in qualitative work. While originally developed in the context of performance management and management control systems, the framework's emphasis on abductive reasoning and multiple levels of abstraction offers insights for theory-building in other domains as well (Pfister et al., 2023).

Data for the research was collected through semi-structured interviews with professionals responsible or closely involved in fund classification decisions. The format was chosen to allow room for reflection and follow-up questions, while ensuring consistency across core topics. The interview guide was developed based on existing literature as well as the theoretical perspectives introduced in chapter 4. This research design supports an in-depth exploration of both individual reasoning and broader organisational influences, while leaving space for different motivations to emerge.

5.2 Interviews and participant selection

The empirical data for this thesis was collected through nine (9) semi-structured interviews with professionals involved in fund classification under the SFDR. All interviews were conducted in Finnish via Microsoft Teams between April and May 2025. Most interviews took place as video calls, while one was conducted as an audio-only call. The interviews varied in length from 37 minutes to 1 hour 11 minutes, with an average duration of approximately 50 minutes. Participants represented financial sector companies of varying sizes, selected to capture a diverse range of organisational contexts and experiences. All participating organisations operate within the Finnish market.

Throughout this thesis, the term “fund manager” is broadly used to describe the professionals involved in fund categorisation to simplify the terminology, despite variations in their formal job titles. Interview participants included heads of sustainability, portfolio managers, ESG specialists and other related professionals who directly influence or are responsible for categorisation choices, even if their official titles did not explicitly include “fund manager”. This choice reflects their practical responsibilities instead of formal titles alone. To protect participant anonymity, the professional titles presented in this thesis have been generalised to reflect the level of experience and role in fund classification, without disclosing overly specific job descriptions. Each participant had extensive experience with Article 8 and Article 9 funds and had been actively involved in SFDR implementation since its initial introduction. Three participants had also contributed to the early-stage development of the regulation. Interviewees were contacted by email and selected based on their direct or recent involvement in fund categorisation.

Although interview discussions often centred around equity funds, the conversations generally addressed the SFDR classification decisions across various types of funds. The research aims to broadly understand the reasoning and motivations behind classification rather than to compare specific fund categories or differentiate by asset class. The interview participants were selected using purposive sampling, meaning they were intentionally chosen based on their professional roles and direct experience with the SFDR, to provide relevant and in-depth insights and not only statistical representativeness (Eriksson & Kovalainen, 2008). A summary of the interview details is presented in Table 4.

Table 4. Overview of the interviews

| Interviewee | Role | Interview duration | Interview date |
|-------------|------------------------|--------------------|----------------|
| 1. | Head of sustainability | 37min | 14.04.2025 |
| 2. | Portfolio manager | 1h 11min | 22.04.2025 |
| 3. | ESG analyst | 49min | 25.04.2025 |
| 4. | Head of sustainability | 1h 8min | 28.04.2025 |
| 5. | Portfolio manager | 58min | 29.04.2025 |
| 6. | Head of sustainability | 39min | 06.05.2025 |
| 7. | Fund manager | 42min | 13.05.2025 |
| 8. | ESG specialist | 47min | 19.05.2025 |
| 9. | ESG analyst | 38min | 21.05.2025 |

The interview guide, provided in Appendix 1, structured the conversations around key themes related to the theoretical perspectives outlined in chapter 4. The main topics covered in each interview included participants' roles in the fund categorisation, their reasoning behind classifying decisions and their perceptions of the SFDR's effectiveness and practical challenges. While the guide ensured consistency and enabled comparisons between interviews (Eriksson & Kovalainen, 2008), it was applied flexibly, allowing the conversation to adapt naturally to each participant's responses. In practice, the order of questions sometimes varied, and some questions were passed over if the participant already addressed the topics spontaneously.

In line with methodological recommendations by Tuomi and Sarajärvi (2018), participants received the interview questions beforehand. This allowed participants time to prepare, enhancing the depth and quality of their responses. Participants were also notified in advance about the confidentiality measures and that both their identities and those of the organisations they represent would be anonymised. Further details regarding confidentiality practices and ethical considerations are presented in subchapter 5.4.

To accurately capture the content of each interview, all discussions were audio-recorded after obtaining explicit consent from the participants. The recordings are only accessible by the researcher and are intended exclusively for the thesis. The transcription was conducted in two stages to enhance accuracy: initially using the built-in transcription tool in Microsoft Teams,

followed by a second transcription via the University of Turku's AI-supported UTU Transcribe Service. Having two transcripts allowed to clarify any uncertainties by comparing both versions or revisiting the original audio when necessary. While the original interviews were carried out in Finnish, selected excerpts have been translated into English for inclusion in this thesis. Every effort was made to maintain the intent and tone of the participants' replies, however, slight nuances might have been affected by the translation. Finnish was used as the interview language, as it was favoured by all participants.

5.3 Data analysis and theorising

The interview data was analysed using qualitative content analysis, with an aim of exploring how ESG professionals make sense of fund classification under the SFDR. Rather than seeking generalisable conclusions, the analysis focused on identifying patterns in how participants articulated their motivations and interpretations of the regulation. This approach is compatible with examining meaning in textual data and to capturing themes that reflect participants' reasoning in relation to the research topic (Schreier, 2012).

To structure the analysis, the data was examined using a three-stage model developed by Pfister et al. (2023), which distinguishes between descriptive, analytical and explanatory levels of abstraction. The descriptive level focused on systematically mapping the interview material without applying theoretical concepts. At this stage, the analysis aimed to summarise participants' accounts in a structured way by identifying themes and terminology relevant to how they discussed fund categorisation. The emphasis remained on staying close to the data and avoiding interpretation beyond participants' own framing. The categories presented at this level in Figure 6 are not direct quotations but paraphrased codes that condense participants' statements into a more concise form.

The second stage moved into the analytical level, where the focus was on comparing the themes that emerged across interviews. This phase involved identifying patterns, variations and possible tensions in how participants described fund classification. Attention was given to different emphases in participants' reasoning, for instance, whether responses centred more on regulatory compliance, client awareness, reputational concerns or profitability targets. The analysis sustained grounded in the empirical material, aiming to explore how actors made sense of classification without yet applying the paradigmatic lenses.

The final stage moved into the explanatory level, where the themes were consolidated into three overarching categories: regulatory constraints and perceived risks, portfolio management limitations and market demand dynamics. This stage of analysis provided the foundation for linking the empirical findings to the theoretical dimensions developed in chapter 4. The explanatory categories did not predetermine outcomes but served as a bridge between participants' accounts and the interpretive lenses of the neoclassical economic and the prosocial paradigms. At this level, the analysis focused on interpreting the findings through the lenses and on theorising how different views shape the ways fund classification decisions are made. The three-stage process used in this thesis is illustrated in Figure 6.

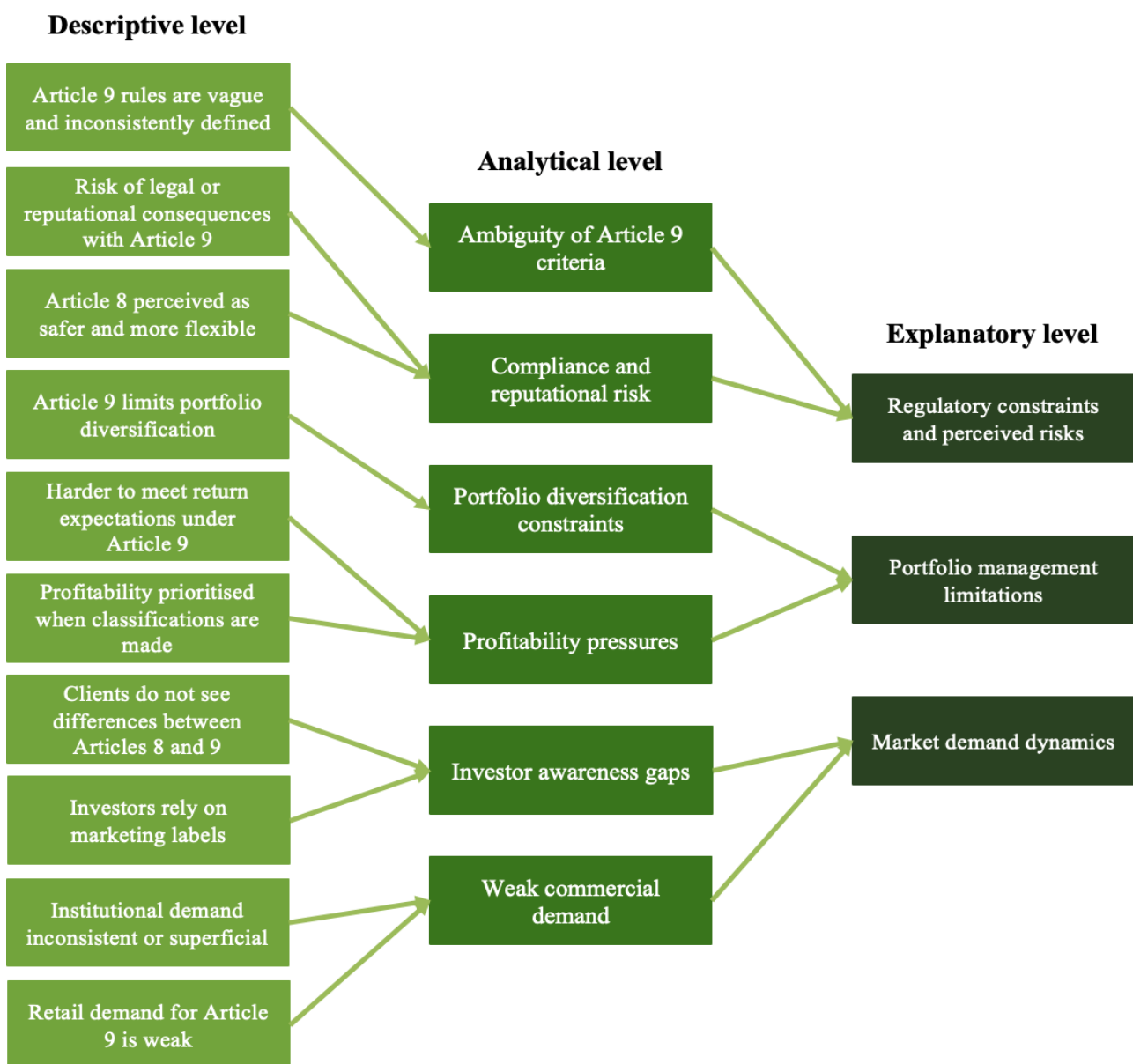


Figure 6. Data structure illustrating descriptive, analytical and explanatory levels (modified from Pfister et al., 2023).

At the third level, the process of theorising involved moving from empirical detail toward a more abstract understanding of how classification decisions are shaped. The analysis followed an abductive approach, in which theoretical concepts and empirical insights were brought into dialogue to generate explanations. This multi-level procedure made it possible to examine both the content of participants' accounts and the ways in which they justified classification decisions in light of regulatory constraints, portfolio management limitations and market demand dynamics. The following chapter builds on this foundation by presenting the empirical findings, organised around key themes that reflect the reasoning patterns and tensions identified in the analysis.

5.4 Ethical considerations in research design

The research followed the ethical guidelines of the European Federation of Academies of Sciences and Humanities (ALLEA, 2023), which aim to protect participants' rights and ensure the responsible handling of sensitive material. All participants were informed in advance about the purpose of the study, how the data would be used and their right to withdraw at any point. Informed consent was obtained prior to each interview. To support open and honest discussion, participants were also assured that no names, company identities or other identifying details would be disclosed.

Ethical quality in qualitative research involves not only formal safeguards but also thoughtful consideration of how data is interpreted and communicated (Tracy, 2010). These principles guided both the design and conduct of this study. In line with the University of Turku's data management guidelines, all recordings and transcripts are stored securely and are accessible only to the researcher. Further details regarding confidentiality measures, data handling and storage procedures are provided in Appendix 2. Finally, AI-based language-assistance tools were used during the writing process of this thesis to improve grammar, phrasing and overall clarity of expression. They were not applied in developing the analysis or interpreting results, and all ideas and conclusions are solely the author's own.

6 EMPIRICAL ANALYSIS

This chapter presents the empirical findings of the study, based on interviews with professionals involved in investment fund categorisation. The aim is to understand how classification decisions are made within the SFDR framework, and what factors influence the choice to classify a fund under Article 8 rather than Article 9. While chapter 5 outlined the data collection and interview approach, this chapter shifts the focus to the substance of those conversations.

The findings are organised into three sections that reflect the main themes emerging from the interviews. Section 6.1 examines the motivations behind classification decisions, including regulatory concerns, strategic considerations and internal values. Section 6.2 turns to how the regulation is interpreted and applied in practice, with attention to definitional work, organisational processes and stakeholder influence. Section 6.3 presents participants' broader reflections on the SFDR, including their assessments of its practical impact and views on its future development. Together, they provide insights into how the regulation is understood and operationalised.

6.1 Motivations behind fund classification decisions

This section examines the internal factors that shape how fund managers apply the SFDR classification framework in practice. The aim is to understand what influences the selection between Article 8 and Article 9 categories, and how organisations interpret the regulation in relation to their own priorities. The section begins by exploring how legal uncertainty and regulatory risk affect classification decisions. It then turns to the strategic use of the framework in market communication and reputational positioning. Finally, the analysis looks at how internal values and long-term sustainability commitments are reflected in how funds are categorised.

6.1.1 Compliance and regulatory uncertainty

A recurring concern across the interviews was the lack of clarity in how the SFDR should be applied in practice. While the objectives of the regulation were generally seen as positive, its implementation has required fund managers to navigate a number of unresolved questions, particularly when determining how different funds should be classified. Interviewees described this

process as one that involves interpretation, internal coordination and at times, cautious decision-making in the face of regulatory ambiguity.

One area where this ambiguity was especially influential was in decisions around Article 9 classification. Several interviewees explained that the lack of clarity made them more cautious in applying the label, even when a fund had sustainability ambitions. The risk of misinterpretation, reputational damage and accusations of greenwashing had made firms increasingly reluctant to use the most demanding classification without strong justification. Interviewee 4 reflected on this:

We did not try to force any fund into Article 9 that did not naturally fit into it. I think trying to label a fund Article 9 just for marketing purposes is a form of greenwashing. We saw how others reclassified their products later, but we were relatively strict with our choices from the start. If something changes or is not fully aligned, we would rather hold back than risk misleading investors. (Interviewee 4)

This view was supported by other participants who had observed or experienced internal reassessments of classification decisions. Some firms that initially opted for Article 9 later downgraded to Article 8 in response to shifting regulatory expectations. Interviewee 8 explained how these shifts influenced their own decision-making:

We saw how many funds got pulled back from Article 9. It was like a trend across the industry at some point and that made us rethink our own situation. For example, we had one fund that could maybe have qualified as 9, but we did not want to push it. The rules were not settled, and the reputational risk just was not worth it at that point. (Interviewee 8)

Compliance risk was a central theme shaping these decisions. In several cases, interviewees described how classification decisions were made collaboratively across ESG, compliance and risk management functions, but with a strong emphasis on risk mitigation. This often created a cautious environment in which ambiguity led to a conservative classification. Interviewee 6 described this internal dynamic:

Our ESG team can recommend a classification based on the data and strategy, but compliance has the final say. If there is even a question about whether a fund might not meet the sustainable investment threshold, it gets flagged. We have set the bar very high internally just to be safe. We would rather stay at Article 8 than stretch into 9 and risk having to downgrade later. (Interviewee 6)

This approach has also had operational consequences. Many firms now avoid pursuing Article 9 classifications even when a fund's sustainability profile might support it. The perceived lack of regulatory stability discourages long-term planning based on current guidance. Interviewee 2 elaborated on this:

There are funds that would qualify under stricter criteria, but we still chose Article 8. The regulation keeps evolving all the time and different countries interpret it very differently. We have also seen how strict the Finnish FSA can be. We have basically built our own rules to stay ahead of them, but it means we sometimes under classify our products intentionally. (Interviewee 2)

Several interviewees highlighted that sustainability regulation is not limited to the SFDR. For example, Interviewee 7 mentioned that ongoing changes to frameworks like MiFID II and UCITS further complicating compliance efforts. A related concern was the lack of sufficient, reliable ESG data, particularly from non-EU or emerging market companies. Because Article 9 requires full alignment of all investments with sustainable objectives, the absence of consistent company disclosures makes compliance difficult. Interviewee 5 shared a concrete example:

We have had to drop several companies not because they did not fit the fund's sustainability goals, but because we could not prove they did. Data gaps are a real problem and we no longer invest in many Chinese or emerging market companies for this reason. It is frustrating, but if we cannot get the governance or emissions data we need, we cannot take the risk. (Interviewee 5)

Interviewees also noted that regulatory interpretation within Finland has contributed to the overall uncertainty. Several participants described the Finnish Financial Supervisory Authority (FIN-FSA) as adopting a relatively strict approach compared to what the EU-level regulation might suggest. This added another layer of caution in classification decisions, as companies tried to guess what the supervisory expectations were even when clear guidance was missing. Interviewee 3 explained:

Finland's FSA interprets things quite strictly, sometimes without clear justification from the actual regulation. That has made things really difficult, because you are constantly second-guessing what will or will not be accepted. (Interviewee 3)

This perceived strictness led some firms to develop their own internal classification rules that were deliberately more conservative than the baseline regulatory requirements. In doing so, they aimed to reduce the likelihood of getting into a conflict with the regulator in the future and to ensure that classifications would remain defensible under inspection.

In conclusion, while the SFDR aims to steer capital toward companies with better sustainability practices and increase transparency expectations, its regulatory vagueness, especially around Article 9, has had the paradoxical effect of encouraging conservatism. Legal and compliance teams often steer classification decisions toward less-ambitious Article 8 as a safeguard, even in cases where a fund's objectives and holdings might justify higher ambition. Until the SFDR's terminology becomes more consistently defined and interpreted, fund managers are likely to continue favouring compliance certainty over higher classifications.

From a neoclassical perspective, this dynamic illustrates how actors respond to information asymmetry and regulatory risk by minimising exposure to potential sanctions or reputational costs. The preference for Article 8 over Article 9 reflects a rational outcome shaped by incentives and risk allocation in the short term. By contrast, the prosocial paradigm interprets the same caution as a way of sustaining accountability and value creation: firms avoid overstating sustainability claims in order to maintain trust with regulators and investors. In this sense, restraint functions not only as a defensive reaction to regulatory uncertainty but also as a deliberate performance strategy, where maintaining credibility and fostering cooperation are treated as assets that increase organisational competitiveness over the long term.

6.1.2 Strategic use of classification

While SFDR classifications are primarily regulatory, interviewees described their function also as a form of strategic communication. Several participants noted that the Article 8 and 9 labels were often interpreted by external stakeholders as indicators of a fund's sustainability ambition. Although most interviewees emphasised the importance of substance over symbolism, they acknowledged that classification can influence how products are perceived by clients and the market.

For many organisations, fund classification is one part of a broader ESG narrative. Some interviewees described how Article 9 can convey a stronger message about a fund's alignment with sustainable objectives. This communicative value is seen as relevant both in investor discussions and in external marketing. Interviewee 7 explained:

We don't base product decisions on marketing needs, but we are aware that classifications are part of how clients interpret our offering. If we label something Article 9, it creates expectations. So we try to be clear internally about what that means before we use it. (Interviewee 7)

This awareness of expectations shaped how firms position their funds across the Article 6, 8 and 9 spectrum. In several cases, interviewees noted that the classification system allowed them to differentiate between fund types and serve different investor segments. For example, some clients prioritise funds with more advanced ESG objectives, while others are more focused on general integration. Interviewee 9 summarised this view:

We try to maintain a range of products so that our clients can choose based on their priorities. Some prefer clear sustainability objectives, others want flexibility. The classification helps create structure without having to explain every detail each time. (Interviewee 9)

This reflects a neoclassical economic perspective, where classifications operate as signalling devices that align with incentives and help fund managers compete across heterogeneous investor preferences. By structuring offerings in this way, firms respond to market demand while managing reputational risk. Interviewee 6 also added:

We have had situations where clients, especially institutional, ask if we offer both Article 8 and 9 options. They want to see variety in their investments, not everything needs to be at the same level of ambition as long as it is Article 8 or 9. The classification helps us make that visible in a way that should be easy to understand. (Interviewee 6)

Although institutional clients were most often identified as being attentive to fund classification, some participants also noted that the messaging value can extend to retail investors. While these clients were generally viewed as less familiar with the technical distinctions between the SFDR categories, the labels were still perceived to carry intuitive meaning. Interviewee 2 commented that for retail clients, the classifications serve more as a broad signal of ESG commitment rather than a detailed benchmark.

At the same time, several participants underlined that they do not view classification as a marketing tool in the traditional sense. Instead, they saw it as a form of signalling that needs to be backed by clearly defined criteria and internal alignment. Interviewee 8 described their approach:

We are careful about how we use the classifications. We know that clients look at them, but we try to avoid putting too much weight on the label alone. When we decide on a classification, it goes through several levels of review to make sure it's not just accurate now but will continue to hold up over time. It is more about setting the right expectations than about using it to promote the product. (Interviewee 8)

This cautious approach was also reflected in how firms assess the long-term credibility of their classification choices. In some cases, classification was treated as a reflection of an organisation's broader philosophy on sustainability. Interviewee 1 explained:

I think you should not make these decisions lightly. Once you commit, you have to do it properly and no ad-hoc reclassifications. It is a long-term commitment. (Interviewee 1)

From a prosocial perspective, classification can also be understood as a mechanism of value creation. By treating categories as durable commitments rather than flexible marketing tools, organisations establish shared expectations with clients and regulators. This alignment strengthens

cooperation across groups and reinforces the integrity of sustainability claims, which in turn can enhance collective performance and competitiveness. In this way, fund classification serves not only to guide investor communication but also to support product differentiation, shaping client expectations and contributing to a coherent sustainability narrative.

6.1.3 Internal values driving sustainability choices

For many participants, the SFDR fund classification was not only a regulatory or strategic decision, but also an opportunity to align public disclosures with internal values and long-standing sustainability commitments. Several interviewees described how their choices reflected a consistent organisational identity rather than a response to external expectations alone. This emphasis on identity and shared purpose reflects the prosocial paradigm's design logic, where collective orientation around sustainability goals provides a unifying principle for decision-making. One clear example of this alignment came from firms that had launched impact-oriented funds well before the introduction of the SFDR. For these organisations, Article 9 was seen as an appropriate continuation of a purpose-driven approach rather than a target in itself. Interviewee 5 explained:

We had four themed funds at the time the regulation came into force. Two of them clearly targeted positive environmental solutions, so those were classified as Article 9. The other two were more about exclusions and ESG integration but didn't necessarily have a sustainability objective. We did not have to force anything because of the new regulation. The classification of the funds followed the strategy we already had, not the other way around. (Interviewee 5)

The same outlook was reflected by others who approached classification as a tool to reinforce rather than redefine their ESG identity. In prosocial terms, this underlines how a stable sense of purpose and clarity of goals can reduce internal ambiguity and strengthen accountability, enabling classification to function as part of a shared organisational direction rather than as an external obligation. Interviewee 3 noted that Article 9 was only used when it matched both the fund strategy and internal definitions of sustainable investment:

It changes how you manage the portfolio. You need to define what sustainability means, how you measure it and how you monitor it continuously. We only use Article 9 when this kind of structure is already in place. (Interviewee 3)

Instead of viewing classification as an imposed label, some interview participants appeared to use it as a framework to structure their sustainability orientation. This was especially relevant in firms

with established ESG policies that existed before the SFDR was applied. In those cases, classification was framed as an extension of internal standards rather than a new requirement.

In firms where Article 8 was the default choice, the decision was often shaped by a belief that responsible investing does not necessarily require every product to have an explicit sustainability objective. Instead, ESG integration, stewardship and exclusions were treated as part of the firm's long-standing principles. In these cases, the Article 8 classification was not seen as secondary, but as a reflection of the organisation's values. Interviewee 7 explained this further:

We apply the same ESG process across most of our funds. For some, the Article 9 criteria are too narrow. That doesn't mean we're less committed to sustainability as a company. I think it just means our approach is a bit broader and Article 8 fits better with our view. (Interviewee 7)

From a neoclassical perspective, this reflects how classification choices are shaped by the balance of incentives and constraints. Managers seek to maintain strategic flexibility and avoid the costs associated with narrow definitions, even when broader sustainability commitments remain in place. A few interviewees mentioned that internal classification discussions prompted new attention to how sustainability goals were defined within the firm. These conversations were not described as philosophical debates but as practical reflections of existing priorities. Interviewee 6 shared:

The starting point for us was always the strategy. But going through the classification process also made us look more closely at how we describe our ESG work, both internally and externally. We had discussions across our teams, especially between ESG and product development teams, about whether our current processes were being communicated clearly enough for the investors. It was not about changing what we do entirely, but more like making sure that our documentation and objectives matched the actual practices and that's where the SFDR pushed us moving a bit. I think it made us bring more structure to the way we frame our sustainability work. I would not maybe say it changed our direction, but it sure made us more deliberate in how we present it. (Interviewee 6)

In addition to organisational strategy, several interviewees spoke about fund classification in relation to professional norms and the role that sustainability practices and values played within their firms. Some saw classification as a technical compliance task, but others saw it as connected to how their organisation approaches sustainability more broadly.

In some instances, classification prompted internal conversations about how clearly sustainability goals were expressed in fund documents or product strategy. While these conversations did not typically lead to major changes, they were seen as opportunities to revisit and formalise existing practices. Interviewee 8 explained:

We already had a fairly clear view on ESG internally, but the SFDR made us go back and look at how we were presenting that to stakeholders and investors. That process did not really change what we do, but it made us tighten up how we explain things especially in areas like how we define our ESG approach in the fund materials we have to publish several times a year. (Interviewee 8)

Others described a similar experience where internal policies and principles, developed well before the SFDR, played a defining role in classification. Rather than adjusting their processes to fit the regulation, they viewed the classification system as something that needed to align with their ethical foundations. Interviewee 7 noted:

I and the others in our team already had policies in place that excluded certain sectors and required ESG analysis. Those exclusions were based on long-standing principles, not something created for the SFDR. So eventually when we looked at the classification options, we didn't think about aiming higher as in trying to categorise all our funds as Article 9. It was natural to match what we already had. Article 8 felt like the right fit because it allowed us to continue using our existing approach without having to stretch the strategy just to meet Article 9 requirements. I was able to rely on the same exclusions and ESG process we had used for years, but now frame it within a clearer regulatory structure. (Interviewee 7)

A few interviewees also reflected on how their background in sustainability work shaped their view of classification. For some, the decision carried weight beyond meeting regulatory requirements. There was a general view that classifications should reflect what the fund actually delivers in practice, not just what can be justified on paper. Interviewee 8 described this view:

We do take the classifications seriously, mostly because we want them to be accurate. If we describe a fund as sustainable, it should be that way. That is partly about meeting the regulation and the framework of the Article 8 or 9 classification, but also about staying consistent with the practices we have developed over time and what our customers expect from us. (Interviewee 8)

In a few cases, participants expressed prosocial motivations, though these were often conveyed in a modest way. The SFDR was not framed as a vehicle for change, but rather as a structure that made some of the organisation's sustainability work more visible or reportable. Interviewee 9 explained:

We are not trying to make you think we can change the world with one fund, but we do want our products to contribute where possible and in a realistic manner. The classification helps us be more transparent about those intentions, as long as we do not overstate what we can prove. (Interviewee 9)

Taken together, these responses suggest that fund classification was often grounded in a desire for internal consistency, professional accountability and alignment with pre-existing values. While the SFDR may have added a formal framework, many organisations approached it as a tool to clarify

instead of redefine their sustainability commitments. This interpretation reflects a broader view that regulation should support what is already considered sound and credible practice.

6.2 Interpreting and applying the regulation

This section turns to the organisational processes and decision-making structures behind fund classification. While the previous section focused on internal reasoning and strategic framing, here the emphasis is on how classification is implemented in practice. The subchapters examine how firms interpret key regulatory concepts, how responsibilities are divided across in-house teams and how external pressures and stakeholder expectations influence internal workflows. Together, these themes shed light on the practical realities that shape how the SFDR is applied day to day.

6.2.1 Defining sustainable investment and internal criteria

One of the key challenges in applying the SFDR in practice lies in how fund managers interpret core concepts that remain open to discretion. Several interviewees highlighted the difficulty of working with regulatory terms that are not precisely defined, particularly the term sustainable investment. While the regulation provides a general outline, it leaves significant room for variation in how this definition is operationalised within firms.

This discretion has led to a range of internal approaches. Some organisations apply narrow definitions that restrict eligibility to investments with clearly measurable environmental or social outcomes. Others take a broader view, incorporating qualitative judgments about a company's overall direction or alignment with sustainability themes. This variation shapes not only the classification of funds but also how investment teams, ESG analysts and compliance departments interact when applying the regulation. Interviewee 5 provided a detailed description of how their organisation structured its internal assessment:

We first defined the criteria for sustainable investments and now we have 30 internally defined ESG sustainability criteria. The ESG team built a tool to screen each company, and we use that to evaluate every investment. Even though the regulation says 80 percent sustainable investments is enough, we have set an internal rule that all active equity selections must be sustainable. Only cash or futures, which we equate with cash, may be non-sustainable. The ESG team maintains the tool and updates it monthly. Portfolio management uses it and performs the screening and risk management is involved too. They create daily limit monitoring reports and we get alerts if, for example, a company no longer meets the criteria or if data from MSCI or another provider changes. We monitor that closely and take it seriously. (Interviewee 5)

This strict approach can reflect a neoclassical economic orientation, where reducing information asymmetry and strengthening accountability predominate. By setting higher internal thresholds than the regulation itself, firms mitigate compliance risk and ensure classifications remain defensible under scrutiny. In contrast, some firms adopt a more qualitative approach. Interviewee 6 explained:

I do assess alignment with the fund's sustainability objective, but it's not always strictly numerical. Some companies don't score highly on data, but we still see them as aligned because of their core business model. It's more like a case-by-case judgment and that flexibility helps us include companies that are moving in the right direction with their ESG stuff, even if the data is not perfect yet. (Interviewee 6)

Viewed through the prosocial paradigm, this kind of judgment-based approach reflects how organisations define performance not only by immediate metrics but by their orientation toward a common purpose. By emphasising alignment with sustainability objectives, managers frame value creation as a collective trajectory rather than a narrow compliance outcome.

Several interviewees pointed out that these internal interpretations are not static. Definitions are periodically revisited and revised as new data becomes available or as supervisory expectations evolve. In some cases, this process has led to stricter criteria over time. Interviewee 4 explained that their firm's initial approach had been broader, but experience with fund reporting and peer benchmarking had prompted a shift toward more cautious classifications. They described how these internal definitions require ongoing discussion and careful consideration:

We have talked a lot internally about what sustainable investment actually means according to the SFDR. It is not something you define once and then move on from. At first, we had a more general understanding aligned with our own ESG policies but over time we have had to refine that. Especially when it comes to reporting and disclosures, we need to be precise. You have to be able to explain your approach clearly, not just to regulators but to clients too. So we have gone back several times to adjust how we define and apply it. It is a real learning process and there is still a fair amount of interpretation involved. (Interviewee 4)

Not all organisations rely on structured tools or ESG scoring systems. Interviewee 1 explained that they do not use a centralised model to determine which holdings count as sustainable investments. Instead, the classification process is based on the fund's documented investment strategy and the judgment of ESG staff and portfolio managers. This was described as sufficient given their fund range and product mix, though it required a strong internal understanding of how sustainability is interpreted case by case.

Other firms operate somewhere between formal and informal systems. Interviewee 2 described a process where investments are assessed manually, but with reference to internal ESG expectations. They noted that while this approach allows flexibility and room for professional judgment, it also requires careful documentation to ensure transparency across teams.

Differences also emerged in how firms treat references such as the EU taxonomy. Some firms use taxonomy alignment as a supporting measure when defining sustainable investments. Others consider it too narrow or incomplete to serve as a practical foundation. Interviewee 9 commented that while their organisation tracks taxonomy alignment, it is not a binding constraint. Instead, emphasis is placed on the company's core activity and how it supports the fund's sustainability objective.

Our definition is broader. We do not use the taxonomy as a strict filter, because it's still too limited in coverage. Instead, we focus on the fund's objective and whether the company's main activity supports that goal. It is not perfect, but it is transparent internally. (Interviewee 9)

This interpretation highlights a prosocial reason of goal alignment, where the credibility of classification rests less on technical thresholds and more on whether investments contribute to a shared sustainability direction. Here, the emphasis lies on aligning purpose and objectives across the organisation and its stakeholders, rather than reducing sustainability to a purely numerical benchmark.

Across the interviews, internal consistency was seen as essential. While firms acknowledged that the SFDR allows for discretion, they stressed the importance of having a clear internal logic that can be defended if needed. Interviewee 8 captured this point:

We cannot rely on assumptions. If we call something a sustainable investment, we need to have a basis for that. It does not need to be universal or the same as another firm's, but it has to be clear inside our own team and everyone else working with it. (Interviewee 8)

In many cases, reputational concerns reinforced the need for clarity. Several participants described sustainable investment definitions not only as a compliance issue but as part of managing external expectations. A well-documented internal rationale was seen as a way to ensure that different teams interpret the rules consistently and to reduce the risk of being perceived as overstating a fund's sustainability profile.

While the regulation leaves room for discretion, that discretion does not remove the responsibility to justify decisions. Whether through detailed tools, flexible guidelines or professional judgment, firms have had to decide what the term sustainable investment means in practice and those choices now support the credibility of their classifications.

6.2.2 Organisational structures in decision-making

In many firms, classification outcomes are influenced by a combination of sustainability ambition and practical portfolio constraints. Several interviewees described how the requirements of Article 9 can significantly narrow the universe of possible investments, particularly for active strategies. Even when a fund's objectives align with sustainability goals, applying the Article 9 standard in practice may limit flexibility to an extent that challenges diversification or portfolio risk management. These concerns form a frequent part of the internal discussions that determine whether a fund can realistically meet the Article 9 threshold. Interviewee 6 summarised the issue:

If you choose Article 9, the fund has to invest only in sustainable investments. That cuts out a lot of companies – even ones that are doing good work but do not meet every technical requirement. We have had cases where the strategy could qualify in principle, but the universe would be so narrow that it would hurt diversification and risk management so much that it becomes an issue. (Interviewee 6)

Interviewee 3 expressed a similar view and added that portfolio-level exclusions based on sustainability criteria can leave too few investable companies:

You want to avoid the situation where you have a fund with barely enough names to make it viable. We looked at Article 9 for one of our products, but when we dived deeper into it, we saw it would restrict us too much. That is a sustainability problem but first and foremost a portfolio construction problem that we cannot get around sometimes. (Interviewee 3)

Profitability was also raised as a factor in several interviews. Interviewees explained that a narrower investment universe can make it more difficult to construct commercially viable portfolios, especially in actively managed strategies. From a neoclassical economic perspective, this reflects

how value creation and risk allocation drive decision-making: managers avoid Article 9 when it threatens portfolio performance, treating profitability as the overriding criterion. By contrast, the prosocial paradigm would highlight how this reasoning exposes a lack of goal alignment. If sustainability objectives were more firmly embedded as a shared purpose, the trade-off between financial viability and sustainability ambition would be less stark, and classification could support both accountability and profitability. Interviewee 6 reflected this profitability concern directly:

We can manage Article 8 funds just as profitably as some of our traditional ones but Article 9 is a different case. The universe is smaller, and you might have to exclude some high-performing companies that do not meet the criteria. That affects returns. The classification process is not just about values – whether the fund works in the market affects us as well of course. (Interviewee 6)

This challenge was sometimes discussed alongside the issue of reporting demands. For some firms, the reporting requirements under Article 9 were seen as burdensome, especially when combined with the need to track and document sustainable investment status on a continuous basis. However, views on the administrative burden varied. Interviewee 8 said:

The reporting itself is not necessarily more work than for Article 8, at least not with the systems we have in place. The real issue is defining the sustainable investment share accurately and making sure it holds up over time. That requires a lot of work. (Interviewee 8)

Interviewee 2 described the work differently, saying that the reporting component still poses a considerable challenge:

You have to justify the sustainability objective and then report on how it is being met. The templates are quite long and demanding. For smaller teams, it can cause a lot of extra work. It is one reason we have had to avoid Article 9. (Interviewee 2)

Beyond investment constraints and reporting, several interviewees emphasised how internal structures and team roles shape the classification outcome. Decisions are often the result of cross-functional processes involving ESG teams, portfolio managers, compliance officers and risk staff. Interviewee 5 explained that the introduction of the SFDR led their firm to expand their ESG function:

We have grown our ESG team, even primarily because of this (SFDR). The ESG team has many responsibilities, but this regulation definitely triggered growth. Over the past few years, our ESG team has doubled, and it keeps growing annually. The reporting obligations affect both portfolio management and the ESG team. (Interviewee 5)

While structures vary, several interviewees described processes in which ESG teams conduct the initial analysis, portfolio management assesses feasibility and legal or compliance teams give the

final review. In some firms, product development teams are also involved in coordinating the process, especially during the launch of new funds. Interviewee 7 described this workflow:

Usually everything starts with ESG and product discussing the idea. Then we loop in the portfolio managers to see if it makes sense from a strategy point of view. Compliance is the last step. If they are not satisfied, the fund stays Article 8. (Interviewee 7)

Interviewee 9 also explained that their organisation sometimes considers Article 9 classification, but internal review processes often shift the decision:

There have been cases where the idea is to go for Article 9, and the ESG side is quite optimistic. But once we start checking what is needed in terms of data and documentation, we often realise we might not get all the way there. Our compliance team is quite careful about what we commit to, and if there is too much uncertainty, we usually stay with Article 8. They do not disagree with our goals, but they just want to protect us from future problems. (Interviewee 9)

Interviewee 8 described a situation where classification had to be reconsidered once the implications for investable assets became clear:

There was one fund where we thought Article 9 might be possible. It fit thematically and we had done some work to that would support the new strategy. But when we looked at the actual holdings and what would need to change, it did not make sense anymore. We saw that we would lose too much flexibility so we went with Article 8. It was not an easy decision and we wasted quite a lot of time there but it was the more realistic option for us in the end. (Interviewee 8)

Likewise, Interviewee 1 explained that new fund ideas are discussed with ESG and compliance teams early on, but final decisions are made once more detailed analysis is completed. If the classification does not hold up under internal review, adjustments are made to strategy or structure – or the fund is classified under a lower article.

Based on the interviews, these decisions are not always clear-cut. Internal meetings may involve departments weighing in from different perspectives. ESG teams may advocate for more ambitious classifications, while compliance and product teams evaluate feasibility. The outcome reflects a negotiated internal position that balances sustainability ambition, regulatory caution and operational feasibility.

While workflows differ, several interviewees indicated that Article 9 classifications tend to receive more internal scrutiny than Article 8. This scrutiny often extends beyond legal review. Interviewee 7 noted that proposals to classify a fund under Article 9 typically involve more detailed internal

review procedures and require additional documentation. In contrast, Article 8, is generally seen as a more flexible and lower-risk option.

This distinction in internal processes suggests a broader trend across the interviews: firms' selectiveness with Article 9 may reflect not only legal and strategic considerations, but also the way internal roles and responsibilities are organised. The organisational factors that are often invisible from outside seem to heavily influence how classification decisions are approached.

6.2.3 Stakeholder influence and external pressures

Although fund classification decisions are primarily made within the organisation, they are not made in isolation. Several interviewees described how external perceptions, particularly those of supervisors, clients and the media, can shape internal risk tolerance and influence how classification options are evaluated. The external environment does not determine classification choices completely, but it was often described as a background factor that shapes what firms consider safe or justifiable.

A recurring reference point in the interviews was the perceived strictness of FIN-FSA. Multiple participants said that they expect the FIN-FSA to take a conservative view on the implementation of the SFDR, especially when it comes to Article 9. This perception has made some organisations cautious, even when internal definitions or product strategies might support a higher classification.

Interviewee 7 commented:

Our impression is that the Finnish supervisor is fairly strict, especially when it comes to Article 9. We have not had direct issues, but we try to stay on the safe side of things. Even if the regulation allows room for interpretation, we ask whether it would hold up there. That has definitely affected a few decisions. (Interviewee 7)

Interviewee 3 offered a similar view, noting that the regulatory environment contributes to a general cautious atmosphere:

We have talked about it internally quite a bit, particularly with Article 9. The rules themselves leave room for interpretation, but it is hard to know how strict the supervisor will be in practice. We have not had any negative feedback and I hope we will not get any, but we have seen what has happened in other European markets where funds have had to change their classification so we are a bit cautious. If we are unsure how something might be interpreted, we usually stick with Article 8. It is not that we avoid Article 9 altogether, but we try not to take chances unless we are really confident the classification is solid. (Interviewee 3)

This illustrates a neoclassical economic view, where supervisory uncertainty leads firms to classify conservatively in order to shift potential sanctions and reputational costs away from themselves. While regulatory expectations often remained implicit, they influenced how much uncertainty firms were willing to tolerate. Interviewee 5 also explained that their team usually considers not just whether a classification is technically defensible, but whether it would be seen as defensible by others.

These considerations extend beyond supervisors. Client awareness was also seen as a factor in classification decisions, particularly the difference between institutional and retail investors. According to several interviewees, institutional clients are generally more familiar with the SFDR framework and are expected to understand the implications of Article 8 and 9 classifications. On the other hand, retail clients were widely described as having little to no understanding of the classification system. Most do not ask about the Article labels at all and are more interested in general sustainability messaging. Interviewee 6 reflected:

We rarely get any questions from retail clients about the Article classification itself. They care about whether the fund is sustainable, but they do not usually know what Article 8 or 9 means and I do not blame them it is not like the regulation is very easy to understand at a glance. Of course that does not make the categories irrelevant, but it means we are not getting a lot of pressure from that side. (Interviewee 6)

Interviewee 1 shared a similar observation and added that this gap in understanding can reduce the reputational upside of choosing Article 9:

For the broader public, Article 9 does not mean that much. It is not something most people recognise as a badge of credibility. So, from a marketing perspective, it is sometimes hard to justify pushing for it, especially if it increases our workload or possibly exposes us to some legal issues. (Interviewee 1)

Interviewee 4 offered a related view talking about institutional investors:

Some institutional clients might ask for a certain share of Article 8 or 9 funds in their portfolios, especially in request for proposals. But there is no strong push for Article 9. What they are really looking for is a responsible investment approach. Most care more about engagement and the overall strategy than about which label the fund carries. And if you look at the market data, Article 9 is still a small fraction – only a few percentages according to Morningstar data. (Interviewee 4)

In these situations, classification is also by assessments of how different stakeholders are likely to respond. Firms may be technically able to justify a higher classification but choose not to pursue it if they believe the external benefits are limited or the expectations unclear.

Beyond regulatory concerns and client expectations, several interviewees also mentioned the role of peer behaviour and reputational dynamics in shaping their classification decisions. These were not always formal benchmarking exercises, but rather informal comparisons that influenced what firms considered acceptable or too risky. In some cases, organisations explicitly looked at how other market participants were approaching the SFDR classification and adjusted their own strategies accordingly. Interviewee 8 noted that decisions are sometimes made in anticipation of how a fund might be perceived in relation to others:

We look at what others are doing quite often actually. Not in the sense that we follow them blindly, but because you need to understand the environment you are operating in. If most Article 9 funds in the market are very strict in their interpretation and we take a looser one, that could become a problem. Even if we can justify it technically, it might still raise questions. So, we try to stay within what we think is the accepted range which is influenced by how others in the market operate. (Interviewee 8)

Seen through a prosocial lens, such benchmarking illustrates how accountability is grounded in shared norms and professional identity. By adjusting their practices to what is viewed as legitimate across the market, firms contribute to supporting the credibility of sustainable fund management as a collective effort. Interviewee 9 offered a complementary perspective, describing how reputational risk is often discussed even when regulatory compliance is not in question:

It is not always about whether something is allowed under the regulation. It is more about how it will be received. If we classify a fund as Article 9, we know people will look at the holdings, and if it does not match their expectations, that is also a reputational issue. It is just not worth the extra attention unless we are fully confident. (Interviewee 9)

In a few interviews, the role of media narratives was also mentioned. While not a dominant theme, some participants acknowledged that past media coverage of greenwashing claims had contributed to a more cautious approach, especially regarding Article 9. Interviewee 2 reflected that such coverage does not always distinguish between different types of funds or regulatory nuances, which increases reputational sensitivity:

Once something gets labelled as greenwashing in the media, it does not matter what your actual justification was. The damage is already done. You have surely seen a ton of examples of this. And because of this, even if we believe we are on solid ground technically, we ask whether it is worth the risk if there is a possibility for misinterpretation. (Interviewee 2)

These concerns suggest that external pressures are not seen as distant or secondary, but as immediate factors that shape internal judgments about which classifications are justifiable. Even when a fund could potentially meet Article 9 requirements, some firms choose a more conservative

path based on how supervisors, clients, peers or the media might interpret the classification. These external factors shape not only how firms communicate their sustainability ambitions, but also how confident they feel in standing behind those claims in a public or contested setting.

6.3 Perceptions of SFDR's broader effectiveness

The final section of the empirical analysis shifts the focus from implementation to reflection. While earlier parts of the chapter looked at how classification decisions are made and managed, this section considers how the SFDR is perceived more broadly, both in terms of its impact on sustainability work and its future development. Interviewees offered differing views on whether the regulation meaningfully shapes investment practices or mainly reinforces existing ones. Some framed it as a baseline that supports long-term progress, while others saw it as administratively burdensome or insufficiently targeted. The analysis also captures how participants view the amendments to the framework, including their hopes and concerns about ongoing reform efforts.

6.3.1 Assessing practical impact

Across the interviews, participants offered differing views on whether the SFDR has meaningfully influenced fund management practices or whether its impact has remained largely bureaucratic. While the regulation was widely recognised as a step toward improving transparency and creating a shared language for sustainability in finance, some interviewees noted that its aims extend also beyond enhancing disclosures. The SFDR is also intended to help channel capital towards more sustainable economic activities, yet many questioned whether this broader ambition has been reflected in its practical outcomes. Several participants suggested that the regulation's influence has so far been more symbolic than substantive, focusing attention on documentation and labelling, rather than changing the underlying logic of investment decisions. Interviewee 2 described the regulation as most visible in internal reporting work, with minimal effect on portfolio construction:

It has mostly been visible in reporting. We did not need to change our investment strategies. The reporting, however, employs surprisingly many people across the organization. (Interviewee 2)

This emphasis on internal workflows over strategic repositioning was reaffirmed by Interviewee 3, who described the SFDR as a disclosure tool that had added complexity without necessarily improving comparability:

First, it is important to remember that SFDR is a disclosure regulation – it is intended to give end users more comparable information. But whether this has worked in practice is another matter. In terms of investment activities, it has had very little impact. We already had clear processes for responsible investing, and those have not changed much. So yes, SFDR’s main effect has been the reporting burden, not changes to actual investment strategy. (Interviewee 3)

Interviewee 4, by contrast, highlighted how the regulation prompted more concrete adjustments, especially in how sustainability indicators were defined and monitored:

When the SFDR came into force in 2021, it wasn’t a dramatic change for us. Our processes were in place. But yes, the SFDR brought in specific requirements, especially metrics. We had to define sustainability indicators and refine our portfolio management practices. We also had to define boundaries and implement monitoring processes. Risk management now monitors Article 8 and 9 funds with specific indicators. (Interviewee 4)

Some interviewees described these shifts not as major overhauls but as refinements to practices that were already in place. In several cases, the SFDR led to clearer internal documentation and greater alignment between ESG, product and compliance teams. Interviewee 6 noted that while the regulation did not fundamentally change their sustainability strategy, it pushed teams to clarify definitions and harmonise language across departments. This was described as helpful, even if the changes remained mostly internal.

Several participants also emphasised that the regulation’s impact depends heavily on each firm’s starting point. For organisations with more mature ESG practices, the SFDR helped to formalise and communicate what was already being done. For those earlier in their sustainability journey, it may encourage more visible adjustments. However, even in those cases, the motivation often stemmed from the need to meet reporting expectations rather than a shift in investment philosophy. While some interviewees appreciated the added structure, others questioned whether the regulation goes far enough to promote more ambitious practices. This more sceptical view often centred around the idea that the SFDR encourages documentation rather than change. Interviewee 8 viewed the SFDR as a labelling mechanism that sometimes formalises the status quo without incentivising stronger sustainability commitments:

It provides structure, but in a way that is quite basic. You do what you already do, and then you figure out how to describe it in terms of Article 8 or 9. There is no real push to

go further. And with Article 9 being as narrow as it is, it is easier to just stay with Article 8 unless there is a strong reason not to. (Interviewee 8)

A few interviewees pointed out that the regulation had made ESG work more visible inside their organisations, even if it had not changed investment selection. Interviewee 6 said it had helped ESG teams engage more regularly with risk and compliance staff, while Interviewee 7 described how the classification process led to internal discussions about the limits of sustainable investment data, even if the outcomes remained unchanged.

Interviewee 1 acknowledged the regulatory ambition behind the SFDR but raised concerns about how the regulation's complexity has made it difficult for end users to interpret:

The idea has been to bring transparency to investors about ESG matters – which is a very good starting point – and to make the work comparable and transparent across the financial sector. This has partly been achieved. However, the regulation has become more complex due to delegated acts and additions. We are now in a situation where the regulation and requirements are so complex that not all investors can understand them. (Interviewee 1)

Some interviewees also reflected on how the formal structure of the regulation influences internal priorities. Even when teams are motivated by sustainability goals, the focus on measurable indicators and standardised templates can shift attention toward what is easiest to document. Interviewee 7 noted that this dynamic can create subtle pressure to prioritise what fits the regulatory format, rather than what aligns best with long-term strategy. Viewed through a neoclassical economic lens, this pressure reflects how incentives become tied to what can be reported and audited, meaning that compliance formats end up defining what counts as performance. By contrast, the prosocial paradigm points to a broader orientation, where classification should align with organisational purpose and multidimensional value creation, rather than being reduced to what is most easily captured by templates. While this was not necessarily viewed as negative, it highlighted how the presence of regulation can shape internal thinking, even without explicitly requiring specific changes.

A related concern was that the SFDR might unintentionally reduce ESG investing to a box-checking practise. Several interviewees felt that the classification framework, particularly for Article 8, risked becoming a technical hurdle rather than an indication of strategy. Interviewee 2 expressed this worry directly:

It is good that the regulation aims to curb greenwashing – that is a good goal. But I also see problems with how ESG investing can become overly checkbox-driven, which leads

us away from the true purpose of sustainable investing. If ESG becomes just a compliance function, that is a real problem in my view. (Interviewee 2)

Others expressed similar concerns. Interviewee 9 observed that while classifications help structure communication, the incentives are not always aligned with deeper change:

There is pressure to label funds in a way that meets expectations, but that does not always lead to better sustainability outcomes. In some cases, it just means adjusting how you describe the fund, not how it is managed. The focus shifts to what you can justify on paper. (Interviewee 9)

Despite these critiques, a few participants noted that the regulation had created a shared baseline across the market. For Interviewee 5, this levelling effect was one of the regulation's main contributions, even if it had limited practical influence on their own practices:

We were already doing the ESG work before the SFDR, so it did not change much for us. But I think it forced others to catch up. You cannot just say you are sustainable anymore, you have to show something to prove that. That makes it easier for clients to compare, even if the details are still messy. (Interviewee 5)

Taken together, the interviews suggest that the SFDR has succeeded in formalising ESG language and increasing internal coordination, but its effect on actual investment activity remains uneven. For some, it has helped bring structure and clarity. For others, it has introduced more bureaucracy than progress. While most interviewees accepted the regulation as a necessary step, few saw it as a major driver of change. Instead, it seems it is often perceived as a framework that reflects existing practices more than it transforms them.

6.3.2 Reflections on future development

Looking ahead, interviewees expressed a range of views about how the SFDR framework should evolve and what role it can realistically play in advancing sustainable finance. Some voiced hopes for more precise definitions and better alignment with other EU-level reporting frameworks, while others were more sceptical about the pace or direction of regulatory development. These differing views highlighted that there is no shared vision yet for where the SFDR is heading or how it should be improved.

A common concern among interviewees was the ambiguity that still surrounds key terms and classification thresholds. The lack of clarity has made it difficult for firms to apply the regulation

consistently, and several participants felt that further guidance was essential. Interviewee 1 described the situation as unmanageable in the long term:

Last year's consultation showed that half of the respondents thought the regulation should be completely reworked, which would be a disaster given how much has been invested in it. More likely, we will see thresholds set for classifications. The UK-SIF site has a good example – simple, clear definitions. We need something similar in Europe, something that helps both investors and the industry. I expect simplifications to come, maybe linked to other EU reporting directives. Anything that brings us closer to the original goal, making funds easier to understand and compare, is a good step. (Interviewee 1)

Interviewee 3 also identified regulatory uncertainty as a key barrier, especially as new proposals are still being developed:

Proposals for new classifications should come after summer. Then there is a transition period. Hopefully, the new system is clearer. Right now, there are still many open questions, like whether entity-level PAI statements will continue or be replaced. The current PAI statements are just aggregate figures that do not really say much. There is also uncertainty about indicator changes, timing and implementation. (Interviewee 3)

For some, the goal is not just clarity but also better integration with existing frameworks.

Interviewee 5 emphasised that the SFDR should not become overly reliant on the EU taxonomy, given its limitations:

ESMA hinted that in the future, only taxonomy alignment might define sustainability. That raises the question: what happens to the SFDR's own sustainable investment definition? Some even suggest removing Articles 8 and 9 entirely. Taxonomy only assesses economic activities, not company-level sustainability and it does not cover governance issues. So, I think taxonomy alone cannot replace the SFDR classifications. (Interviewee 5)

Other participants were more cautious about moving too quickly with changes. Interviewee 4 expressed concern about the proposed note by the EU Platform on Sustainable Finance and how it might disrupt the system just as the market is adjusting to the current framework:

I am a bit sceptical about the SFDR 2.0 platform proposal. Just as the industry and clients are getting used to 6, 8 and 9, now they are proposing new labels like sustainable, transition, ESG collection and even unclassified. Who would want to invest in something unclassified? All of it feels premature. (Interviewee 4)

While these views reflect different levels of optimism, they all point to the importance of stability and coherence. Frequent changes or overlapping regulations were seen as disruptive, particularly when firms are still adapting to earlier requirements. Several interviewees warned that if reforms do

not address underlying structural issues, such as data quality or practical applicability, then the regulatory burden could grow without improving outcomes.

Some participants reflected more broadly on Europe's global positioning. Even though most agreed that the EU has taken a leading role in advancing sustainable finance, concerns were raised that overly strict or complex rules could reduce flexibility. Interviewee 2 cautioned against tightening the SFDR too far:

I do not think the regulation will tighten soon, probably the opposite. Loosening would be good. Greenwashing will not disappear, but cheaters will cheat regardless. The SFDR will not be able to stop that entirely. Now, Europe has a chance to boost its competitiveness versus the US. For example, after Trump was elected, many US asset managers scaled back ESG. Some big UK and Swiss institutions fired them over that and we are talking billions in lost mandates here. So clearly, Europe has not followed that trend as clients still demand ESG. I believe that is the case in Asia too. So, it is important not to tighten the requirements now. They might relax the SFDR a little, not necessarily lighten it, but definitely not tighten it at least. Taxonomy reporting is already hard enough, especially for target companies. Firms often do not know how to report on it, yet regulators still demand taxonomy-aligned reporting from fund managers. (Interviewee 2)

This view was echoed in broader concerns about alignment between SFDR and other EU frameworks. Several interviewees pointed out that without consistency between fund-level and company-level requirements, data gaps will remain. Interviewee 4 also observed that the mismatch between the softened CSRD rules and the SFDR's strict reporting demands creates tension:

Meanwhile, the CSRD sustainability reporting rules are being softened. That creates a disconnect. Fund managers are still required to report extensively, often without reliable company data. If smaller companies do not have to report, where will we get our data? We will be forced to rely on estimates, so I hope they proceed carefully. Constant change creates uncertainty for everyone. (Interviewee 4)

Building on these concerns, Interviewee 3 linked the challenges to wider regulatory developments, noting how the Omnibus Directive, which seeks to revise sustainability regulations in order to ease reporting burdens, had intensified uncertainty around future data availability:

There is still a lot of uncertainty around what we are actually supposed to report on and where the data is going to come from. If smaller companies are exempt from reporting under the CSRD, then the SFDR disclosures start to lose their basis. We already struggle to get reliable information on taxonomy alignment, and now there is talk about simplifying or postponing parts of the CSRD. That is all connected to the Omnibus. In the end, we will be held accountable for fund-level disclosures that depend on company-level data we do not control. That is a structural weakness, and I do not see how SFDR can function well if that gap keeps widening. (Interviewee 3)

Interviewee 1 saw the SFDR revisions as likely because of the direction of broader EU reporting reforms under the Omnibus Directive. While no formal proposal has emerged, they believed the pressure for regulatory alignment makes future changes inevitable.

Despite these frustrations, a few participants pointed to the potential for future alignment and simplification. Interviewee 6 suggested that over time, the different regulatory frameworks could either merge or be better coordinated:

There are a lot of moving parts – SFDR, CSRD, taxonomy, now also ESRS. It is hard to know what the end goal is. Ideally, it becomes one system, or at least something more consistent. Right now, the same ESG topics are divided differently across four or more frameworks, each with their own timelines and reporting logic. That creates a lot of internal coordination work, especially when the same team is trying to align fund-level and entity-level reporting. Sometimes it feels like we are saying the same thing multiple times, just in slightly different language. If there was more consolidation, or at least better alignment, it would make both implementation and communication a lot easier for everyone involved. (Interviewee 6)

Although views differed on the specific direction of reform, most interviewees agreed that the regulation should be improved through gradual steps rather than major structural changes. Rather than replacing the framework, participants emphasised the need to make it more effective: this includes clarifying definitions, ensuring alignment with related EU regulations and reducing the reporting burdens that arise from inconsistent expectations. According to several interviewees, the effectiveness of future revisions may rely less on ambitious policy overhauls and more on practical improvements that restore confidence in how classifications are applied and understood across the market.

7 DISCUSSION

This chapter connects the findings from the empirical analysis to the theoretical background and existing literature, using the neoclassical economic paradigm and the prosocial paradigm to interpret how fund managers classify investment products under the SFDR. The discussion focuses on the underlying reasons behind the widespread use of Article 8 over Article 9, considering how various pressures from the regulation, organisational processes and market dynamics interact with internal values and organisational priorities. The two paradigms are applied through the six analytical dimensions – information asymmetry, incentives, time horizon, risk allocation, accountability and value creation – as developed in chapter 4., providing a configured basis for interpreting how different perspectives shape classification outcomes.

The chapter is structured in four parts. The first section examines external motivations and constraints, including how fund managers respond to perceived risks, incentives and evolving norms in the broader market environment. The second section explores internal organisational dynamics and the roles of different professional actors in shaping classification outcomes. The third section considers how the SFDR labels are used in practice, distinguishing between symbolic and substantive applications. Finally, the fourth section offers a methodological evaluation, reflecting on the strengths and limitations of the research design and their implications for interpreting the results.

7.1 External motivations and strategic responses

Within the SFDR framework, Article 9 was introduced to highlight investment products with a clear sustainability objective. Nevertheless, Article 8 has become the clearly dominant classification among ESG funds. While many products integrate ESG considerations and pursue responsible investment practices, relatively few meet the strict and vaguely defined criteria required for Article 9. Interviewees noted that the requirements for Article 9 classification, including demonstrating a precise sustainability objective, were often perceived as too high or uncertain. As a result, Article 8 is often chosen as a more realistic and manageable choice, even by funds with strong sustainability commitments. This trend does not necessarily indicate a lack of commitment to sustainable finance among fund managers but rather reflects how classification choices are shaped by regulatory uncertainty, accountability structures and strategic risk management under external pressure. In terms of the analytical dimensions used in this thesis, interviewees repeatedly pointed to shifting

incentives and perceived risk allocation under supervisory ambiguity, alongside concerns about what counts as credible accountability in communication with clients.

From the perspective of the neoclassical economic paradigm, the dominance of Article 8 can be interpreted as a rational response to regulatory imprecision and perceived reputational and legal risks. Managers operate under pronounced information asymmetry and evolving supervisory interpretations, which sharpen incentives to prefer classifications that minimise expected costs. ESG fund managers act as agents accountable to multiple external principals, consisting of supervisors, clients and stakeholders, each with their own interpretations of what constitutes legitimate sustainability. Under this neoclassical interpretation, the combination of distributed accountability and uncertain enforcement reallocates risk internally toward compliance-oriented choices, narrowing the effective time horizon to what is most defensible now. Most interviewees described Article 9 as associated with heightened scrutiny, particularly due to the lack of precise thresholds for what qualifies as a sustainable investment. Even when a fund's strategy might align with Article 9 objectives, uncertainty over supervisory interpretations leads managers to adopt a precautionary approach. In line with Christensen et al. (2021), these findings support the view that ambiguous regulation can produce defensive behaviour, leading actors to prioritize safe, technically compliant outcomes over more proactive sustainability strategies.

The prosocial paradigm provides a contrasting interpretation. While Article 9 involves greater regulatory and operational demands, a few fund managers still chose it based on long-term sustainability objectives, reputational integrity and alignment with organisational values. Here, prosocial reasoning framed classification as a way of aligning credibility and organisational identity with performance, turning sustainability commitments into a basis for profitability and investor trust. The actors in question appeared less focused on short-term defensibility and more on signalling credible ESG dedication. This view aligns with Crane and Glozer (2016) who emphasize the role of internal values and communication in shaping how organisations engage with sustainability frameworks. Thus, Article 9 categorisations can also be seen as prosocial acts that express an organisational commitment to sustainability as a performance goal, even amid shifting institutional expectations.

The rarity of Article 9 highlights how current regulatory structures tend to reinforce risk-averse decision-making over more assertive sustainability positioning. The findings of this study suggest that decisions are often driven less by the availability of suitable Article 9 investment opportunities than by how managers interpret and respond to regulatory expectations. In many cases, fund

managers opted for Article 8 because they perceived it as the most practical option under current conditions, balancing sustainability goals with market feasibility and legal defensibility. Put differently, variation in categorisation stems from how actors weigh the six dimensions in practice, especially incentives, information asymmetry and accountability, rather than from whether suitable Article 9 investments are available.

A further factor influencing classification choices was the limited awareness among clients, particularly retail investors, about the distinction between Articles 8 and 9. Several interviewees noted that retail demand for Article 9 products remains low, not due to a lack of interest in sustainability, but because most investors are unaware of what the different classifications entail. Some participants also observed that while institutional investors are more informed about the different categories, they still do not consistently prioritise Article 9 products in mandates or asset allocations. With low investor awareness, there is little external pressure to take on the additional compliance and documentation requirements associated with Article 9. These findings are consistent with research by Lamandini et al. (2024), who found that the SFDR framework lacks visibility among retail investors and that unclear fund labels can limit informed investor choices and reduce the signalling effect of Article 9. In terms of the dimensions, weak investor understanding increases information asymmetry, reduces incentives to pursue costlier classifications and weakens accountability linked to label differentiation.

Another important consideration raised in the interviews was the role of peer practices and market norms. Several participants noted that in the absence of strict regulatory enforcement the industry tends to follow informal benchmarks which are often influenced by what leading competitors are doing. In this context, Article 8 has become the perceived norm, creating pressure to follow that even when a fund might conceptually fit the Article 9 category. Departing from what most competitors do was often seen as risky, especially without clear regulatory guidance. As a result, Article 8 became the default choice, signalling ESG commitment while remaining within regulatory and market limits. Peer alignment can be seen as a way of managing risk by avoiding outlier positions, supporting accountability through shared norms and influencing incentives by defining the market's baseline for credible classification.

7.2 Organisational dynamics

Although regulatory uncertainty creates the broader external conditions for risk-averse classification behaviour, organisational structures and role dynamics also shape how decisions are made.

Classifications are not only shaped by external factors but emerge from negotiations among professionals within firms. Most interviewees described fund categorisation as a collaborative process involving ESG teams, portfolio managers and compliance officers each contributing distinct expertise, priorities and logics.

The neoclassical economic paradigm helps explain these internal negotiations. From this perspective, actors operate under competing incentives and shifting risk allocation: compliance and legal teams tend to prioritise defensibility, while investment and ESG staff weigh market positioning and broader accountability. Compliance officers, often holding veto power, generally adopt the most conservative posture interpreting Article 9 as a source of risk. ESG teams may advocate for more aspirational classifications, but their influence depends on their organisational positioning. Where internal governance favours risk management and accountability over ESG ambition, Article 8 is usually chosen. These dynamics align with Christensen et al. (2021), who describe ESG implementation as a cross-functional process marked by competing rationalities and risk perceptions.

Additionally, firms differ in how they define and apply the concept of sustainable investment. Some use customised frameworks that go beyond the SFDR requirements, applying rigorous internal standards. This can make Article 9 classification harder to justify, as the internal standards may require stricter evidence or definitions than the regulation itself in order to ensure compliance. Consequently, the threshold for what is considered as an eligible investment rises. This illustrates how information asymmetry and accountability are handled differently depending on the paradigm: stricter internal definitions protect the firm by making classifications defensible, but they may also narrow opportunities for sustainability positioning.

Several fund managers also described the Article 9 investment universe as overly restrictive to support broad investment strategies. The strict eligibility criteria make it difficult to include a wide enough range of assets, which can impact both diversification and expected returns. Because of this, managers may choose Article 8 even if a fund has a strong sustainability orientation, simply because Article 9 does not offer enough flexibility to meet financial performance goals and manage portfolio risk.

From a prosocial perspective, however, organisational dynamics are not only about constraints. In some firms, ESG professionals and portfolio managers described classifications as part of a broader organisational mission. Here, prosocial reasoning positioned Article 9 as a way of reinforcing strategic orientation and institutional credibility, even when it required more resources. By treating sustainability objectives as integral to performance, these actors saw classification not merely as compliance but as a contribution to collective value creation and competitiveness. These cases illustrate that prosocial reasoning plays a role within internal discussions, especially in organisations where ESG is integrated into strategic decision-making. Rather than viewing the classification as a regulatory burden, these teams framed it as an opportunity to reinforce the organisation's long-term performance.

In contrast, in firms where ESG roles are subordinated to compliance, classification becomes more transactional and risk-oriented, consistent with neoclassical assumptions. This variation highlights how different balances of the six dimensions, such as risk allocation between teams or whether value creation is defined narrowly or more broadly, shape organisational outcomes. Depending on how much influence ESG advocates have within a firm, and how classification decisions are negotiated with risk-averse compliance teams, the final outcome can differ significantly. Therefore, Article 9 remains uncommon, not only due to regulatory complexity but also due to the varying degrees to which internal actors prioritize sustainability versus compliance. Where prosocial intent is institutionally supported, Article 9 becomes a credible expression of strategy; where it is not, Article 8 remains the safest default. This connection reinforces the argument by Arjaliès and Mundy (2013) that the extent to which ESG becomes embedded in governance processes influences whether sustainability commitments are realised as accountability practices or as narrow compliance.

7.3 Symbolic and substantive uses of the classification

The widespread use of Article 8 cannot be fully understood by looking only at external constraints or internal decision-making dynamics. A recurring theme in the interviews was that the SFDR classifications, particularly Article 8, can serve both symbolic and substantive purposes. This section examines how firms use the label to manage ESG communication and express organisational positioning, sometimes going beyond regulatory requirements and sometimes merely satisfying them. Rather than focusing solely on how classifications are chosen, the analysis here

considers how they are used once adopted, and what this reveals about the evolving role of sustainability in financial markets.

Interviewees gave specific examples of how Article 8 serves different roles within firms. In some cases, it was used to reflect investment strategy backed by internal ESG frameworks, screening methods and governance structures. In other cases, the classification was applied more mechanically, using it to meet documentation expectations or signal ESG focus without major changes to investment strategy. This variability raises concerns about symbolic compliance, where the emphasis is on the appearance of ESG integration rather than meaningful impact. Kölbl et al. (2020) examine this issue, arguing that much of sustainable investing operates through indirect influence mechanisms, and that ESG labels often do not result in measurable environmental or social results. From this view, classifications like Article 8 may create a false sense of progress, allowing firms and investors to claim alignment with sustainability goals without materially affecting corporate behaviour or capital allocation. This critique stands in partial contrast to the findings of this study, where some firms appeared to use classification with genuine internal alignment. Nevertheless, it underscores the risk that the SFDR categories may remain performative unless tied to stronger impact verification mechanisms.

From a neoclassical economic perspective, Article 8 reflects a calculated compromise of incentives and accountability. The category offers sufficient flexibility to meet external expectations while avoiding the higher verification demands of Article 9. Because of persistent information asymmetry about what qualifies as sustainable investment, firms can use Article 8 strategically to manage reputational risk and allocate responsibility cautiously. In this sense, symbolic use is not accidental but follows predictable logics of risk allocation and defensibility. Such strategic use can weaken the credibility of ESG labels as tools for guiding capital toward sustainability-focused investments. These concerns are supported by Abouarab et al. (2025), who find that Article 9 funds tend to follow the regulation more closely, whereas Article 8 funds retain space for potential greenwashing. Cremasco and Boni (2022) similarly warn that the increasing use of sustainability-related terms in fund marketing often masks behaviour that is mostly profit-oriented, with little evidence of sustainability outcomes. The authors argue that this category fuzziness reveals a disconnection between how funds are labelled and how they operate, which is a finding that resonates with the interviews of this study. Some participants expressed concern about this disconnect but also made classification choices that implied a strategic use of Article 8 to signal ESG engagement without significantly altering investment practices.

In some organisations, Article 8 was used cautiously to stay within boundaries that interviewees felt they could credibly defend. Several participants described being mindful of how ESG labels would be interpreted by clients, auditors and supervisors given the ongoing uncertainty surrounding future adjustments to the SFDR. The caution was not driven only by compliance officers but also by other professionals involved, who emphasised the importance of maintaining trust and avoiding reputational risks tied to overstatement. Rather than rushing into Article 9, these managers viewed Article 8 as a sensible interim solution that aligned with their ESG objectives while leaving room for upcoming adaptation. This perspective aligns with Lamandini et al. (2024), who report that many fund managers hesitate to pursue Article 9 due to the same reasons. They suggest that such conditions have contributed to even “green bleaching”, where firms under-claim their sustainability commitments to avoid overpromising in an unstable environment. Such approach reflects how firms manage accountability and time horizons simultaneously, preferring incremental adjustments to sudden shifts that might expose them to regulatory or reputational sanctions.

More broadly, the interviews indicate that ESG classifications in their current systemic form can both strengthen and weaken the alignment between fund managers’ decisions and “real” sustainability. On the one hand, some firms used Article 8 cautiously as a way of maintaining credibility and avoiding overstatement, which suggests a positive alignment between regulatory compliance and sustainability integrity. On the other hand, practices such as green bleaching illustrate how the same structures can also lead to under-claiming or misrepresenting sustainability commitments, thereby weakening transparency and reducing the effectiveness of the framework in steering capital. This dual dynamic shows how the SFDR both supports and constrains the pursuit of sustainability in practice.

Collectively, these findings suggest that classification decisions cannot be reduced to opportunistic positioning alone, they are influenced by how fund managers balance their twofold responsibilities to external and internal stakeholders alongside sustainability goals. Through the lens of the neoclassical economic paradigm, cautious use of Article 8 reflects a logical reaction to uncertainty: aligning with incentives and minimising risks in the short term. At the same time, prosocial reasoning was evident in cases where deliberate restraint served to protect credibility and professional identity, allowing ESG claims to remain defensible. In this view, classification operates as both an accountability practice and a way of embedding sustainability into organisational performance rather than treating it merely as an ethical stance. Even when Article 8 was employed in a symbolic way, it could thus reflect not only strategic conservatism but also an underlying commitment to integrity.

7.4 Methodological evaluation

Beyond interpreting the findings, it is also necessary to consider the methodological choices that shaped them. To this purpose, the quality of this study is evaluated using the four criteria for qualitative research proposed by Lincoln and Guba (1985): credibility, transferability, dependability and confirmability. These criteria help assess how well the research reflects participants' experiences, how applicable the findings are in other contexts and how transparently the research process has been carried out. Because this study relies on qualitative interviews and interpretive analysis, ensuring the integrity of both data collection and interpretation is essential. The following sections explain how each criterion has been addressed to strengthen the overall trustworthiness of the research.

Credibility addresses the accuracy with which the research reflects participants' experiences and views (Lincoln & Guba, 1985). In this study, credibility was enhanced by conducting semi-structured interviews with professionals directly involved in classification decisions. Open-ended questions and iterative follow-up ensured the responses were well understood and interpreted in context. Moreover, participants were selected for their specialised knowledge of the SFDR which ensured that insights were drawn from informed perspectives. This aligns with recommendations by Korstjens and Moser (2017), who emphasise the importance of participant expertise and researcher reflexivity in building credibility.

Transferability concerns the applicability of findings beyond the immediate research context (Lincoln & Guba, 1985). Whereas the study focuses on the Finnish ESG fund market, the SFDR is an EU-wide framework, and many of the identified factors affecting classification are likely to be relevant across member states. As Yin (2018) explains, while case studies do not support statistical generalisation, they can contribute to analytical generalisation when interpreted through relevant theoretical lenses. In this study, anchoring the analysis in frameworks such as the neoclassical economic and the prosocial paradigms enables a broader interpretation of how the SFDR is understood and implemented by financial market participants.

Dependability relates to the consistency and traceability of the research process (Lincoln & Guba, 1985). This study followed a clear methodology, including the use of a documented interview guide and a structured coding strategy. The interview guide is included in Appendix 1. Each stage of the research process, from participant selection to data analysis, was guided by consistent principles, in

line with suggestions from Miles et al. (2020) on enhancing qualitative dependability. Although qualitative research reflects specific temporal and contextual conditions, the study process was documented in sufficient detail to allow other researchers to follow the same steps and apply the methodology in comparable contexts.

Confirmability refers to the objectivity of the findings and the extent to which they reflect the perspectives of participants rather than researcher bias (Lincoln & Guba, 1985). In this study, confirmability was supported through systematic thematic coding and the use of direct quotations to ground interpretations in the data. The findings were also situated within the broader academic discussion on sustainable finance including literature on the SFDR and ESG fund classification. Because of the relatively recent implementation of the SFDR, this comparison helped to contextualise the results and demonstrate how they align with or extend current understandings in the field.

Overall, this study's methodological approach aimed to balance flexibility with transparency, enabling an in-depth exploration of fund managers' reasoning under the SFDR. While the results are shaped by the context and scope of the research, the evaluation criteria applied here provide a basis for assessing the study's integrity and its potential to contribute to future academic and policy discussions on sustainable finance.

8 CONCLUSIONS AND FUTURE DIRECTIONS

8.1 Conclusions

A central purpose of the SFDR is to guide capital toward more sustainable economic activities and to reduce greenwashing. Article 9 is intended to spotlight funds with explicit sustainability objectives, yet it remains underutilised. This thesis therefore examines why many fund managers choose to classify funds under Article 8 rather than Article 9, even when sustainability considerations are present in the investment strategy. By investigating the underlying reasoning behind these decisions, the study provides insight into the strategic and normative considerations that affect how the SFDR is implemented.

The analysis shows that classification decisions are shaped by a combination of regulatory, organisational and market-related factors. Among these, three emerged as particularly important. First, many fund managers view Article 9 as too vague and subject to varying interpretations. Despite efforts to define “sustainable investment”, the criteria remain unclear in practice, creating uncertainty around what exactly qualifies as a suitable investment. Therefore, the Article 9 label is difficult to defend and increases the perceived risk of legal or reputational consequences. In contrast, Article 8 offers more flexibility and is seen as safer under present conditions. Rather than indicating a lack of ESG ambition, the preference for Article 8 is frequently shaped by the perceived risks and uncertainties of the policy environment. Conversely, this flexibility also creates more room for surface-level ESG claims, making Article 8 more vulnerable to greenwashing and limiting the regulation’s ability to ensure substantive sustainability integration.

Second, fund managers widely regard Article 9 as too restrictive in terms of portfolio construction. The stricter eligibility criteria limit the range of assets that can be included in Article 9 funds, making it more difficult to maintain diversification or meet return targets. Even funds that are conceptually aligned with sustainability principles may fall short of the formal criteria and are thus classified under Article 8 to preserve strategic and financial flexibility. This tendency reflects a broader dynamic in which financial performance is often prioritised over sustainability alignment, particularly when classification decisions are made under pressure to maintain competitive returns. Though understandable within current market logic, this orientation reinforces short-termism and weakens the transformative potential of sustainable finance. If fund managers continue to treat sustainability as secondary to profitability, the more ambitious aims of frameworks like the SFDR are unlikely to be fully realised. These findings suggest a need to revisit how incentives are

structured – not only to clarify expectations, but to reward those who take on the additional constraints of Article 9 in pursuit of more impactful sustainability outcomes.

Third, demand for Article 9 products remains weak, particularly among retail investors. Interviewees frequently noted that clients do not fully understand the distinctions between Articles 8 and 9. The lack of awareness reduces the commercial incentive to pursue Article 9 classification, especially when doing so involves additional compliance burdens. Even among institutional clients, preferences for Article 9 were described as inconsistent or superficial. While the SFDR's foremost objective is to improve transparency through standardised sustainability disclosures, this goal appears only partially achieved. If end-users cannot differentiate between Article 8 and 9 funds, then the framework fails to serve its purpose as a signalling tool for informed investor decision-making. As long as client understanding remains shallow, fund managers have little reason to prioritise the more demanding Article 9 classification. This highlights the need to reform the classification system itself, making it more intuitive and accessible for a wider range of investors and ensuring that its three categories effectively convey the depth and credibility of a fund's sustainability ambition. In parallel, fund providers and distributors could play a more active role in explaining what these categories entail, thereby supporting the SFDR's aim.

These findings can be further interpreted through the two theoretical lenses guiding this thesis. From the neoclassical economic paradigm, the widespread selection of Article 8 reflects how fund managers, respond to information asymmetry and client expectations. Managers tend to favour Article 8 because it allows for broader portfolio diversification and potentially better financial returns, while still offering enough ESG features to appeal to most investors. Crucially, even clients who wish to invest in highly sustainability-oriented products often lack the knowledge to specifically request Article 9 funds, as the distinctions between classifications are poorly understood. In this context, Article 8 becomes the optimal choice to balance marketability and profitability. The prosocial paradigm, by contrast, interprets sustainability not as a constraint but as a strategic investment that can reinforce performance over time. This was visible in cases where managers described Article 9 as a natural fit for funds already built around impact themes, or where they emphasised the importance of consistent classification for maintaining credibility with clients. From this perspective, some managers pursue Article 9 classification as an expression of organisational purpose and a way to link sustainability commitments with value creation.

Altogether, these conclusions point to a fundamental tension in the implementation of the SFDR. While the regulation aims to channel investments to more sustainable outcomes, its practical

application often leads fund managers to make safer and more commercially appealing choices. Many operate in a setting where unclear rules, limited client understanding and internal reward structures all push them toward choosing Article 8. Even those with strong sustainability goals are often discouraged from choosing Article 9, either because the investment options are too limited or because there is no clear demand from clients. The result is a system where the more ambitious classification remains underused, despite its potential to signal stronger ESG commitment. This situation also undermines the SFDR's parallel objective of curbing greenwashing, leaving its effectiveness in question. Addressing this imbalance may require not only refinements to the classification system itself but also changes to how fund providers explain these categories and how fund managers are encouraged to link long-term sustainability with financial success.

8.2 Limitations and recommendations for further research

This thesis provides insights into the factors influencing investment fund categorisation, yet certain limitations must be acknowledged that affect the scope and generalisability of the findings. Most notably, the research is focused on Finland, where ESG investing is already relatively mature. Nordic countries in general tend to have a high share of funds classified under Articles 8 and 9, reflecting both strong investor interest and a long-standing emphasis on sustainability in financial markets. Accordingly, fund managers in these regions may face different expectations and opportunities compared to peers in other EU member states. Although the SFDR applies across the Union, its interpretation and practical implementation are influenced by national-level regulatory environments, market structures and ESG norms. Therefore, the findings of this study should be viewed as context-specific and not assumed to apply directly to countries with lower levels of ESG investing maturity.

A further limitation concerns the sample size and representativeness of the data. The findings are based on a qualitative sample of professionals involved in fund classification, offering in-depth insight but limited breadth. Even though interviewees were selected from organisations of different sizes and types, the total number of interviews was constrained by time and resource limitations. As is typical in qualitative research, the goal was not to achieve statistical representativeness but to generate rich, contextual understanding.

Building on these limitations, several avenues for further research can be identified. One promising direction would be to conduct comparative studies across multiple EU member states to examine

how the SFDR is understood and applied in different regulatory and market settings. Even if countries may be at different stages in the maturity of ESG investing, comparing these differences could yield insights into how national conditions shape classification practices. Such research would not only clarify whether the Finnish patterns observed in this study are exceptional or part of a broader trend but could also inform the ongoing development of the SFDR by identifying best practices and implementation challenges across the EU.

Another area for future research concerns the perspectives of investors, particularly how both institutional and retail clients understand and respond to SFDR classifications. Given that a core objective of the SFDR is to enhance transparency and comparability across financial products, it is essential to examine whether these goals are being achieved from the investor's point of view. As this study has shown, limited investor awareness can weaken the incentives for Article 9 classification. Future research could explore how effectively fund disclosures communicate sustainability characteristics and influence investor behaviour, helping to identify ways to strengthen the regulation's impact.

Finally, longitudinal research would be valuable to track how fund classification practices evolve over time as the regulatory landscape and market norms continue to develop. Although the SFDR is still a relatively new framework, its relevance is reinforced by ongoing regulatory developments such as the Omnibus Directive and links to ESRS. These changes suggest that the classification system will continue to adapt in response to broader shifts in sustainable finance regulation. A longitudinal perspective could provide deeper insight into whether current barriers to Article 9 adoption are temporary responses to early-stage uncertainty or more persistent features of the financial system.

9 SUMMARY

The transition toward a more sustainable economy is one of the European Union's central policy goals, with the financial sector expected to play a key role in directing capital toward environmentally and socially responsible activities. The Sustainable Finance Disclosure Regulation forms a cornerstone of this effort by introducing a standardised classification system for investment funds. By labelling funds under Articles 6, 8 or 9 based on their sustainability characteristics, the SFDR aims to enhance transparency, reduce greenwashing and ultimately steer financial flows toward sustainable causes. However, despite these ambitions, only a small proportion of funds have been classified under Article 9, the category intended for products with the most ambitious and measurable sustainability objectives. This raises concerns about how fund managers engage with the regulation in practice and what factors influence their classification decisions.

The thesis was guided by the question of what influences fund managers to assign funds to Article 8 rather than Article 9, even when sustainability objectives are present. To investigate this, a qualitative research design was employed, based on semi-structured interviews with professionals involved in fund categorisation. The methodological approach combined thematic analysis with two theoretical lenses: the neoclassical economic paradigm and the prosocial paradigm. This enabled the study to capture both the incentive-driven behaviour of fund managers operating under conditions of information asymmetry, risk allocation and shifting incentives, and the ways in which sustainability can be embedded into organisational purpose, credibility and value creation. Interview data was analysed to identify recurring patterns in how managers assess portfolio constraints and strategic trade-offs associated with each of the SFDR's categories.

The results show that classification decisions are shaped by a combination of regulatory uncertainty, portfolio management limitations and market demand dynamics. First, Article 9 is often seen as too vague, with shifting definitions that create legal and reputational risks. Second, its restrictive investment criteria are considered incompatible with portfolio diversification and return expectations. Third, limited investor demand, particularly among retail clients who struggle to distinguish between Articles 8 and 9, reduces the commercial incentive to pursue the more demanding classification. Together, these factors position Article 8 as the more flexible choice, even for funds with genuine sustainability aims.

These findings were interpreted through the lens of the neoclassical economic paradigm, which helps explain why Article 8, with its balance of ESG appeal and financial flexibility, often prevails

in classification decisions. Managers respond to incentives by favouring the option that minimises exposure to regulatory uncertainty, preserves diversification and aligns with client expectations. However, the prosocial paradigm offered a contrasting perspective showing that in some firms classification choices stem from deeper organisational values or a view that sustainability represents a strategic, long-term investment that can also enhance profitability and competitiveness.

In conclusion, this thesis offers an original contribution to the literature on sustainable finance by providing empirical insight into how the SFDR is navigated by practitioners. The results draw attention to previously underexplored challenges that may limit the regulation's intended effect. The study supports the view that the SFDR is an important regulatory tool, but its current form requires further refinement if it is to better support meaningful capital allocation toward sustainability and improve transparency. By drawing attention to the perspectives of those directly responsible for fund classification, this research adds valuable context to ongoing academic discussions about how sustainability regulation can be strengthened at the EU level.

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APPENDICES

Appendix 1 Interview guide

Introduction

1. Could you briefly describe your role and responsibilities related to ESG investing?
2. How involved are you personally in decisions regarding the SFDR fund classification (Articles 6, 8 & 9)?

Interview questions

Perceptions of the SFDR's effectiveness

3. In general, what kind of impact do you think the SFDR has had on ESG fund management so far?
4. Has the SFDR led more to changes in how ESG funds are managed, how they are reported or both?
5. How well do the SFDR's fund classifications (Articles 6, 8 & 9) capture differences between types of funds?

Factors influencing fund classification decisions

6. When classifying a fund, what are the main considerations influencing the choice between Article 8 and Article 9?
7. How, if at all, do the SFDR requirements or definitions, such as the "sustainable investment" definition linked to Article 9, affect your classification decisions?
8. What role do internal factors, such as company policies or compliance risk management, play in these decisions?
9. How significant is client demand or expectation when determining fund classification?
10. Are there commercial, marketing or other strategic reasons that might favor classifying a fund under Article 8 instead of Article 9 or vice versa?
11. Have there been discussions or considerations in your organization about changing a fund's classification from Article 8 to Article 9 or vice versa?
12. How well do clients understand the difference between Article 8 and Article 9 fund classifications?

Final comments

13. How do you see the SFDR and fund classification practices evolving in the near future?
14. Is there anything else you would like to add that would help better understand fund classification decisions under the SFDR?

Appendix 2 Overview of data handling

This data management plan outlines how the research data for this thesis has been handled. The empirical material consists of semi-structured interviews with professionals involved in ESG fund management in Finland, collected to explore fund classification practices under the SFDR. All interviewees participated voluntarily and were informed of the purpose of the study before giving consent. To protect participant anonymity, their job titles and roles have been described in general terms that reflect their professional experience without revealing identifying details.

The interviews were conducted and recorded using Microsoft Teams. Most interviews were saved as video recordings (mp4), while one was recorded as audio only. All recordings were transcribed into text for analysis and the material was anonymised during the transcription process. The interview data, both audio-visual recordings and text files, are stored on the University of Turku's secure Seafile cloud server, with access restricted to the researcher. No data have been shared with third parties. The data will be retained for a maximum of five years following the approval of the thesis, after which it will be permanently deleted.