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T for Taxation: the fourth pillar in the ESG framework

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Abstract

This article is concerned with the question of whether an additional pillar dedicated to taxes should be added to the three pillars – environmental, social, governance – of the ESG framework. Reporting on tax matters, including environmental taxes (E), approach to tax (S) and tax strategy (G), can already be performed within the existing framework. However, the inclusion of a tax pillar can bring some distinct benefits. This is due to, first, the inadequacy of the current regulatory landscape on ESG reporting characterised by lack of standardisation and the peripheral role of tax, and second, the importance of taxes to achieve sustainable development. Corporate taxes are an important instrument for wealth redistribution and financing of public spending to support sustainability policies. Conversely, corporate tax avoidance is linked to wealth and income inequality both intra- and inter-nationally, with developing countries being more negatively impacted. A tax pillar will improve the uniformity in tax reporting and provide more clarity to all stakeholders. More importantly, it will reflect the expectation that companies should go beyond the tax law and encompass ethical aspects in their corporate tax behaviour. The article concludes with some observations on the intricacies of taxation that would need to be taken into account when designing this new pillar.

Keywords: ESG, sustainability, CSR, corporate taxes, tax pillar

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1. INTRODUCTION

Environmental, social, governance – ESG – is a widely used term in corporate governance, management, and investment. Despite being one of the most notable trends that has fostered a multi-billion dollar industry, there is no agreement on the definition of this acronym. These are some examples: ESG 'refers to business processes, customs, policies, and laws that define expectations for environmental protection, social norms, and good governance';[1] ESG comprises 'three criteria to evaluate a company's sustainability performance',[2] and ESG is 'a standard and strategy used by investors to evaluate corporate behavior and future financial performance'.[3] Additionally, ESG is usually treated as a synonym or subset of corporate social responsibility (CSR) or sustainability.

The foundations for the initiative that coined the term ESG were laid in the late 1990s.[4] In a speech at the World Economic Forum, Kofi Annan, then-Secretary-General of the United Nations, proposed a Global Compact calling on business leaders 'to embrace, support and enact a set of core values in the areas of human rights, labour standards, and environmental practices' necessary for a sustainable global economy.[5] Under the auspices of the Global Compact, chief executive officers of the world's leading financing institutions were later invited to join the 'Who Cares Wins' initiative on how to better integrate environmental, social and corporate governance (ESG) issues in investment decisions.[6] The *Who Cares Wins* report included a list of examples on each of the E, S and G factors that functioned as guideposts for the development of ESG risk criteria and their inclusion in business practices.[7]

ESG functions as a reporting platform. Depending on the jurisdiction, ESG reporting might be mandatory, such as in the United Kingdom,[8] or voluntary, such as in the United

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[1] Nancy Cleveland, 'Lexicon of ESG and Sustainability' in Katayun I Jaffari and Stephen A Pike (eds), *ESG in the Boardroom: A Guidebook for Directors* (ABA Publishing, 2022) xiii.

[2] Catherine Brock, 'What is ESG Investing and What Are ESG Stocks?', *The Motley Fool* (12 January 2024) <https://www.fool.com/investing/stock-market/types-of-stocks/esg-investing/> (accessed 17 October 2024).

[3] Ting-Ting Li, Kai Wang, Toshiyuki Sueyoshi and Derek D Wang, 'ESG: Research Progress and Future Prospects' (2021) 13(21) *Sustainability* 11663.

[4] Georg Kell, 'Relations with the Private Sector' in Jacob Katz Cogan, Ian Hurd and Ian Johnstone (eds), *The Oxford Handbook of International Organizations* (Oxford University Press, 2016) 730.

[5] United Nations, 'Secretary-General Proposes Global Compact on Human Rights, Labour, Environment, in Address to World Economic Forum in Davos' (Press Release SG/SM/6881, 1 February 1999).

[6] The Global Compact, *Who Cares Wins: Connecting Financial Markets to a Changing World* (2004) ('*Who Cares Wins*').

[7] Ibid 6.

[8] In the United Kingdom, there are several regulations that mandate ESG reporting, including *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013*, the Non-Financial Reporting Directive, or NFRD, (European Parliament and European Council, *Directive 2014/95/EU of 22 October 2014 Amending Directive 2013/34/EU as Regards Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups* [2014] OJ L 330/1), *The UK Stewardship Code* (Financial Reporting Council, 2020), and *The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022*. Though EU Directives ceased to apply in the UK with effect from the end of the Brexit transition period, ie, 31 December 2020, the Directives that had already been implemented through national legislation were retained (retained EU law, now renamed to assimilated law). (Note that all acronyms used in this article are listed in the Appendix.)

States.[9] However, the most important debate is over what information should be considered material, and thus be disclosed.[10] The traditional view supports the position that material information is whatever impacts the company's economic valuation, while under the double materiality concept, followed in the European Union, companies need to report on the impact of their activities, not only on investors, but also on the environment and society.[11] ESG also functions as a strategy. Again, the approaches vary: from treating it as a strategy with marginal impact viewed with cynicism by employees to treating it as a strategy that permeates the organisation and enhances the long-term value of the company.[12]

ESG factors increasingly become an element determining investment decisions. Individual and institutional investors are using ESG metrics to decide which companies to invest in or divest from adopting a longer-term approach.[13] This movement away from shareholder primacy was also enabled by a shift in stock ownership to large institutional investors and index funds that increasingly associated a company's long-term prosperity with its contribution to society, along with its financial performance.[14] ESG investment has, as a result, emerged as a rapidly growing segment in the asset management industry, with ESG products being worth approximately USD 34 trillion.[15]

In this landscape, it is not clear how corporate taxation fits into the ESG framework. Taxes are an important instrument for wealth redistribution and financing of public spending to support sustainability policies and influence behaviour. Taxes are therefore already expressed through the existing three pillars. Nevertheless, are there reasons that would justify the creation of an additional pillar dedicated to taxes?

This article attempts to address this question. Before an assessment is made as to whether a fourth pillar on taxation is warranted, it is crucial to first examine how corporate taxation fits into and interacts with the existing three pillars (section 2.1) and then map the regulatory landscape on ESG reporting and assess the role of corporate taxation reporting therein (section 2.2). After evaluating the role of tax matters in the current landscape, the article will make a series of arguments on why introducing a tax pillar is warranted, and what benefits a tax pillar can bring (section 3). The article concludes with some observations on the intricacies of taxation that would need to be taken into account when designing this new pillar.

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[9] In the United States, ESG reporting has historically been voluntary. Nevertheless, there have lately been various regulatory initiatives on environmental and social matters led by the US Securities and Exchange Commission (SEC), other federal agencies, as well as state-level regulations.

[10] David Lopez, Jared Gerber and Jonathan Povilonis, 'The Materiality Debate and ESG Disclosure: Investors May Have the Last Word', *Harvard Law School Forum on Corporate Governance* (31 January 2022) <https://corpgov.law.harvard.edu/2022/01/31/the-materiality-debate-and-esg-disclosure-investors-may-have-the-last-word/>.

[11] Ibid.

[12] George Serafeim, 'Social-Impact Efforts That Create Real Value' (2020) 98(5) *Harvard Business Review* 38.

[13] Dan Etsy, Todd Cort, Diane Strauss, Kristina Wyatt and Tyler Yeargain, *Toward Enhanced Sustainability Disclosure: Identifying Obstacles to Broader and More Actionable ESG Reporting* (White Paper, Yale Initiative on Sustainable Finance, September 2020).

[14] Larry Fink, 'A Sense of Purpose', *Larry Fink's Annual Letter to CEOs* (Blackrock, 2018).

[15] PwC, 'ESG-Focused Institutional Investment Seen Soaring 84% to US $33.9 Trillion in 2026, Making up 21.5% of Assets Under Management: PwC Report' (Press Release, 10 October 2022), citing PwC, *Asset and Wealth Management Revolution 2022: Exponential Expectations for ESG* (2022).

2. CORPORATE TAXES AND THEIR INTERACTION WITH THE ESG FRAMEWORK

This section will first identify how corporate tax matters can fit into and be expressed through each one of the three pillars of the ESG framework. The focus is on the theoretical meaning that each ESG factor encompasses, and the specific assessment and risk target that it represents, and on identifying ways in which corporate tax considerations can be accommodated by this framework (section 2.1). The section will then examine the current regulatory framework on ESG reporting and how corporate taxes fit within it (section 2.2). This is by no means an exhaustive analysis and overview of all the relevant actors or legislative initiatives. It rather serves the purpose of positioning corporate tax matters within the existing regulatory and soft law landscape and hence potentially identifying areas of contradiction, duplication, ambiguity, or inadequacy relating to corporate tax reporting. These observations will set the foundations for the analysis on the benefits of introducing a fourth pillar on tax matters.

2.1 How corporate taxes fit within the E, S and G factors

While there is general agreement that ESG factors represent the main three pillars of sustainability, there is no single definition of each one of these factors in the current policy framework and hence market practices vary across industries and institutions.[16] Despite efforts to define legally sustainable activities, for example the EU Taxonomy Regulation,[17] the current policy framework still lacks common definitions of ESG factors. At the same time, increasingly studies focus on the interactive relationship between the three dimensions of ESG, rather than the analysis of each one of them in isolation.[18]

With regard to taxation, none of the three pillars is directly related to tax matters. The indicative list of examples in the *Who Cares Wins* report did not mention taxation under any of the three ESG factors.[19] Empirical studies found that some companies consider taxes as falling outside of ESG strategy – they consider taxes as substitutes rather than complements to ESG activities, or as impediments to their ability to contribute to the community, since a higher tax bill detracts resources from ESG efforts, including job creation and innovation.[20] Nevertheless, a closer look into the scope and rationale of each one of these pillars reveals different ways in which they could encompass and interact with taxes and hence ways in which tax reporting can fit within the aims these pillars aspire to attain.

The *environmental pillar* concerns the functioning of the natural environment and natural systems, and includes factors such as climate change, pollution and energy and resource consumption. It therefore evaluates a company's efforts in energy efficiency,

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[16] See section 2.2.

[17] European Parliament and European Council, *Regulation (EU) 2020/852 of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable Investment, and Amending Regulation (EU) 2019/2088* [2020] OJ L 198/13 ('Taxonomy Regulation').

[18] On the interaction of E with G, see, eg, Caroline Flammer and Aleksandra Kacperczyk, 'Corporate Social Responsibility as a Defense Against Knowledge Spillovers: Evidence from the Inevitable Disclosure Doctrine' (2019) 40(8) *Strategic Management Journal* 1243. On the interaction of S with G, see, eg, Feng Gao, Ling Lei Lisic and Ivy Xiying Zhang, 'Commitment to Social Good and Insider Trading' (2014) 57(2-3) *Journal of Accounting and Economics* 149.

[19] The Global Compact, *Who Cares Wins*, above n 6.

[20] Angela K Davis, David A Guenther, Linda K Krull and Brian M Williams, 'Do Socially Responsible Firms Pay More Taxes?' (2016) 91(1) *The Accounting Review* 47.

greenhouse gas emissions and resource management, which have been proven to positively correlate with financial performance.[21]

Environmental taxation, also known as green taxation, is increasingly playing a critical role both in combating climate change through the promotion of green production and consumption and in regulating national economies.[22] Conversely, ESG initiatives may strengthen existing environmental taxation policies, potentially with a market-oriented approach. As a result, environmental taxation and ESG programs co-exist in a symbiotic relationship.[23] Taxes usually interact with the environmental pillar in three different ways: environmental taxes, green tax expenditures, and environmental fiscal reform more broadly.[24] Taxes can increase the cost of environmentally damaging activity by charging the polluters or by providing tax incentives for environmentally friendly activities, thus influencing behaviour.[25] Revenue collected from environmental taxes can also be used to fund infrastructure and services aimed at environmental protection.

Recently, particular attention has been paid to the role of tradable emissions allowances, such as the UK's Emissions Trading Scheme.[26] This scheme applies the 'cap-and-trade' principle by setting a cap on the total amount of emissions allowed to be released, and carbon border adjustment mechanisms (CBAM), such as the one introduced by the European Union,[27] that are used to mitigate carbon leakage risks by placing a carbon price on certain imports. Though similar, such mechanisms differ from environmental taxes, because the prices charged are not fixed but depend on the supply and demand of permitted allowances. Tax behaviour with regard to environmental taxes, including the use of green subsidies and incentives, is key to minimising climate-related risks and maximising climate-related opportunities. The growing integration of tax within the environmental pillar is highlighted by the increase in the number of UK FTSE 100 companies, 46 in 2023, up from 38 in 2021, that included tax in their climate-related (TCFD) disclosures.[28] Tax behaviour in this area can therefore be a significant indicator of a company's environmental performance.

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[21] Jeroen Derwall, Nadja Guenster, Rob Bauer and Kees Koedijk, 'The Eco-Efficiency Premium Puzzle' (2005) 61(2) *Financial Analysts Journal* 51.

[22] See, eg, Qihang Zhang, Yalian Zhang, Qianxi Liao and Xin Guo, 'Effect of Green Taxation on Pollution Emissions Under ESG Concept' (2023) 30(21) *Environmental Science and Pollution Research* 60196 (examining the pollution reduction effect of green taxation in China).

[23] Janet E Milne, 'Environmental Taxation and ESG: Silent Partners' in Rute Saraiva and Paulo Alves Pardal (eds), *Sustainable Finances and the Law: Between Public and Private Solutions* (Springer, 2024) 253.

[24] Ibid.

[25] Taxes that are designed to capture externalities are usually called 'Pigouvian taxes', named after AC Pigou, a professor of political economy, who laid the intellectual groundwork for environmental taxation in his book *The Economics of Welfare* (1920). Later, the Organisation for Economic Co-operation and Development (OECD) introduced the polluter-pays principle into the environmental policy arena. OECD, *Recommendation of the Council on Guiding Principles Concerning International Economic Aspects of Environmental Policies*, Doc C(72)128 (26 May 1972). See, also, Janet E Milne and Mikael Skou Andersen, 'Introduction to Environmental Taxation Concepts and Research' in Janet E Milne and Mikael Skou Andersen (eds), *Handbook of Research on Environmental Taxation* (Edward Elgar, 2012) 15.

[26] See, eg, *The Greenhouse Gas Emissions Trading Scheme Order 2020* (UK).

[27] See, eg, European Parliament and European Council, *Regulation (EU) 2023/956 of 10 May 2023 Establishing a Carbon Border Adjustment Mechanism* [2023] OJ L 130/52 ('CBAM').

[28] PwC, *Laying the Foundations of the Next Round of Tax Transparency: Building Public Trust Through Tax Reporting*, Trends in Voluntary Tax Reporting (10th ed, November 2023).

The *social pillar* concerns the rights and interests of people and communities, and includes factors such as equality, social protection and inclusion, labour rights and fair working conditions, and human capital.[29] As a result, factors on which companies are assessed are inter alia workplace and product safety, gender policies, income distribution, transparency and accountability. Similarly with the E pillar, the literature has identified a positive relationship between employees' satisfaction and long-run stock return, while violations of social factors can lead to legal and reputational risks.[30] The social pillar has been traditionally expressed through a company's Corporate Social Responsibility (CSR), a term used to describe a company's ethical conduct and impact on and contribution to social welfare, while encompassing an element of voluntariness.[31]

Taxes constitute a significant source of revenue for governments to fund the provision of goods and services that are important for the community.[32] The taxes paid by a company are therefore a measure of its financial contribution to the wellbeing of the community in which it operates. Conversely, companies that avoid taxes could cause harm to these communities, since they make use of public services without contributing to the cost of their provision and, as a result, this cost ends up disproportionately burdening taxpayers that are less mobile, usually employees. Tax avoidance practices can also negatively impact a company's financial performance. They can cause reputational damage, with a consequent impact on earnings, as well as harm a business's relationship with the tax authorities and lead to time-consuming and costly tax litigation. In the context of this pillar, the question of whether CSR should guide tax behaviour becomes relevant. There is extensive literature on whether tax avoidance is consistent with CSR, and hence the social pillar.[33] Avi-Yonah constructs a compelling argument to prove that, under any of the three views of the corporation – the artificial entity view, the real entity view and the aggregate view – CSR is relevant and hence corporations have an affirmative obligation not to engage in tax minimisation practices.[34] The social pillar therefore encompasses a holistic approach to tax, which entails an understanding of tax as part of the social contract and a company's social commitment.

Finally, the *governance pillar* concerns governance practices, including leadership, board structure and independence, shareholder rights, business ethics, corruption, and the way in which companies include environmental and social factors in their policies and procedures. Again, studies establish the positive impact of stronger governance practices on companies' profitability.[35]

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[29] The EU provides a definition of social factors by outlining 20 principles. See European Commission, Secretariat-General, *European Pillar of Social Rights* (Publications Office of the European Union, 2017).

[30] See, eg, Alex Edmans, 'Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices' (2011) 101(3) *Journal of Financial Economics* 621.

[31] Archie B Carroll, 'A Three-Dimensional Conceptual Model of Corporate Performance' (1979) 4(4) *Academy of Management Review* 497.

[32] 'Taxes are what we pay for civilized society': Justice Holmes in *Compañía General de Tabacos de Filipinas v Collector of Internal Revenue*, 275 US 87, 100 (1927) (US Supreme Court).

[33] See, eg, Christiana HJI Panayi, 'Is Aggressive Tax Planning Socially Irresponsible?' (2015) 43(10) *Intertax* 544 (providing a more critical approach towards CSR and tax).

[34] Reuven S Avi-Yonah, 'Corporate Taxation and Corporate Social Responsibility' (2014) 11(1) *New York University Journal of Law and Business* 1 ('Corporate Taxation and Corporate Social Responsibility').

[35] See, eg, Indarawati Tarmuji, Ruhanita Maelah and Nor Habibah Tarmuji, 'The Impact of Environmental, Social and Governance Practices (ESG) on Economic Performance: Evidence from ESG Score' (2016) 7(3) *International Journal of Trade, Economics and Finance* 67.

Strong corporate governance in the tax area translates into responsible tax behaviour. This is understood as encompassing three different elements. First, it entails the company's tax strategy, which describes its approach to tax, covering a broad range of topics, from tax risk appetite and relationship with tax authorities to approach to tax planning.[36] While companies usually develop their code of ethics to declare their principles and values to stakeholders, scholars are divided on whether a tax code of conduct is suitable or even acceptable.[37]

Second, responsible tax behaviour is assessed through a company's internal control framework, meaning its risk management and responsibility/accountability mechanisms.[38] The Organisation for Economic Co-operation and Development (OECD) has developed a standard of efficient control tax systems comprising six blocks for a better Tax Control Framework, which companies can refer to.[39]

Third, transparency about taxes paid and collected is crucial as it ensures not only that companies are contributing fairly to a community, but also that the community has confidence they do so. The current direction is towards more tax transparency, as proven by the regulatory landscape, which requires companies to disclose tax data to tax authorities across borders, or even publicly.[40] Some companies voluntarily disclose information beyond what is legally required, while some accreditations, for example the Fair Tax Mark, exceed legal and voluntary disclosures to better address stakeholder expectations.[41] In the case of multinational groups of companies, transparency about not only the total taxes paid, but also the location where these taxes are paid can affect the group's performance on the governance pillar, considering that some countries are more in need of resources than others. For the same reasons, and given developing countries suffer disproportionately from tax avoidance, due to structural limitations and greater reliance on corporate income taxes, a multinational's tax behaviour in these countries has a greater impact on their economic prosperity and sustainable development.[42]

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[36] Jacob Fonseca, 'The Rise of ESG Investing: How Aggressive Tax Avoidance Affects Corporate Governance and ESG Analysis' (2020) 25 *Illinois Business Law Journal* 1.

[37] See H Gribnau, E van der Enden and K Baisalbayeva, 'Codes of Conduct as a Means to Manage Ethical Tax Governance' (2018) 46(5) *Intertax* 390 (arguing for the creation of tax codes of conduct as a way to generate more transparency and understanding between taxpayers and tax administrations); Compare with Eelco van der Enden and Bronetta Charlotte Klein, 'Good Tax Governance? …Govern Tax Good!' (1 May 2020) <https://ssrn.com/abstract=3610858> (arguing that a tax code of conduct without a proper public reporting strategy will not build trust with stakeholders).

[38] OECD, *Co-operative Compliance: A Framework, From Enhanced Relationship to Co-operative Compliance* (OECD Publishing, 2013) (highlighting the pivotal role of a good tax control framework in managing tax risks).

[39] OECD, *Co-operative Tax Compliance: Building Better Tax Control Frameworks* (OECD Publishing, 2016). The six blocks cover: (i) tax procedures; (ii) tax strategy; (iii) tax policy on how to manage tax; (iv) tax risk management framework; (v) accountabilities and responsibilities for the management of tax, and (vi) testing and assurance.

[40] See, eg, OECD, *Action 13 – 2015 Final Report: Transfer Pricing Documentation and Country-by-Country Reporting*, OECD/G20 Base Erosion and Profit Shifting Project (OECD Publishing, 2015); European Parliament and European Council, *Directive (EU) 2021/2101 of 24 November 2021 Amending Directive 2013/34/EU as Regards Disclosure of Income Tax Information by Certain Undertakings and Branches* [2021] OJ L 429/1.

[41] Fair Tax Foundation, *Fair Tax Mark Criteria Notes: UK-based Multinationals 2014-15* (2014).

[42] See, eg, Ernesto Crivelli, Ruud De Mooij and Michael Keen, *Base Erosion, Profit Shifting and Developing Countries* (International Monetary Fund Working Paper WP/15/118, 2015) (estimating that developing countries may be losing as much as USD 213 billion per year to tax avoidance).

Tax governance therefore entails both a set of principles for responsible tax conduct and a set of procedures, controls and reporting systems that are crucial in the implementation of the principles.[43] In other words, tax governance is what makes the company's environmental and social goals achievable, while preventing greenwashing.

2.2 How corporate taxes fit within the ESG regulatory framework

The increasing demand for sustainability information has given rise to a plethora of sustainability reporting standards on ESG-related issues. While financial reporting is intensely regulated, non-financial reporting, or better sustainability reporting, has not been standardised yet.[44] The current landscape has been commonly referred to as the 'alphabet soup' of ESG reporting standards.[45]

Taxation is, however, underrepresented. The European Financial Reporting Advisory Group, relying on information from the 2019 Alliance for Corporate Transparency report on a sample of 1,000 companies, noted 'a relatively low coverage of reporting on tax-related policies and commitments from a country-by-country perspective'.[46] Despite the growing interest in tax reporting as demonstrated by both the legal framework and stakeholder approaches, tax matters are still peripheral.

2.2.1 International organisations

International organisations have advanced their own approaches to responsible corporate tax behaviour. The *OECD Guidelines for Multinational Enterprises* cover non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. They hold two key expectations for undertakings: (a) they should comply with the letter and the spirit of tax laws and regulations of the countries in which they operate, and (b) they should treat tax governance and tax compliance as important elements of their oversight and broader risk management systems and adopt tax risk management strategies to ensure that the financial, regulatory and reputational risks associated with taxation are fully identified and evaluated.[47]

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[43] Allison Christians, 'Tax Justice as Social Licence: The Fair Tax Mark' in Richard Eccleston and Ainsley Elbra (eds), *Business, Civil Society and the 'New' Politics of Corporate Tax Justice: Paying a Fair Share?* (Edward Elgar, 2018) 219.

[44] See, eg, European Parliament and European Council, *Directive (EU) 2022/2464 of 14 December 2022 Amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as Regards Corporate Sustainability Reporting* [2022] OJ L 322/15 ('CSRD'), recital 8, on why the term 'sustainability information' is preferable: 'Many stakeholders consider the term "non-financial" to be inaccurate, in particular because it implies that the information in question has no financial relevance. Increasingly, however, such information does have financial relevance. Many organisations, initiatives and practitioners in the field of sustainability reporting refer to "sustainability information". It is therefore preferable to use the term "sustainability information" in place of "non-financial information"'.

[45] Hilde Blomme and Jona Basha, 'Unpuzzling the Sustainability Reporting Alphabet Soup', *Accountancy Plus* (March 2021) 9 <https://www.cpaireland.ie/getattachment/Resources/CPA-Sustainability-Hub/Articles/Articles/Sustainability-Standards/Unpuzzling-the-Sustainability-Reporting-Alphabet-Soup-by-Hilde-Blomme-Jona-Basha.pdf?lang=en-IE>. See also Simon Watkins, 'The ISSB's Battle to Sort the Alphabet Soup of ESG Reporting', *Financial Times Professional* <https://professional.ft.com/en-gb/blog/the-issbs-battle-to-sort-the-alphabet-soup-of-esg-reporting> (accessed 17 October 2024).

[46] European Financial Reporting Advisory Group, *Current Non-Financial Reporting Formats and Practices* (February 2021) 30.

[47] OECD, *OECD Guidelines for Multinational Enterprises* (OECD Publishing, 2011) 60.

The United Nations Principles for Responsible Investment (UNPRI) is a voluntary framework for individual and institutional investors to incorporate ESG factors in their investment and ownership decisions.[48] The UNPRI reflect the view that investors have a duty to act in the best interests of their beneficiaries and society. In this context, these principles direct investors towards practices aligned with tax fairness and tax transparency.

Finally, the United Nations Sustainable Development Goals (SDGs) is a collection of 17 non-binding global goals designed to achieve the common vision of a better and more sustainable future. The SDGs recognise that tax is a vital source of financing for development and that, for this reason, multinationals need to pay their fair share of taxes.[49]

2.2.2 *European Union regulatory framework*

In May 2018, the European Commission adopted a package of measures implementing several key actions announced in its action plan on sustainable finance.[50] This package, as described in the Taxonomy Regulation, has as its main objective the creation of a classification system for what qualifies as an 'environmentally sustainable' economic activity.[51] Even though it does not directly address taxation, it introduces the notion of 'minimum safeguards', which aims at ensuring that economic activities only qualify as environmentally sustainable where they are carried out in alignment with the *OECD Guidelines for Multinational Enterprises* and UN *Guiding Principles on Business and Human Rights*.[52] The meaning and purpose of minimum safeguards is further analysed in a non-binding report issued by the Platform on Sustainable Finance.[53] This report clarifies that the purpose of the minimum safeguards is to 'prevent green investments from being labelled and regarded as "sustainable" when they […] are linked to non-compliance with letter or spirit of tax laws'.[54]

In particular, the report proposes the application of two criteria for alignment with minimum safeguards: first, that the company complies with the letter and the spirit of tax laws and regulations of the countries in which it operates, and second, that it treats tax governance and compliance as important elements of oversight and adopts tax risk management strategies.[55] It thus establishes tax behaviour as a minimum safeguard.

The Sustainable Finance Disclosure Regulation (SFDR) has put in place a transparency framework in the market for sustainable investment products by laying down

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[48] Principles for Responsible Investment, 'Tax Fairness' (Web Page) <https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/governance-issues/tax-fairness>.

[49] United Nations, 'Taxation and the SDGs' (Web Page) <https://financing.desa.un.org/what-we-do/ECOSOC/tax-committee/thematic-areas/taxation-and-sdgs>.

[50] European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, Action Plan: Financing Sustainable Growth*, COM/2018/097 final (8 March 2018).

[51] Taxonomy Regulation, above n 17.

[52] Ibid art 18; see United Nations, *Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework* (2011).

[53] European Commission, Platform on Sustainable Finance, *Final Report on Minimum Safeguards* (October 2022).

[54] Ibid 6.

[55] Ibid 49-50.

sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors.[56] Its objective is thus to prevent greenwashing, increase transparency around sustainability claims and integrate sustainability risks in the investment decision process. The SFDR understands the term 'sustainable investment' to cover economic activities that contribute to an environmental objective or social objective, including investments that tackle inequality or are directed to economically or socially disadvantaged communities, provided that the investee companies follow good governance practices, in particular with respect to sound management structures and tax compliance.[57] Fund managers therefore need to ensure that their investee companies follow good tax governance practices and review such practices as part of their due diligence processes. Nevertheless, apart from the interaction of the SFDR with tax governance, a broader interpretation could also entail the social aspect of taxation, ie, a company's tax contribution to the communities where it operates.

The Corporate Sustainability Reporting Directive (CSRD) evolved from the Non-Financial Reporting Directive (NFRD), setting a new standard for transparency and accountability in corporate sustainability reporting.[58] It expands sustainability reporting requirements for EU and non-EU companies enhancing the consistency and comparability of sustainability information. Companies within the scope of CSRD are required to make disclosures on material sustainability topics in accordance with the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG).[59]

The ESRS cover sustainability topics across environmental, social and governance pillars and prescribe specific disclosure requirements. Sustainability disclosures should be performed based on the double materiality principle. This involves an assessment of the company's impact on people and the environment (impact materiality) and of how a sustainability matter might affect the company's financial performance (financial materiality).[60] Aggressive strategies to minimise taxation are specifically mentioned as one of the ESRS-related matters that might negatively impact communities, in particular with respect to operations in developing countries (ESRS 2).[61] Nevertheless, a company might deem that other tax matters are also material, in which case Global Reporting Initiative (GRI) Standards can be used as a basis for such tax disclosures.[62] Such disclosures could cover a company's approach to tax, tax risk management and country-

[56] European Parliament and European Council, *Regulation (EU) 2019/2088 of 27 November 2019 on Sustainability-Related Disclosures in the Financial Services Sector* [2019] OJ L 317/1 ('SFDR').
[57] Ibid art 2(17).
[58] CSRD, above n 44.
[59] European Commission, *Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 Supplementing Directive 2013/34/EU of the European Parliament and of the Council as Regards Sustainability Reporting Standards* [2023] OJ L, 2023/2772 (Annex I, setting out ESRS 1-2, ESRS E1-E5, ESRS S1-S4 and ESRS G1).
[60] ESRS 1, above n 59, s 3.
[61] ESRS S3 ('Affected Communities'), above n 59, Appendix A.
[62] 'The ESRS allow entities to use the GRI Standards to report on additional material topics covered in GRI Standards that are not covered by the ESRS, such as tax': EFRAG and GRI, 'EFRAG-GRI Joint Statement of Interoperability' (31 August 2023).

by-country reporting.[63] The CSRD is also aligned with the requirements of related EU legislation, including the SFDR and the Taxonomy Regulation.[64]

The Corporate Sustainability Due Diligence Directive (CSDDD) mandates companies to embed responsible business conduct into due diligence policies and procedures.[65] Pursuant to the CSDDD, large companies with significant activities in the EU are required to address adverse human rights and environmental impacts in their own operations and across their value chains. The scope of due diligence is therefore limited to human rights and environmental impacts.[66] Taxation is not specifically mentioned in the CSDDD text or the Annex, though an argument can be made that corporate tax avoidance and the use of tax havens have profound consequences for the wellbeing of citizens around the world, especially those in developing countries, and hence adversely impact human rights.[67] This connection is also acknowledged by the UNPRI framework.[68]

The proposal for an EU regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities (ESG Rating Regulation) signifies an attempt to regulate the ESG rating market.[69] The ESG Rating Regulation aims at addressing conflicts of interest, the lack of transparency and accuracy of ESG rating methodologies and the lack of clarity over the terminology and the operations of ESG rating providers.[70] For these reasons, ESG rating providers established within the EU will be required to obtain authorisation from the European Securities and Markets Authority (ESMA) before commencing their operations.[71] To enhance the transparency of ESG ratings, ESG rating providers will be required to disclose information on the methodologies, models and key rating assumptions they use in their ESG rating products separately for each ESG factor.[72] In particular, ESG rating providers will have to provide information on whether the rating considers the alignment with international standards on tax evasion and avoidance for the G factor.[73] The ESG Rating Regulation was proposed on 13 June 2023, and the proposal text was adopted by the European Parliament on 24 April 2024.

Finally, on 14 July 2021, the European Commission adopted the 'Fit for 55' package comprising a series of proposals to make the EU's climate, energy, land use, transport

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[63] See section 2.2.4 on tax-relevant GRI standards.
[64] ESRS E1 ('Climate Change'), above n 59, para 2.
[65] European Parliament and European Council, *Directive (EU) 2024/1760 of 13 June 2024 on Corporate Sustainability Due Diligence and Amending Directive (EU) 2019/1937 and Regulation (EU) 2023/2859* [2024] OJ L, 2024/1760 ('CSDDD').
[66] Ibid art 3(b)-(c) and Annex.
[67] See, eg, Philip Alston and Nikki Reisch (eds), *Tax, Inequality, and Human Rights* (Oxford University Press, 2019).
[68] See section 2.2.1.
[69] European Parliament, *Legislative Resolution of 24 April 2024 on the Proposal for a Regulation of the European Parliament and of the Council on the Transparency and Integrity of Environmental, Social and Governance (ESG) Rating Activities* (COM(2023)0314 – C9-0203/2023 – 2023/0177(COD)) (setting out the ESG Rating Regulation).
[70] European Parliament, *ESG Rating Regulation*, above n 69, recital para 6, where reference is made to the European Commission, Directorate-General for Financial Stability, Financial Services and Capital Markets Union, *Study on Sustainability-Related Ratings, Data and Research* (Publications Office of the European Union, 2021) available at: <https://data.europa.eu/doi/10.2874/14850>.
[71] European Parliament, *ESG Rating Regulation*, above n 69, art 5(1).
[72] Ibid art 21.
[73] Ibid recital para 34.

and taxation policies fit for reducing net greenhouse gas emissions by at least 55 per cent by 2030, compared to 1990 levels.[74] Part of this package is a new CBAM, which will ensure that products imported in the EU will also pay a carbon price at the border in the sectors covered.[75]

In these legislative initiatives, tax matters are either not mentioned or remain at the periphery of sustainability considerations. Though it is acknowledged that taxation has a role to play for achieving sustainability, these initiatives provide no further guidance on which tax behaviour is considered sustainable and what should corporations report, especially when asked to comply with the spirit of the tax law.

2.2.3 ESG rating agencies

Rating agencies are third-party data providers that allow investors to screen companies, states and organisations, and assess ESG performance. Addressing the exponential demand for ESG data, ESG rating agencies have emerged as the primary source of ESG-related information for market participants, including investors, analysts, and corporate managers.[76] They employ distinctive methodologies that utilise multiple factors, each one assigned different weights, whose consolidation provides a score in a numeric or letter grading system, which represents a company's ESG risk or performance and facilitates comparisons among companies.[77] ESG rating agencies are immensely influential, and so their approach to tax impacts investment decisions by individual and institutional investors, and as a result companies' tax behaviour.[78] The following constitute some of the most prominent ESG rating agencies and their approach to corporate taxes, based on publicly available information.[79]

Morgan Stanley Capital International (MSCI)

MSCI measures tax-related issues in the context of tax transparency, which is a key issue in the Governance pillar of the ESG Ratings model.[80] In particular, companies are evaluated on their estimated corporate tax gap (ie, difference between estimated corporate effective tax rate and estimated statutory tax rate), revenue-reporting transparency, and their involvement in tax-related allegations controversies.[81] Tax controversies are the critical metric for tax transparency purposes, since a company's

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[74] European Commission, *Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, The European Green Deal*, COM/2019/640 final (11 December 2019).

[75] CBAM, above n 27.

[76] Christina Wong and Erika Petroy, *Rate the Raters 2020: Investor Survey and Interview Results* (ERM Group, March 2020).

[77] For example, MSCI uses a seven-point scale, ranging from AAA to CCC: MSCI, *ESG Ratings Methodology* (April 2024) 6 <https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology.pdf>.

[78] See, eg, Amir Amel-Zadeh and George Serafeim, 'Why and How Investors Use ESG Information: Evidence from a Global Survey' (2018) 74(3) *Financial Analysts Journal* 87.

[79] In the case of most rating agencies, the factors and the weight assigned to them are proprietary and undisclosed. The current analysis is therefore based on publicly available data, in particular high-level overviews of methodologies and scoring systems.

[80] MSCI, *ESG Ratings Methodology* (April 2024) <https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology.pdf>.

[81] MSCI, *ESG Ratings Methodology: Tax Transparency Key Issue* (July 2023) <https://www.msci.com/documents/1296102/34424357/MSCI+ESG+Ratings+Methodology+-+Tax+Transparency+Key+Issue.pdf/f5b93df6-475c-25c7-db7f-26a6da3d703a?t=1666182603072>.

estimated tax gap will impact its ESG score only when there is an ongoing tax controversy.[82]

FTSE Russell

FTSE Russell also measures tax-related issues in the context of tax transparency, which is part of the Governance pillar.[83] Tax transparency is used to assess a company's financial, regulatory and reputational risks associated with poor tax practices.[84] For this purpose, a company's disclosures relating to alignment of tax payments with revenue-generating activities, or use of offshore secrecy jurisdictions for tax planning purposes, are also evaluated.[85] This approach to tax, ie, a company's ability to manage tax-related risks, reflects the general viewpoint of investment risk reduction.

Refinitiv

Refinitiv evaluates the indicator 'tax fraud controversies', which reflects the number of controversies published in the media linked to tax fraud, parallel imports or money laundering.[86] This is the only reference to tax issues.

Sustainalytics

Sustainalytics does not include any score on tax behaviour.[87] Nevertheless, it is engaging with the public debate on the topic of corporate taxes by holding dialogue with information technology and pharmaceutical companies. Again, the focus is on improving transparency as it relates to corporate tax planning.[88]

ISS ESG

ISS ESG treats taxation as a governance topic and part of the factor 'relations with governments'.[89] In particular, it assesses among other things tax base erosion and profit shifting (BEPS) practices, transfer pricing issues, presence in tax havens and country-by-country disclosures.[90] Since its methodology is guided by established international

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[82] MSCI, *ESG Ratings FAQs for Corporate Issuers* (October 2022) <https://www.msci.com/documents/1296102/10259127/MSCI+ESG+Ratings+Guide+for+Issuers.pdf/0b43f911-0f61-4045-8d91-d5aaef51d320>.

[83] FTSE Russell, *FTSE Russell ESG Scores and Indices FAQ* (August 2024) <https://www.lseg.com/content/dam/ftse-russell/en_us/documents/policy-documents/ftse-faq-document-ftse-russell-esg-scores-and-indices.pdf>.

[84] Edmund Bourne, Charles Dodsworth and Jaakko Kooroshy, *Global Trends in Corporate Tax Disclosure: Thematic Overview* (FTSE Russell, June 2021) <https://www.lseg.com/content/dam/ftse-russell/en_us/documents/research/global_trends_in_corporate_tax_disclosure_final_2.pdf>.

[85] Ibid 9.

[86] Refinitiv, *Environmental, Social and Governance Scores from Refinitiv* (May 2022) <https://www.lseg.com/content/dam/marketing/en_us/documents/methodology/refinitiv-esg-scores-methodology.pdf>.

[87] Sven von Münchhausen, Claudia Volk, Oana Pop, Kasey Vosburg, Clark Barr and Hendrik Garz, *The ESG Risk Ratings – Methodology Abstract: Version 3.1* (Morningstar-Sustainalytics, June 2024) <https://connect.sustainalytics.com/hubfs/INV/ESG%20Risk%20Ratings/ESG%20Risk%20Ratings%20Methodology%20Abstract.pdf>.

[88] David Frazer, 'Two Sides of the Corporate Taxation Debate', *Sustainalytics* (27 November 2020) <https://www.sustainalytics.com/esg-research/resource/investors-esg-blog/two-sides-of-the-corporate-taxation-debate>.

[89] Peter Hongler, Thomas Berndt and Alexander Sigg, *Tax and Sustainability Study 2022/2023* (University of St Gallen, December 2023).

[90] Ibid 8-9.

guidelines, such as the UN Global Compact, the United Nations SDGs, the *OECD Guidelines for Multinational Enterprises* and the UNPRI, it could be argued that taxation is also evaluated in the context of the social component of the ESG framework.[91]

S&P Global Ratings

S&P Global Ratings (previously Standard & Poor's) assesses tax strategy as a category of the governance and economic dimension, which further comprises tax strategy and governance, tax reporting, and effective tax rate.[92] The agency acknowledges that, though tax optimisation has a positive impact on profitability, an aggressive tax strategy is not sustainable long term. It adds some risk to long-term profits, caused by reputational risk and, in the case of multinationals, negative impact on relationship with host countries and economic development risk due to host governments not receiving adequate tax revenue to fund infrastructure.[93] Companies are asked to respond to three questions: (i) the tax strategy and governance question, which relates to a company's commitment to comply with the letter and spirit of the law, not use tax havens, undertake transfer pricing and seek approval of this tax policy by the board of directors; (ii) the tax reporting question, for which companies need to report key information about their tax contributions in all tax jurisdictions where their entities operate, and (iii) the effective tax rate question, which assesses whether a company's tax rate is unsustainable in a global context, based on the reported tax rate and cash tax rate for the last two years, and if lower than the industry group averages explanations need to be provided.[94]

This overview of some ESG rating agencies reveals that tax metrics are surprisingly underrepresented in ESG ratings. This is supported by a study that found that 50 per cent of major agencies did not include a tax indicator in their ESG rating system.[95] Even when tax metrics are used, they have inconsequential influence on a company's ESG profile, while there is significant divergence in their scope, measurement, and weight among different agencies.[96] Also, usually tax metrics are limited in the context of tax transparency, placed within the G, rather than the S, component of the ESG framework. However, most agencies do not account for the risk of tax avoidance practices. Problematic tax practices are considered risk factors jeopardising a company's financial position, an approach which prioritises shareholder value, contrary to the idea of a stakeholder-focused framework. Most importantly, recent studies have proven a weak correlation between effective tax rates and ESG scores. A study documented an inverse relationship between a company's ESG score and its effective tax rate.[97] Oher scholars found that three of the four examined rating providers – MSCI, Sustainalytics and Refinitiv – assigned a notably high ESG score to S&P 500 companies that paid no US

[91] ISS ESG, *ESG Corporate Rating: Methodology and Research Process* (September 2023) <https://www.issgovernance.com/file/products/iss-esg-corporate-rating-methodology.pdf>.
[92] S&P Global, *CSA Handbook 2024: Corporate Sustainability Assessment* (2024) <https://portal.s1.spglobal.com/survey/documents/CSA_Handbook.pdf>.
[93] Ibid 101.
[94] Ibid 101-110.
[95] Florian Berg, Julian F Kölbel and Roberto Rigobon, 'Aggregate Confusion: The Divergence of ESG Ratings' (2022) 26(6) *Review of Finance* 1315, 1325.
[96] Ibid 1329.
[97] Vincent Deluard, 'The ESG Bubble: Saving the Planet, Destroying Societies' (StoneX Flow Report, February 2021) <https://www.politico.com/f/?id=00000177-adf8-d713-a777-edfe93f90000>.

federal income tax in 2020.[98] These observations demonstrate that corporate taxes have minimal effect on ESG ratings.

2.2.4 Sustainability standard-setters

Non-governmental organisations and advocacy groups have recently started developing tax standards covering various tax topics, including tax governance, tax planning, tax transparency, and relationships with tax authorities.[99]

The first ESG standard for tax was developed by the Global Reporting Initiative (GRI), the GRI 207 standard, or GRI tax standard, with effect from 1 January 2021.[100] The GRI tax standard comprises four elements: (i) an approach to tax; (ii) tax governance, control, and risk management; (iii) stakeholder engagement and management of concerns related to tax, and (iv) country-by-country reporting (CbCR).[101]

It constitutes the first comprehensive cross-sectoral reporting standard on corporate tax disclosures. Apart from quantitative data on taxes paid, companies are asked to report on their tax strategy, tax governance and approach to tax, which demonstrates how they manage to strike a balance between tax compliance and business activities that meet ethical, societal and sustainable development expectations. This can be achieved by, for example, explaining how their approach to tax is aligned with commitments to sustainable development in the jurisdictions in which they operate.

In 2020, the World Economic Forum (WEF) published a White Paper on *Measuring Stakeholder Capitalism* outlining three different tax metrics: total tax paid, tax collected by the company on behalf of other taxpayers, and total tax paid by country for significant locations.[102] The tax metrics are placed under the prosperity pillar, thus providing a clear statement on the importance of corporate taxes in achieving prosperity and macroeconomic stability in a society. The 'total tax paid' metric, the only core tax metric, covers the total taxes born by the company, by category of taxes. The 'additional tax remitted' and 'total tax paid by country for significant locations' metrics are both classified as expanded metrics with which companies may choose to supplement their tax reporting. This last metric combined with other policy initiatives to combat profit shifting practices could provide valuable information to assess whether the taxes paid by multinationals accurately reflect their economic presence in and the benefits they derive from the jurisdictions where they operate.

Despite their contribution to the standardisation of tax reporting, these initiatives do not suggest against which criteria this information should be assessed to evaluate the sustainability performance of corporations in the tax field. Acknowledging a rising demand from stakeholders, the Fair Tax Foundation, a not-for-profit social enterprise, introduced the Fair Tax Mark (FTM) accreditation scheme initially only available to

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[98] Danielle A Chaim and Gideon Parchomovsky, 'The Missing "T" in ESG' (2024) 77(3) *Vanderbilt Law Review* 789.

[99] Peter Hongler, Florian Regli and Thomas Berndt, 'Tax Reporting and Sustainability' (IFF-HSG Working Paper No 2021-6, June 2021) <https://ile.unisg.ch/wp-content/uploads/2021/06/WP-06-Hongler-Regli-Berndt.pdf>.

[100] GRI, *GRI-207: Tax 2019* (1 January 2021) <https://www.globalreporting.org/pdf.ashx?id=12434>.

[101] Ibid.

[102] World Economic Forum, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation* (White Paper, September 2020) <https://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf>.

businesses headquartered in the UK. Since 2021 this has been extended internationally to multinational enterprises, with the launch of the 'Global Multinational Business Standard'.[103] The FTM standard departs from pure reporting and aspires to exceed the expectations of both legal requirements and common corporate practices by introducing a formula measuring responsible tax conduct. Based on this standard, businesses should commit to two principles: (i) that they pay the right amount of tax (but no more) in the right place at the right time, according to both the letter and the spirit of the law, and (ii) that they are transparent to the public about their beneficial ownership, tax conduct and financial presence and impact across the world.

What is unique about the FTM accreditation is that it attempts to objectivise responsible tax conduct, based on its conception of tax justice. It introduces a scoring system, the Scorecard, under which businesses' commitment to the principles is assessed based on how many points they accumulate in a list of criteria divided into five categories: (i) general transparency; (ii) tax policy, implementation and compliance; (iii) CbCR; (iv) tax notes disclosures, and (v) tax rate.[104] This scoring system introduces a quantitative measure for acceptable tax planning and compliance behaviour.[105]

These initiatives represent steps towards the standardisation of information relating to how a business contributes to a society through its tax strategy. Apart from reporting how social issues impact their financial performance and value (accounting and tax disclosure), companies are expected to also report on how their tax behaviour impacts society (sustainability disclosure). The World Economic Forum tax metrics constitute a comprehensive tax reporting framework, without however suggesting how the information reported should be assessed against a business's sustainability performance. This gap is partially filled by the GRI tax standard, which asks companies to also explain how their approach to tax corresponds with their sustainability commitments, and mainly by the FTM accreditation, which establishes the first scoring system to measure companies' responsible tax conduct as defined by a comprehensive list of criteria. These criteria are assessing companies' actions not only on their legality, but also on their alignment with the tax strategy they have devised, thus introducing a type of self-regulation. As a result, such initiatives are expected to influence tax interpretation, tax policy-making and corporate tax behaviour going forward.

This section has attempted to provide an accurate mapping of the ESG landscape and the position of taxation in it. It is revealed that taxation, despite its importance in achieving ESG objectives, has a peripheral role as a measure of corporate sustainability. It is either inferred or confined to a test of compliance with the tax law. The following section will therefore explore whether the addition of a tax pillar to the ESG acronym is warranted.

3. THE BENEFITS OF ADDING A TAX PILLAR IN THE ESG FRAMEWORK

The 'ESG' framework, though now mainstream, is still widely contested. Proposals to add or subtract words in the acronym or creating taxonomies of more precise terms are not rare, while there have also been those that push for a deconstruction or even scrapping of the term altogether. Strine has proposed the addition of a further 'E' to the

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103 Fair Tax Foundation, *Global Multinational Business Standard: Guidance Notes* (2021) <https://fairtaxmark.net/wp-content/uploads/2022/10/Global-MNC-standard-criteria-print-version.pdf>.
104 Ibid.
105 Christians, above n 43.

ESG acronym to increase the salience of employees in ESG discussions.[106] Larcker, Tayan and Watts have suggested that the G be taken out of ESG to achieve a more effective and honest assessment of a company's commitment to stakeholders.[107] Some have singled out the S, asserting that '[t]he S invokes issues which are often hard to quantify, not so clearly linked to the risk/reward analysis in investment decision-making, and may touch on culturally specific norms that do not so easily translate into guidance for (often globally focused) investment decision-makers';[108] while others have proposed the separation of climate change from ESG as 'our era's defining issue'.[109] Lastly, there are proponents of the death of ESG, who think that it does not do enough good for the world but instead is 'just capitalism at its slickest: ingenious marketing in the service of profits'.[110] In this context, and following the previous analysis on the place of taxation in the ESG landscape, the question arises as to whether adding tax as a new pillar in the ESG framework would bring any benefits.

Taxes, including corporate taxes, constitute the necessary 'fuel' to support essential government functions beneficial to society, such as public welfare, infrastructure, and education.[111] Additionally, tax revenues finance domestic resource mobilisation directed towards sustainable governmental initiatives, such as environmentally friendly projects, and are therefore key in achieving the demands of the United Nations SDGs.[112] For these reasons, Bird and Davis-Nozemack have defined tax avoidance, not just as a financial problem for tax authorities, but as a 'sustainability problem' with 'organizational and societal consequences', proposing that dealing with it as a sustainability problem could better help in mitigating it.[113]

Corporate tax avoidance is also linked to wealth and income inequality both intra- and inter-nationally. To retain the size of their budget, governments have to offset the lost tax revenue either by borrowing, lowering expenditure, broadening their tax base or shifting the tax burden to other, less mobile, factors, usually labour and consumption, which are hence burdened disproportionately. Tax minimisation practices therefore

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[106] See Leo E Strine, Jr, *Toward Fair and Sustainable Capitalism* (Roosevelt Institute, 2020).

[107] David F Larcker, Brian Tayan and Edward M Watts, 'Seven Myths of ESG' (Stanford Closer Look Series, 4 November 2021) <https://www.gsb.stanford.edu/faculty-research/publications/seven-myths-esg>.

[108] David Wood, 'What Do We Mean by the S in ESG? Society as a Stakeholder in Responsible Investment' in Tessa Hebb, James P Hawley, Andreas GF Hoepner, Agnes L Neher and David Wood (eds), *The Routledge Handbook of Responsible Investment* (Routledge, 2016) 553, 555.

[109] Swasti Gupta-Mukherjee, 'Climate Action Is Too Big for ESG Mandates', *Stanford Social Innovation Review* (29 September 2020) <https://ssir.org/articles/entry/climate_action_is_too_big_for_esg_mandates>.

[110] Hans Taparia, 'One of the Hottest Trends in the World of Investing Is a Sham', *New York Times* (29 September 2022) <https://www.nytimes.com/2022/09/29/opinion/esg-investing-responsibility.html>; see also The Economist, 'Measure Less, But Better' (21 July 2022) <https://www.economist.com/specialreport/2022/07/21/measure-less-but-better>; Gillian Tett, 'ESG Exposed in a World of Changing Priorities', *Financial Times* (3 June 2022) <https://www.ft.com/content/6356cc05-93a5-4f56-9d18-85218bc8bb0c>.

[111] See, eg, Reuven S Avi-Yonah, 'The Three Goals of Taxation' (2006) 60(1) *Tax Law Review* 1, 3.

[112] United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (2015); United Nations, *Addis Ababa Action Agenda: Monitoring Commitments and Actions* (2016); World Bank, *Conference Report: Taxation and the Sustainable Development Goals* (14-16 February 2018); International Monetary Fund (IMF), OECD, UN and World Bank Group, *Taxation and SDGs: First Global Conference of the Platform for Collaboration on Tax, February 14-16, 2018, Conference Report* (2018) 9 ('taxes generate the funds that finance government activities in support of the SDGs').

[113] Robert Bird and Karie Davis-Nozemack, 'Tax Avoidance as a Sustainability Problem' (2018) 151(4) *Journal of Business Ethics* 1009.

allow companies to increase their accumulated wealth at the expense of other, less mobile, taxpayers. In particular, multinationals can secure an unfair competitive advantage over their smaller, domestic, competitors, which are not able to exploit the same tax loopholes.

Additionally, not all countries are impacted at the same level. Developing countries are not able to offset reductions in taxes with base broadening or shifting similarly to developed countries.[114] They usually have agricultural and less urbanised economies, with large informal sectors, and lack transparent and capable institutions.[115] Additionally, they rely more heavily on corporate income taxes, due to the relative ease in administration and collection. This reliance, coupled with their limited tax collection capacity, can hamper developing countries' ability to mobilise resources domestically.

Corporate tax behaviour can also have significant compliance implications. The uneven distribution of tax burdens in society might create a perception of unfairness and a general lack of trust in the legitimacy of the tax system, with repercussions on tax compliance.[116] In that way, companies not only endanger the sustainability of the tax systems of the countries where they operate and generate profits, but also the social cohesion of these countries, manifested through limited institutional trust, and hence tax compliance, and lack of sense of community, due to economic and societal inequalities.

Corporate taxes therefore play a special role, distinct from the one represented by the environmental, social and governance aspects of the ESG framework, and not fully expressed by any of these pillars or a combination thereof. As a result, the addition of a tax pillar seems to be warranted as corporate tax behaviour requires special attention, due to its importance and unique role in achieving sustainable development and social cohesion.

Corporate taxes are also increasingly attracting the public interest. Following the 2008 global financial crisis, tax matters emerged from obscurity to occupy a prominent role in political agendas. Governments needed revenue, but not everyone was contributing their fair share to it. Public investigations against multinationals, tax haven data leaks, such as LuxLeaks, and other revelations of corporate tax dodging triggered a public backlash that exerted pressure on politicians to act.[117] In light of these developments, the OECD mandated by the G20 initiated in 2013 the BEPS project identifying 15 areas where corporate tax needed reform to combat tax avoidance practices.[118]

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[114] Allison Christians and Laurens van Apeldoorn, *Tax Cooperation in an Unjust World* (Oxford University Press, 2021) 57-58, citing M Shahe Emran and Joseph E Stiglitz, 'On Selective Indirect Tax Reform in Developing Countries' (2005) 89(4) *Journal of Public Economics* 599, who found that the adoption of value added tax (VAT) produced few or no gains in revenue coupled by losses in distributional equity.

[115] The IMF has estimated that up to 60 per cent of the gross domestic product (GDP) of low-income states is located in the informal economy: IMF, 'Revenue Mobilization in Developing Countries' (2011) 8; Mick Moore, 'Obstacles to Increasing Tax Revenues in Low Income Countries' (International Centre For Tax and Development Working Paper 13/15, 2013) 14-15.

[116] See, eg, Diana Onu and Lynne Oats, 'The Role of Social Norms in Tax Compliance: Theoretical Overview and Practical Implications' (2015) 1(1) *Journal of Tax Administration* 113.

[117] See, eg, Committee of Public Accounts (UK), *HM Revenue and Customs: Annual Report and Accounts 2011-12* (House of Commons HC 716, Nineteenth Report of Session 2012-13). See also Shu-Yi Oei and Diane M Ring, 'Leak-Driven Law' (2018) 65(3) *UCLA Law Review* 532 (detailing the disclosure and media attention).

[118] OECD, *Action Plan on Base Erosion and Profit Shifting* (OECD Publishing, 2013).

Given the importance of taxes for sustainable development and the increased public scrutiny over corporate tax behaviour, it might be expected that corporations would address their tax policies in their sustainability reports. Nevertheless, companies underreport on tax matters. A 2021 global analysis using a dataset of 1,300 large, listed companies across both developed and emerging markets found that only a third (34 per cent) of these companies had commitments or policies on tax transparency in place, compared to 87 per cent for climate change and 98 per cent for health and safety.[119] Another study that focused on S&P 500 companies found that, of the 328 companies analysed, only 47 substantially addressed tax matters, and another 45 referenced taxes in the context of financial results, while the majority of them did not include any reference to taxes.[120] Establishing a separate pillar dedicated to tax would therefore increase the number of companies reporting on tax matters.

Additionally, a tax pillar would force institutional investors to introduce corporate tax behaviour parameters in their investment decisions. At present, asset managers adopt a passive approach towards tax-related guidelines. Despite extensive coverage of numerous ESG concerns, including board composition, human capital and climate risk, the 'Big Three' guidelines, issued by Vanguard, BlackRock and State Street Global Advisors, on proxy voting and stewardship principles do not contain any significant reference to corporate taxation.[121] Indicative of this stance is the recent asset manager reaction to shareholder proposals for more tax transparency, especially public disclosure of country-by-country reporting.[122] In 2022, BlackRock and Vanguard voted against tax transparency shareholder proposals at Amazon, Microsoft and Cisco Systems, which was pivotal in the ultimate rejection of such proposals, signifying the institutional investor failure to consider the importance of tax and shareholders' role in shaping corporate tax behaviour.[123]

A tax pillar would also provide ESG rating agencies with the required framework to better incorporate tax matters in their scoring systems. As previously analysed (see section 2.2.3), tax metrics are either omitted from ESG ratings or when included there is significant divergence in their scope, measurement, and weight among different agencies, while studies have found an inverse relationship between a company's ESG score and its effective tax rate.[124] The inclusion of a pillar dedicated to tax matters would ensure that tax metrics are a core value in ESG scores and that significant weight is accorded to aspects of corporate tax behaviour. Additionally, in the context of

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[119] Bourne et al, above n 84.
[120] Sara Reiter, 'Tax Disclosures in Sustainability Reports' (2020) 20(7) *Journal of Accounting and Finance* 51.
[121] See, eg, Vanguard, *Global Proxy Voting Policy for Vanguard-Advised Funds* (February 2024) <https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/policies-and-reports/global_proxy_voting_policy_2024.pdf>; Blackrock, *BlackRock Investment Stewardship: Global Principles, Effective as of January 2024* (2024) <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf>; State Street Global Advisors, *Global Proxy Voting and Engagement Policy* (March 2024) <https://www.ssga.com/library-content/assets/pdf/global/asset-stewardship/proxy-voting-and-engagement-policy.pdf>.
[122] Nana Ama Sarfo, 'Microsoft and Cisco Face Shareholder Pressure Over Public Disclosures', *Forbes* (28 June 2022) <https://www.forbes.com/sites/taxnotes/2022/06/28/microsoft-and-cisco-face-shareholder-pressure-over-public-disclosures/?sh=4a6669315d39> (accessed 18 October 2024).
[123] Stephen Foley and Patrick Temple-West, 'Companies Pressed to Reveal More About the Taxes They Pay', *Financial Times* (10 April 2023) <https://www.ft.com/content/7a3e5a4b-2025-4f42-834b-22dfa8bc281e>.
[124] See section 2.2.3.

increasing regulation of ESG rating agencies, including greater transparency and standardisation of their methodologies, the separate inclusion of tax matters in the ESG framework would unavoidably lead to extensive elaboration of the specific tax information that companies need to share and the weight of tax metrics in their overall ESG performance.

Ultimately, greater emphasis on tax matters by institutional investors and ESG rating agencies would influence corporate tax behaviour. Recent studies on 'Big Three' initiatives with respect to climate change and board diversity have documented the role of asset managers as regulatory players, which has emerged as a response to increasing deregulation, and the influence they exert on company behaviour.[125] The inclusion of clear references and measurable metrics of responsible tax behaviour by these influential quasi-regulatory players, especially the introduction of 'sanctions' in case such behaviour is not followed, would produce positive outcomes with regard to corporate tax transparency.

A tax pillar could also achieve greater standardisation and uniformity in the current patchwork of tax sustainability reporting. The proliferation of sustainability disclosure standards, and the consequent plethora of uncoordinated sustainability information, has created confusion and underlined the urgency of creating a comprehensive, standardised and common system to measure and disclose corporate sustainability performance. The lack of a generally accepted methodology has important implications for most stakeholders.

Investors are unable to take sufficient account of sustainability-related risks and opportunities in their investment decisions potentially creating inefficiencies in global capital markets and imposing a threat on financial stability.[126] At the EU level, such divergent measures and approaches in reporting standards could undermine the internal market and distort competition.[127] The confusion and lack of sustainability information creates an accountability deficit and damages citizen trust in corporations. Additionally, there is increased risk of 'greenwashing' practices from corporations and investors. Such practices include misleading or fraudulent disclosures about an entity's ESG performance or empty public statements about responsible tax strategies, for the purpose of influencing customers, capital inflows and investment choices.[128] A tax pillar would eliminate confusion as to whether and how tax matters need to be reported, hence improving the understanding of a corporation's contribution to funding public benefits.

Taxation is a prerequisite for the other pillars since no account for tax matters ultimately harms ESG policies overall. The fewer resources a government has, the less capable it is to advance policies beneficial for the environment and society and to regulate effective corporate behaviour, including through enforcement. At the same time,

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[125] See, eg, Dorothy S Lund, 'Asset Managers as Regulators' (2022) 171(1) *University of Pennsylvania Law Review* 77, 90-92; Amil Dasgupta, Vyacheslav Fos and Zacharias Sautner, 'Institutional Investors and Corporate Governance' (2021) 12(4) *Foundations and Trends in Finance* 276.

[126] CSRD, above n 44, preamble, para 14; Aaron K Chatterji, Rodolphe Durand, David I Levine and Samuel Touboul, 'Do Ratings of Firms Converge? Implications for Managers, Investors and Strategy Researchers' (2016) 37(8) *Strategic Management Journal* 1597, 1598.

[127] CSRD, above n 44, preamble, para 16.

[128] World Economic Forum, 'ESG: ESG Regulation and Policy-Making' (Web Page) <https://intelligence.weforum.org/topics/a1G680000004EI1EAM/key-issues/a1G680000004EYTEA2> (accessed 16 January 2024).

introducing a tax pillar could help counterbalance the transfer of excessive power to the hands of asset managers and rating agencies when operating as quasi-regulators, since better tax reporting would allow governments to collect more taxes and promote ESG goals hence decreasing the reliance on private actors to regulate ESG matters.

Finally, the inclusion of a tax pillar would reflect the expectation that companies should go beyond the tax law. Under the current framework, tax reporting, when present in sustainability reports, is usually confined to informing stakeholders that the company has been compliant with the spirit and the letter of tax law. However, the rationale behind the ESG framework is to reward those companies that promote important environmental and societal goals, not those that do not break the law. Though companies' tax obligations remain within the confines of the letter and the spirit of the law, tax regulation is inevitably imperfect and ambiguous and thus should not be exclusively relied upon to achieve better tax governance.[129] The prioritisation of stakeholder interests calls for companies to act beyond mere shareholder value maximisation and compliance with the law, and instead actively engage in socially responsible activities.[130] This would entail not only refraining from tax planning activities that undermine the sustainability of the tax systems where they operate, but also undertaking investment decisions that are guided by sustainability considerations, instead of exclusively by regulatory obligations.

The expectation that companies go beyond the law relates to the interaction of corporate taxation with CSR. There is no single view about this interaction, and different views depend on the theory of the corporation that is adopted. Avi-Yonah explains that historically three theories of the corporation have emerged: the artificial entity theory, the real entity theory, and the aggregate (nexus of contracts) theory.[131] Under the artificial entity theory, the corporation is a creature of the state and, as such, it should pay taxes to fulfil its obligation to the state. Under the real entity theory, the corporation is an entity separate from both the state and its shareholders and has a legal responsibility to pay taxes and not engage in tax minimisation practices. Lastly, under the aggregate theory, the corporation is the mere aggregate of its individual members or shareholders, and therefore taxes, being a detriment to shareholder value, should be minimised. Under this theory, which is the dominant one among contemporary corporate scholars,[132] corporate taxation is not a CSR function, but rather a legal matter.[133] This view is clearly expressed in Friedman's infamous statement that corporations should focus on profit maximisation, while taxes are the responsibility of the government.[134] However, Avi-Yonah considers that this view, taken to its logical

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[129] Hans Gribnau, 'Why Social Responsible Corporations Should Take Tax Seriously' in Karina Kim Egholm Elgaard, Rasmus Kristian Feldthusen, Axel Hilling and Matti Kukkonen (eds), *Fair Taxation and Corporate Social Responsibility* (Ex Tuto Publishing, 2019) 103.

[130] Asaf Raz, 'The Legal Primacy Norm' (2022) 74(6) *Florida Law Review* 933, 935.

[131] Avi-Yonah, 'Corporate Taxation and Corporate Social Responsibility', above n 34.

[132] See, eg, Henry G Manne and Henry C Wallich, *The Modern Corporation and Social Responsibility* (American Enterprise Institute for Public Policy Research, 1972); Bernard Black and Reinier Kraakman, 'A Self-Enforcing Model of Corporate Law' (1996) 109(8) *Harvard Law Review* 1911.

[133] See, eg, Grahame R Dowling, 'The Curious Case of Corporate Tax Avoidance: Is It Socially Irresponsible?' (2014) 124(1) *Journal of Business Ethics* 173.

[134] '[T]here is […] only one social responsibility of business – to use its resources and engage in activities designed to increase its profits…': Milton Friedman, 'A Friedman Doctrine – The Social Responsibility of Business Is to Increase Its Profits', *New York Times* (13 September 1970) <https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>.

extreme, is self-defeating, because it could mean that the state is deprived of adequate resources to fulfil the social responsibility functions borne exclusively by it.[135] Other scholars have also argued that a corporation's tax aggressive policies may be socially irresponsible.[136] Also, recent developments, including civil society backlash against aggressive corporate tax practices and the OECD/G20 BEPS project, have established the undeniable legitimacy of CSR in corporate tax behaviour. Lastly, studies on the implementation of voluntary disclosure codes, such as the one that is applicable in Australia, provide evidence of a progressive change in corporate attitudes towards tax and a transition from the aggregate view to the real entity view of a corporation.[137]

The ethical dimension of reporting on socially responsible tax behaviour should also not be disregarded. This approach requires a transition from compliant companies to those that embrace morality, that makes 'them better citizens, and … their political participation less problematic'.[138] Socially responsible behaviour is therefore not a mere technical exercise, but a normative one that sets out what companies ought to be responsible for in society.[139] The ethical dimension is even more prominent when it comes to tax planning practices. In this context, asserting a role of responsible citizens but avoiding taxes has been equated to 'organized hypocrisy'.[140] The way tax law is interpreted and applied is a moral choice, especially because it concerns the distribution of tax burdens in society, and thus socially responsible companies are expected to go beyond strictly complying with the letter of the law.[141] A tax pillar would therefore satisfy the ethical aspect entrenched in tax compliance and invite a new definition of corporate responsibility, one that encompasses both legal and moral considerations.[142]

However, given the peripheral role of taxation in the current landscape, demand for corporate tax behaviour that goes beyond what is legally required, though justified under the S pillar, seems difficult to frame and implement. The inclusion of a tax pillar in the ESG framework would therefore shift the focus from pure tax compliance to the benefits companies can bring by proactively devising tax strategies that enable the accomplishment of sustainability aims in the countries where they operate.

4. CONCLUSION AND FUTURE RESEARCH

The inclusion of taxation in the ESG framework would significantly improve the current landscape of corporate sustainability reporting. Nevertheless, careful consideration

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[135] Reuven S Avi-Yonah, 'The Cyclical Transformations of the Corporate Form: A Historical Perspective on Corporate Social Responsibility' (2005) 30(3) *Delaware Journal of Corporate Law* 767.
[136] See, eg, Urs Landolf, 'Tax and Corporate Responsibility', *International Tax Review* (30 June 2006); Bernd Erle, 'Tax Risk Management and Board Responsibility' in Wolfgang Schön (ed), *Tax and Corporate Governance* (Springer, 2008) 205.
[137] Bronwyn McCredie and Kerrie Sadiq, 'CSR and Tax: A Study in the Transition from an "Aggregate" to "Real Entity" View of Corporations' (2019) 31(4) *Pacific Accounting Review* 553.
[138] Kent Greenfield, 'In Defense of Corporate Persons' (2015) 30(2) *Constitutional Commentary* 309, 312.
[139] Andrew Crane, Abagail McWilliams, Dirk Matten, Jeremy Moon and Donald Siegel, 'The Corporate Social Responsibility Agenda' in Andrew Crane, Abagail McWilliams, Dirk Matten, Jeremy Moon and Donald S Siegel (eds), *The Oxford Handbook of Corporate Social Responsibility* (Oxford University Press, 2008) 3.
[140] Nils Brunsson, *The Organization of Hypocrisy: Talk, Decisions and Actions in Organizations* (John Wiley, 1989).
[141] Hans Gribnau, 'Corporate Social Responsibility and Tax Planning: Not by Rules Alone' (2015) 24(2) *Social and Legal Studies* 225.
[142] Doron Narotzki, 'Corporate Social Responsibility and Taxation: The Next Step of the Evolution' (2016) 16(2) *Houston Business and Tax Law Journal* 167.

should be paid to the design of this pillar to avoid reporting on mere tax compliance matters and to minimise the risk of 'greenwashing'. Though this is a matter for future research, some ideas are presented here.

Sustainable development relies both on tax and spending policies. However, tax reporting focuses exclusively on one aspect of the fiscal account. The incorporation of spending policies in the tax pillar, for example in the form of institutional accountability and rule of law considerations in the place of investment, would provide a better understanding of a company's sustainable performance.

Additionally, tax metrics tend to adopt overly simplistic or divisive approaches, hence disregarding the multifaceted and context-specific role of taxation. There is no one-size-fits-all approach. For example, the reason for a reduced tax bill leads to different sustainable behaviour assessments, depending on whether it is due to tax incentives for green investments or aggressive tax planning activities. A tax pillar would therefore have to account for industry-, region-, sector-, etc specific characteristics and the rationale behind a specific tax behaviour.

Most importantly, tax sustainability reporting usually disregards the special assistance developing countries need to achieve sustainable development. By application of the principle of Common but Differentiated Responsibilities (CbDR) and respective capabilities,[143] tax metrics could measure whether a tax-responsible company progressively reports a larger portion of its income in poorer countries, for example by locating high-value functions or the development and management of intangibles into economies with greater fiscal needs.[144]

The proposal to add T in the ESG acronym could be understood as an idea to improve the existing framework. ESG matters, once perceived as unrelated to financial performance, or even a cost, are increasingly impacting the profitability and financial viability of firms, as a result of asset allocation processes.[145] Nevertheless, scholars have expressed concerns over the rising concentration of power in the hands of the 'Big Three' asset managers – BlackRock, Vanguard, and State Street Global Advisors – who tied their own business models to this new mantra and fostered a multi-billion dollar ESG investing industry raising issues about legitimacy and accountability. Taxation, being one of the core functions of sovereign states, could help counterbalance this concentration of power, while the quasi-regulatory functions of institutional investors could influence the direction of tax regulation. A tax pillar would hence represent this symbiotic relationship. The analysis in this article has explained the reasons why the addition of a tax pillar would bring incremental improvements to the ESG framework. Whether more radical reform should be implemented, or this framework be revisited in its entirety, is a question reserved for future research.

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[143] *United Nations Framework Convention on Climate Change*, opened for signature 9 May 1992, 1771 UNTS 107 (entered into force 21 March 1994) art 3(1).

[144] Though narrow and widely criticised as unsuitable for measuring economic performance and social progress, GDP per capita could be an indicator to determine countries' fiscal needs. See, for the criticism, Joseph E Stiglitz, Amartya Sen and Jean-Paul Fitoussi, 'The Measurement of Economic Performance and Social Progress Revisited: Reflections and Overview' (Observatoire Français des Conjonctures Economiques (OFCE) Working Paper No 2009-33, 2009).

[145] Monica Billio, Michele Costola, Iva Hristova, Carmelo Latino and Loriana Pelizzon, 'Inside the ESG Ratings: (Dis)agreement and Performance' (2021) 28(5) *Corporate Social Responsibility and Environmental Management* 1426.

5. APPENDIX

BEPS	Base Erosion and Profit Shifting
CBAM	Carbon Border Adjustment Mechanisms
CbCR	Country-by-Country-Reporting
CbDR	Common but Differentiated Responsibilities
CSDDD	Corporate Sustainability Due Diligence Directive
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, Governance
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
FTM	Fair Tax Mark
GRI	Global Reporting Initiative
MSCI	Morgan Stanley Capital International
NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Cooperation and Development
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-related Financial Disclosures
UNPRI	United Nations Principles for Responsible Investment
WEF	World Economic Forum