
Market Reactions to a Climate Disclosure Framework: Evidence from Changes in the EU Taxonomy

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Abstract

This paper examines the financial market's reaction to amendments in the EU Taxonomy, a key regulatory framework aimed at directing investments toward environmentally sustainable activities. The EU Taxonomy seeks to address market failures from negative externalities by reducing information asymmetries in financial markets. Using an event study methodology, this paper analyzes stock market responses to two major amendments introduced in 2022 and 2023, which expanded the classification of sustainable activities to include natural gas, nuclear energy, aviation, and other sectors.

The findings indicate an overall insignificant market reaction to the first amendment, likely due to prior anticipation or the presence of confounding geopolitical events such as the energy crisis. However, the second amendment triggered a significant negative market response, with cumulative average abnormal returns (CAARs) declining by approximately 2.4% in the three days following the leak of the draft regulation. While firms subject to stricter disclosure obligations or with high environmental scores exhibited more pronounced reactions, the heterogeneity analysis did not yield statistically significant differences across firm characteristics likely due to the sample size.

Our findings align with the literature, reinforcing the view that mandatory sustainability disclosures are generally perceived as net costs by investors. By providing empirical evidence on how financial markets respond to evolving climate disclosure regulations, this study contributes to the broader debate on the economic impact of sustainability policies. The findings underscore the importance of investor expectations in shaping regulatory outcomes and suggest avenues for future research on the long-term implications of sustainability reporting.

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