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Sustainability reporting in view of the European sustainable finance taxonomy: Is the financial sector ready to disclose circular economy?

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Abstract

The European sustainable finance taxonomy requires financial and nonfinancial companies to provide investors with information about the environmental performance of their assets and economic activities. For financial institutions, making socially and environmentally responsible investments visible through a common label that guarantees specific standards for the entire European Union is crucial. Against this background, this study analyzes the evolution of sustainability reporting practices and their assurance in a sample of European financial institutions. To this end, we used a double qualitative methodological approach, based on (a) an external analysis of nonfinancial information and its relationship with the main economic-financial variables of the sample companies, and (b) a case study of a bank carried out through semi-structured interviews. This study provides an external measurement analysis of nonfinancial information in entities from different countries, which can contribute to broadening the scope and level of sustainability and circular economy accountability.

KEYWORDS

assurance, circular economy, CSR, financial institutions, sustainability accounting, sustainability reporting, sustainable finance

1 | INTRODUCTION

For companies and financial institutions, implementing a sustainable finance strategy is key to achieving the climate objectives that are increasingly demanded in different geographical areas. Without adequate financial flows, companies cannot make significant investments to green the economy and create a more inclusive and sustainable society in a circular economy (CE) framework. Clearly, the transition to a climate-neutral economy and a CE will require significant investments in all economic sectors, assuming the financial cost associated (van Loon & Van Wassenhove, 2020). In this regard, the European Union (EU) has launched numerous initiatives, e.g., the so-called “European Climate Pact”, an EU-wide initiative for building a greener Europe, and Regulation (EU) 2020/852 (European Parliament, 2020) on the Establishment of a Framework to Facilitate Sustainable Investment and Amending Regulation EU 2019/2088 (2019), known as the sustainable finance taxonomy. This regulation requires financial and nonfinancial companies to provide investors with information about the environmental performance of their assets and economic activities. Therefore, information on sustainability has gained a

The European taxonomy as a core of information on circular economy.

significant role, in particular with the recent European regulation to determine the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation (Commission Delegated Regulation (2021) of 4 June 2021 Supplementing Regulation (EU) 2020/852 of the European Parliament and the Council by Establishing the Technical Screening Criteria for Determining the Conditions under Which an Economic Acti, 2021).

In recent decades, the largest companies have increased their disclosure practices (Michelon et al., 2015; Orazalin & Mahmood, 2018) signaling their superior commitment to social and environmental issues (Llena et al., 2007). The sustainable finance taxonomy obliges European companies to fully disclose the proportion of their turnover, capital, and operating expenses associated with environmentally sustainable economic activities. As for financial entities, mainly large banks, asset managers, investment firms, and insurance and reinsurance companies, they will have to disclose the proportion of environmentally sustainable economic activities in the total assets they finance or invest in.

The introduction of Regulation (EU) 2019/2088 on Sustainability-Related Disclosures in the Financial Services Sector (amended by Regulation 2020) had already highlighted the increasing relevance of sustainability reports in terms of disclosing social and environmental issues and corporate governance as an integral part of the development of the sector. The European sustainable finance taxonomy implies that sectoral sustainability reporting practices have to increase environmental disclosure in the financial industry, also concerning the CE, as a relevant part of the investments to be made.

In the present CE framework, as a source of differentiation and competitive advantage, companies report on CE-related activities and respond to stakeholders as part of their entire sustainability strategy under a framework of normative, instrumental, legitimate, or reputational strategies (Marco-Fondevila et al., 2021). Therefore, in the framework of the triple bottom line (Elkington, 2004) and corporate social responsibility (CSR), financial institutions have to broaden the range and breadth of their reporting practices, increasing their environmental disclosures related to sustainable financing including investments and actions linked to the CE (Portillo-Tarragona et al., 2022).

In the literature, few studies have explicitly analyzed banks' impacts on the CE and sustainability and its reporting (Bonifácio Neto & Branco, 2019). CSR policies and the evolution of sustainability reporting at a sectoral level have been specifically analyzed in only a few studies, and the role of CE-related information in the financial sector remains underexplored. Previous literature has explored how financial institutions' sustainability reports incorporate environmental and social considerations into their risk management systems (Gambetta et al., 2021). Recently, Jin et al. (2021) explored the role of financial literacy in supporting inclusive and sustainable growth. However, the evolution of sustainability reporting and the independent assurance of sustainability information remains understudied, and this study intends to address this gap.

In summary, the main objective of this study is to analyze environmental information disclosure in financial entities at the European level and its determinants, including the evolution of sustainability reports and their assurance. A secondary objective focuses on the definition and measurement of CE-related disclosure in the financial sector through an external analysis of reporting practices from a sample of European entities as well as a Spanish case study.

To achieve these research objectives, the paper is structured as follows: Section 2 summarizes the background, and we describe the methodology in Section 3. Section 4 presents and discusses the results. Finally, in Section 5, we outline our main conclusions.

2 | BACKGROUND

Given the banking sector's relationships with other strategic activities that directly impact the environment, such as the energy, agriculture, and manufacturing sectors, stakeholders have increasingly demanded greater transparency of financial institutions' sustainability initiatives and how they are accounted (Chang et al., 2019; Gangi et al., 2019). This section provides an overview of the state of knowledge regarding the financial sector's sustainability disclosure and CE-related information in the framework of stakeholder theory.

2.1 | Sustainability reporting in the financial sector

In the last decade, the banking industry has adopted principles in response to the sustainable development goals (SDGs) and the need to address general sustainability issues (Gambetta et al., 2021; Stocker et al., 2020). Within the framework of the main areas of CSR in the banking sector, financial institutions are exploring new ways of relating to sustainability to incorporate nonfinancial information beyond ethical aspects and traditional philanthropic activities (Chang et al., 2019; Melé et al., 2017). Conventional banking has now evolved toward making green investments and implementing solid information frameworks for effective communication of its environmental, social, and governance (ESG) performance to various stakeholder groups (Elalfy & Weber, 2019; UN Environment Programme, 2017). Banking has also implemented increasing levels of accountability related to sustainability and the CE (Marco-Fondevila et al., 2021).

In a study of financial sector sustainability reporting, Elalfy and Weber (2019) affirm that annual sustainability reports are a tool to communicate the performance of an institution to its stakeholders (Ziek, 2009). Previously, Burritt & Schaltegger (2010) argued that the systematization of reporting frameworks is a step in the methodological development process toward sustainability accounting that provides valuable and high-quality information. It has been claimed that the banking sector's disclosure of information on policies regarding investment in and financing of firms has been reinforced (Bonifácio Neto & Branco, 2019). In addition, pressure from governments and institutions is pushing large financial sector corporations to increasingly disclose nonfinancial information (Elalfy & Weber, 2019; Sobhani et al., 2012).

The increased sustainability disclosure among European financial institutions, despite the fact that environmental risk is not usually a major factor this type of company, can be explained by several reasons. In the literature on the banking sector, previous studies on nonfinancial information practices focused mainly on analyzing information on environmental impacts related to waste or the consumption of materials or resources such as energy and water. More recently, the issue of emissions from commercial borrowers have also been introduced (Chang et al., 2019; Ngwakwe, 2012), as well as an analysis of the disclosure of environmental and social impacts of products and services (Scarpellini, 2022; Weber & Feltmate, 2016). There is no doubt that sectoral information is now more extensive than previously. However, previous studies have highlighted the lack of disclosure related to the indirect assignment of responsibilities regarding the emissions generated by the businesses they finance to avoid double counting (Elalfy & Weber, 2019).

At present, the financial sector is becoming increasingly linked to climate change through its clients, either because their clients are affected by extreme weather events or because their clients demand increased sustainability in certain investment portfolios affected by fixed assets (Hunt & Weber, 2019). Thus, within the framework of the recent European sustainable finance taxonomy, banks and financial institutions must inform investors and depositors on how they allocate their funds for sustainability and the purpose of substantial investments in the different fields of environmental sustainability and the CE. These green investments require close collaboration between managers of financial institutions and policymakers to ensure the effective development of sustainability policies and optimization of fund allocation (Macchion, Toscani, & Vinelli, 2021), despite this role having generally been ignored to date by regulators, financial managers, and policymakers (Elalfy & Weber, 2019). In addition, there are no specific models to adopt the CE-related principles in the service industry (Salesa et al., 2022).

In this regulatory framework, European financial sector companies are increasingly obliged to provide financing for green investments and proactively promote economic growth in a neutral emissions scenario, disclosing at the same time the related nonfinancial information in their annual reports. Thus, it is of interest to investigate how the sector is responding to the challenges posed by the EU sustainable finance taxonomy in terms of promoting environmental change within the framework of sustainability reporting.

Based on these considerations, the first research question is:

RQ1. How has sustainability reporting evolved in the European financial sector?

2.2 | Assurance of nonfinancial information

The number and variety of organizations issuing sustainability reports have considerably increased in the last decade, and some stakeholders have demanded that the transparency and integrity of the information published by organizations should be externally assured (Llena et al., 2007; Moneva et al., 2006; Moneva & Hernández Pajares, 2006; Ramus & Montiel, 2005; Scatolino et al., 2017). However, the percentage of organizations assuring their sustainability reports in practice has not grown as rapidly as the demand for assurance.

The assurance of sustainability reports is a voluntary process performed by external independent accountants and non-accountants that provides credibility and reliability to reporting practices. Sustainability assurance is mainly considered a quest for legitimacy (Gillet, 2012). In addition, CSR assurance plays a positive role in corporate performance (Gallego-Álvarez & Pucheta-Martínez, 2021). Radhouane et al. (2020) demonstrated that market participants financially reward a higher level of environmental disclosure from firms that provide higher assurance in environmentally sensitive industries. Similar results were obtained by Miralles-Quirós et al. (2021). They corroborated that the efforts made by Spanish-listed companies are positively valued by investors, especially in terms of the assurance level requested by the guarantee provider of the sustainability report.

Studies focusing specifically on assurance practices related to the financial sector's sustainability reporting have increased in recent years. The sustainability reporting quality of financial institutions has also been a topic of interest for some authors (Chang et al., 2019). Andrikopoulos et al. (2014) explored the determinants of CSR disclosure practices in a cross-section of listed financial institutions. They found that the extent of disclosure is more remarkable in large companies with greater financial leverage, but they did not analyze assurance of disclosed information. Similarly, Sobhani et al. (2012) failed to analyze assurance specifically when examining corporate sustainability disclosure practices in the Bangladeshi banking industry. Despite the interest and topicality of analyzing sustainability and CE reporting assurance in this sector, research in this area remains at an embryonic stage. Therefore, the assurance process in the financial industry requires further investigation. Thus, our second research question is:

RQ2. To what extent are sustainability reports assured in the European financial sector?

2.3 | Stakeholders' role in CE-related environmental disclosure

The development of this research has not been driven by a specific theory. Nevertheless, a straightforward approach to stakeholder theory is summarized here to outline the general scope of the study, that is, to provide a better understanding of the environmental disclosure of financial institutions (Cosma et al., 2021), in sustainability accounting and reporting as well as the disclosure of CE-related practices and investments.

According to Moneva & Llena (2000), stakeholder theory recognizes that, besides the traditional users of accounting information (shareholders and creditors), several additional agents are interested in the environmental behavior of companies. Consequently, they demand information regarding the impact of the companies' activities on the environment. To the extent that firms recognize the legitimacy of their stakeholders' interests, they tend to report environmental

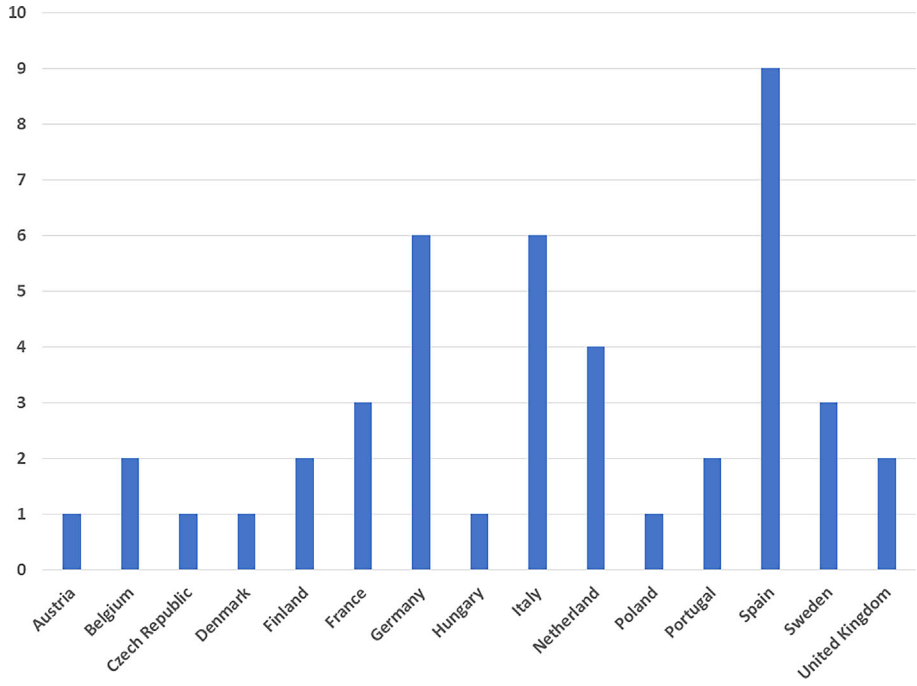

FIGURE 1 Distribution of the sample by country [Colour figure can be viewed at wileyonlinelibrary.com]

TABLE 1 Accountability variables

SOST dissemination of sustainability principles	SOST_INFO: General information on the company's values in the context of the SDGs or similar (discrete variable) SOST_DOC: Nonfinancial information in sustainability reports (CSR, environmental, integrated, or similar reports), as well as videos and other information related to sustainability (discrete variable) SOST_CERT: Environmental standards and certifications in the reports and company website (ISO 14001, LCA) - (discrete variable)
RSC sustainability reports and complementary information	RSC_MEM: Sustainability reports (CSR, environmental, integrated, or similar reports) are published periodically (discrete variable) RSC_CON: Level and quality of sustainability information (discrete variable) RSC_INFO: Assurance of sustainability reports (discrete variable)
CE Dissemination of circular-economy principles and specific circular economy-related activities	CE_INFO: CE general information (discrete variable) CE_MEMO: CE specific information in documents and other dissemination materials (discrete variable) CE_PROY: CE-related activities, projects and other circular actions (discrete variable)

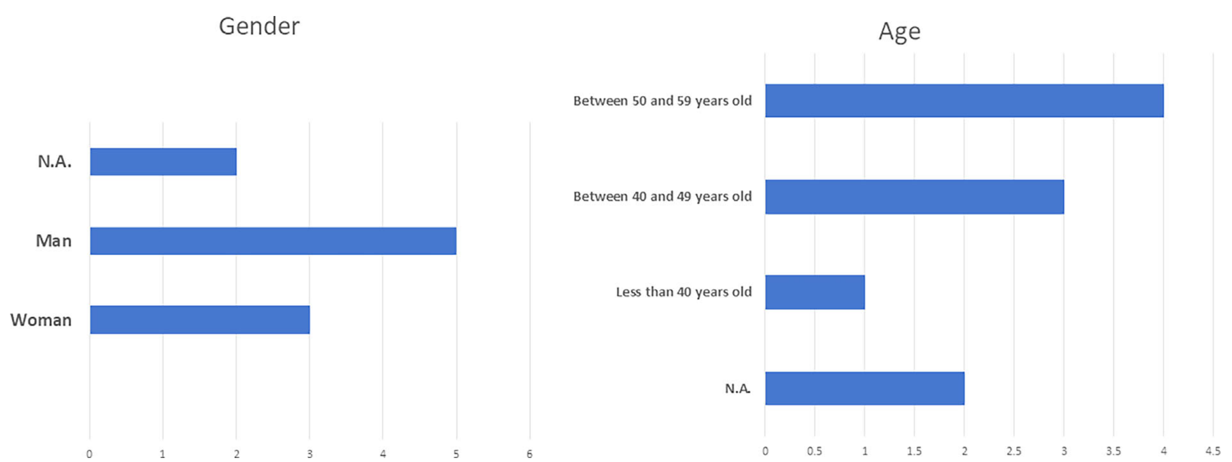

FIGURE 2 Profiles of the interviewees [Colour figure can be viewed at wileyonlinelibrary.com]

information voluntarily. Thus, the visibility of financial products backed by socially and environmentally responsible investments through a common label that guarantees equal standards for the entire EU responds to various stakeholders' interests and increases the level of disclosure required of the sector and the level of sustainability and CE accounting.

Many scholars have pointed out that stakeholders play an essential role in pushing for the adoption of CE principles (Banaite & Tamošiūnienė, 2016; European Environmental Agency, 2016; Lieder & Rashid, 2016; Stewart & Niero, 2018). Changes are also envisaged in reporting practices for companies that adopt a circular business model (Barnabè & Nazir, 2021b; Barnabè & Nazir, 2021a). Some countries have launched standards to promote implementing CE principles and monitoring strategies in organizations. However, their application by businesses is still in the early stages (Pauliuk, 2018), and concrete guidelines for sustainability accounting and reporting have not been provided. Murray et al. (2017) highlighted the need to consider broader business and accounting decision systems, which have become prevalent in environmental management and sustainability reporting (Bebbington & Gray, 2001; Bebbington & Larrinaga, 2014).

In the framework of the European sustainable finance taxonomy, financial institutions should have methods and tools to measure their CE-related activities and be able to distinguish their investments in terms of their use of the CE model. However, specific indicators for measuring the adoption of a CE approach and the classification of CE-related investments in the sector are still under investigation; there is an ongoing debate about the analysis of CE accountability in businesses (Aranda-Usón et al., 2020; Marco-Fondevila et al., 2021; Scarpellini et al., 2020). Once the measurement of accountability related to sustainability and the CE is defined, we must explore the relationship between the main categories of financial institutions' stakeholders and actual disclosure practices. Thus, we attempt to enhance knowledge on this matter by investigating the following research question:

RQ3. What groups of stakeholders are linked with the CE-related disclosure of financial institutions?

3 | RESEARCH DESIGN

This study aims to provide a descriptive analysis of current practices in sustainability reporting and its assurance in the European financial sector, including a specific analysis of CE-related information. To this end, we employed a double qualitative methodological approach based on: (a) an external examination of nonfinancial information and its external assurance and (b) a case study of a Spanish financial institution.

3.1 | Dataset

As financial institutions are going to have an increasingly significant influence on sustainable development from financial systems to

TABLE 2 Analyzed reports: 2015–2019

	2015	2016	2017	2018	2019
Integrated report	4	5	8	14	16
CSR report	20	16	16	8	5
Sustainability report	13	19	18	20	23
Not available	5	3	1	1	
GRI report	2	1	1	1	
TOTAL	44	44	44	44	44

TABLE 3 External assurance of the reports

	Assurance (2019)		
Level of income (sample)	No	Yes	*Total*
Medium	4	12	*16*
Low	4	11	*15*
High	5	8	*13*
Total	*13*	*31*	*44*

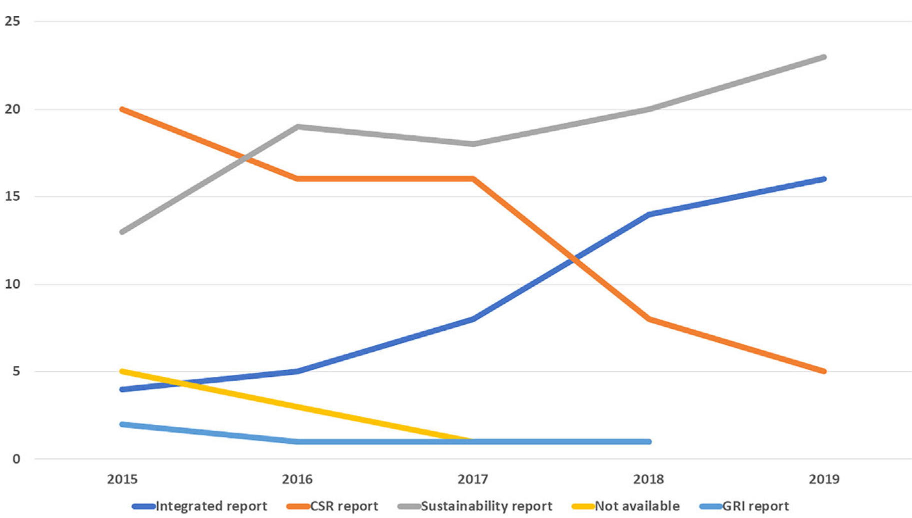

FIGURE 3 Evolution of reports by type for the period 2015–2019 [Colour figure can be viewed at wileyonlinelibrary.com]

TABLE 4 Level of accountability for sustainability issues and the CE among the sample

Country	Average SOST	Average CSR	Average CE	Total average
Germany	4.17	4.83	0.17	9.17
Austria	6.00	6.00	0.00	12.00
Belgium	4.00	4.00	1.00	9.00
Denmark	5.00	6.00	0.00	11.00
Spain	4.78	5.33	2.44	12.56
Finland	3.50	5.50	1.50	10.50
France	4.67	3.33	1.00	9.00
Hungary	5.00	6.00	0.00	11.00
Italy	5.00	5.17	1.50	11.67
The Netherlands	4.00	4.50	3.25	11.75
Poland	0.00	3.00	0.00	3.00
Portugal	4.50	6.00	1.50	12.00
United Kingdom	3.50	4.50	1.00	9.00
Czech Republic	4.00	3.00	0.00	7.00
Sweden	5.33	5.67	1.00	12.00
Total	4.43	4.93	1.39	10.75

Note: For a description of the variables SOST, CSR, and CE, see Table 1.

TABLE 5 Comparison of accountability and income level

	Level of income (sample)			
Level of accountability	High	Medium	Low	Total
High	23%	19%	13%	8
Low	31%	38%	33%	15
Medium	46%	44%	53%	21
Total institutions	13	16	15	44

investments, we considered sustainability reports issued by the representatives of corporate, holding, or global organizations, in line with previous studies (Mori Junior et al., 2014). Consequently, we limited the sample to financial institutions located in the EU that had reported information in recent years following the Global Reporting Initiative (GRI) standards via the Sustainability Disclosure Database. In addition, filters were applied to delimit the sample to significant financial services entities, excluding mortgage houses, insurance companies, and other institutions, and those organizations that did not provide reports in English or Spanish. The distribution of the sample by country is shown in Figure 1.

The resulting dataset used for empirical analysis includes secondary data from 44 entities from different sources, sustainability reports (or similar), and other reports for 5 years. In addition, we obtained primary economic-financial data to examine whether variations in disclosures could be explained by firm economic characteristics (Sharma, 2014). Reports issued by affiliates or controlled organizations were not considered. The data were accessible during the first semester of 2021 from the websites of financial institutions, as identified by other accounting studies (Marco-Fondevila et al., 2018; Sobhani et al., 2012), and from the GRI Sustainability Disclosure Database. A list of criteria was also established to categorize the sample into larger, medium, and smaller entities based on their asset size.

The present study attempts to analyze the accounting practices of financial institutions integrated into the sample to define the quality of the information in line with Chang et al. (2019) in the context of the European sustainable finance taxonomy, particularly concerning CE-related information. To this end, we elaborated a specific list of variables, partially based on the method of Marco-Fondevila et al. (2018) and Benito-Bentué et al. (2022), to collect the different categories of information described in Table 1.

3.2 | Case study

The case study focused on a Spanish banking group that belongs to the main dataset. We selected it for the case study because of its willingness to provide access to data and the necessary collaboration to conduct the research. Its name cannot be disclosed for confidentiality reasons; we refer to it as the entity in the rest of the analysis. For the case study, we conducted 10 semi-structured interviews with the entity's middle managers and executives; a list of interviewees was provided by the department of the entity responsible for CSR. The profiles of the interviewees are depicted in Figure 2.

The mixed semi-structured interviews consisted of a series of open questions interspersed with survey-type questions through which the interviewees were asked to provide their opinions; survey-type questions were scored on a Likert scale from 0 to 10, in line with other CE case studies (Llera-Sastresa et al., 2020; Scarpellini et al., 2019). The interviews took place over 2 weeks via videoconference software and were carried out by two researchers, with an average duration of 20 min.

TABLE 6 Analysis of the interviews: Sustainability and CE policies

	Low [0-4/NA)	Medium [5–7]	High [8–10]	Average	Median	Mode	SD
The implementation of sustainability policies is considered a priority by the Entity	0	0	10	9.5	10	10	0.7
The disclosure of information on sustainability is considered a priority by the Entity	0	0	10	9.4	9	9	0.5
The Entity communicates its environmental policy and sustainability initiatives to the entire workforce	0	1	9	9.3	10	10	1.3
The Entity's executives actively participate in activities for the implementation of sustainability policies and achieving the SDGs	0	0	10	9.2	9	10	0.8
The Entity measures and reports its carbon footprint	2	0	8	9.5	10	10	0.8
In the Entity, the flows of resources and waste are measured and reported	1	2	7	8.4	9	9	1.8
ESG aspects have been implemented by the Entity	0	5	5	7.5	7.5	10	2.2
ESG aspects are considered when the Entity finances investments	0	5	5	7.1	7	10	2.6
External assurance of the reports is considered relevant by the Entity	1	0	9	9	10	10	3.2

TABLE 7 Analysis of the groups of stakeholders provided by the interviewees

Groups of stakeholders	Low [0-4/NA)	Medium [5–7]	High [8–10]	Average	Median	Mode	SD
Competitors	1	3	6	7.30	8.0	8.0	2.11
Clients	0	0	10	9.40	9.5	10.0	0.70
Workers	0	3	7	8.70	9.5	10.0	1.57
Regional and local administration	1	2	7	8.00	8.5	9.0	2.05
National and or European public administration (regulation)	0	0	10	9.30	9.5	10.0	0.82
Other entities and insurers	0	5	5	7.20	7.0	6.0	2.10
Citizens and or NGO associations	0	4	6	8.30	8.5	7.0	1.49
Media	0	5	5	7.80	7.5	7.0	1.55
Partners and shareholders	0	2	8	9.10	10.0	10.0	1.29
Other collaborators	1	7	2	7.00	7.0	7.0	1.66
Providers	0	7	3	7.10	7.0	6.0	1.52
Trade associations	0	7	3	7.00	7.0	7.0	1.63

4 | RESULTS AND DISCUSSION

4.1 | Sustainability reports and assurance

The first stage of the analysis focused on the type of sustainability reports published by the financial entities over 5 years. Table 2 details the types of reports classified as integrated, CSR, sustainability, or GRI standards, or cases where the report was unavailable.

Figure 3 represents the evolution of reporting from 2015 to 2019. It shows there was a shift in terms of popularity from CSR reports in 2015 toward sustainability reports in 2019.

In connection to RQ1, we can observe that the number of integrated reports increased, whereas unavailable reports decreased in the studied period. This result demonstrates a clear trend toward greater comprehensiveness and scope in sustainability reports for the sample during the period analyzed, and a convergence toward integrated reporting. The shift toward sustainability has also led to increased information disclosure and greater integration of information inherent to the three pillars of sustainability.

The analysis of the 2019 reports indicates that the reports of 31 entities were externally and independently assured (Table 3). This answers RQ2 and demonstrates that external assurance is included in most of the reports in the sample and that there is no clear relationship between assurance and entity size.

As a second step, we conducted an external analysis of nonfinancial information to define the level of sustainability and CE accounting. Table 4 summarizes the results obtained by applying the variables detailed in Table 1 for three categories of information: the disclosure of environmental sustainability principles (SOST), reports and CSR complementary information (CSR), and the disclosure of CE-related principles and specific CE activities (CE). Information was classified and scored for each financial institution, and we calculated the average score obtained by the country for each category (Table 4).

As we can observe in Table 4, in the first category focused on disseminating sustainability principles, the observations with the highest scores were located in Austria, Sweden, and Denmark. Those with the lowest scores were located in Finland, the United Kingdom, and Poland. For sustainability reports and complementary information, entities from Austria, Denmark, Hungary, and Portugal obtained the maximum score for the second category. In contrast, the countries with the lowest scores were France, the Czech Republic, and Poland. Finally, information disclosed by financial institutions related to the dissemination of the CE or specific CE activities obtained the lowest score. These results confirm that CE remains an emerging topic in the financial sector.

Table 5 summarizes the relationship between the size (income) of the analyzed entities and their level of accounting. It appears that accounting is independent of the income level of the financial institutions that make up the sample. Most companies show a medium level of information disclosure, with a slight tendency for larger companies to be those that can achieve higher levels of income.

4.2 | Case study: Sustainability reporting and the CE

The results obtained through the mixed semi-structured interviews were organized into three sections of information. The first part related to the profile of the interviewees and featured open questions on sustainability and the CE. The second section focused on decision-making processes for sustainability reporting and CE-related information. In the third section, information about specific activities related to sustainability and the CE was collected. Table 6 shows the main responses obtained regarding the determining factors for the implementation of sustainability and CE policies in the entity and the disclosure of nonfinancial information and its assurance.

The interviewees agreed that the entity and its employees have committed to work on sustainable initiatives and their dissemination. However, opinions were more varied regarding the implementation of ESG aspects and their relevance to financing investments.

To answer RQ3, the participation and relevance of the entity's stakeholders in implementing sustainability principles and the CE are summarized in Table 7. The groups considered to be of the most significance to the adoption of sustainability principles and the CE by the entity are marked in green. The interviewees agreed that the most relevant stakeholders for the entity in terms of sustainability are clients, national and regional administrations, and partners/shareholders. Regarding the importance of other entities/insurers, an equal number of interviewees considered their importance to be at a medium or low level. Overall, proactivity toward sustainability on the part of the entity and the interviewees stands out.

5 | DISCUSSION

From a theoretical perspective, we did not intend to revisit stakeholder theory in a CE context. Instead, we aimed to explore a framework that can elucidate the stakeholders' role in the level of CE accounting in the financial sector in light of the EU sustainable finance taxonomy. Previous studies highlighting a multiple-stakeholder vision for the CE at the micro-level (Reike et al., 2018) bring our analysis closer to stakeholder theory, consistent with Aranda-Usón et al. (2020). However, future approaches based on legitimacy and institutional theory are required, which are undoubtedly of interest when analyzing environmental and CE-related information disclosure in the financial sector Marco-Fondevila et al. (2021) and in response to institutional drivers Daddi et al. (2020).

Similar to Bonifácio Neto and Branco (2019), our findings suggest that disclosing information on sustainable finance and financing the CE is not widespread. Based on our dataset, we cannot confirm the results of previous studies, such as Andrikopoulos et al. (2014) and Sharma (2014), who explored the determinants of CSR disclosure practices in a cross-section of listed financial institutions and found that disclosure is more extensive in large companies. Although the results obtained by Gambetta et al. (2021) are of interest for the sustainability report analysis in the present study, our results cannot be compared in detail because we did not define the risk profile of financial institutions that incorporate sustainability into their businesses in our dataset.

The results are consistent with the evolution of international standards and European regulation. In particular, the transparency of social and environmental information provided by financial institutions has increased according to the "Single Market Act" (European Commission, 2011b) and to the "Renewed EU strategy 2011-2014 for Corporate Social Responsibility" (European Commission, 2011a). The EU recognizes the importance of the disclosure on sustainability to identify sustainability risks and increase investor and consumer confidence (European Parliament, 2014) that have also increased for the financial sector in the last decade due to CSR (Matute-Vallejo et al., 2011). This Directive regulates and harmonizes information published by corporate groups and in its appendix on the management and consolidated management reports to provide evidence of environmental and social aspects of their activity. The disclosure of nonfinancial and diversity information is a milestone reference for other companies as well as for policymakers in the EU (Cosma et al., 2021). Financial institutions respond to the requirement to disclose information about their performance and policies in the following areas: environmental, social, human rights, bribery, corruption, diversity, and even biodiversity (Blanco-Zaitegi et al., 2022).

The results of the present study regarding the percentage of financial institutions issuing an assured sustainability report are similar to those of previous studies Mori Junior et al. (2014). Furthermore, we corroborate the previously identified lack of CE-related information. Although We also examined how assurance is evolving in European financial institutions, with similar results obtained for environmental disclosure (Radhouane et al., 2020). As other authors have indicated, independent assurance increases stakeholders' trust, especially the market, which positively values these practices (Miralles-Quirós et al., 2019, 2021).

When detecting parallelism to other areas of an environmental nature, we observe that entities that disclose limited CE-related information focus on short-term reporting practices. On the other hand, proactive reporting demonstrates a long-term interest related to sustainability, in line with (Daddi et al., 2019). In addition, this study encourages the disclosure of more detailed ESG-related information by raising awareness about the financial sector's need to consider these issues (Ellili, 2022) and the decisive involvement of human resources in environmental reputation and the CE (Marrucci et al., 2022).

6 | CONCLUSIONS

To comply with the EU sustainable finance taxonomy, it must involve the disclosure of the content, methodology, and presentation of information by large financial and nonfinancial corporations on the proportion of their business, investment, or lending activities relating to sustainability and the CE. However, only a few studies have addressed the analysis of sectoral CE-related issues. In an attempt to fill this gap, this study contributes to understanding the definition and disclosure of the CE in the financial sector, which can inform decision-making about investments in circular activities and the relevant information to disclose.

Our analysis of financial institutions revealed a convergence in the type of report toward integrated reports and sustainability reports, as well as an increase in the scope and completeness of the information reported. It is also common to all the analyzed entities that the information and initiatives related to the CE are still in the beginning since they comprise a minority in all the disclosed materials. Furthermore, the external assurance of these reports is not widely practiced.

Our findings are relevant to scholars, policymakers and practitioners. This study complements prior results relating to sustainability accounting among financial institutions by introducing the CE context. Thus, we go beyond the limited empirical analysis of environmental disclosure related to the CE in a sustainability-reporting framework. In addition, the results contribute to the discussion on the particularity of the financial sector's CE-related activities and how it is shaped by relevant stakeholders.

This framework supports managers, decision-makers, and policymakers in prioritizing sustainable and CE-related investments, reporting practices, and assurance. From a practitioner's perspective, this study provides financial institutions with the need for awareness of CE disclosure, enhancing the interrelated ESG initiatives. The analysis of the relationship between disclosure and main stakeholder groups provides benchmarks that can help the reporting of improved sustainability targets in a CE context to stakeholders.

For financial regulators, the application of Regulation 2020/852 must be considered in order to promote and make visible financial products backed by socially and environmentally responsible investments through common labeling that guarantees equal reporting practices for the entire EU. In addition, a scheme of international standards beyond the EU for the common definition of indicators could partially solve the inconsistencies and the sectoral weaknesses highlighted in this study. Finally, consistent with the sustainability pillars, our findings suggest that financial institutions dealing with the CE should incentivize a participative human resources policy for new collaborative schemes involving different agents for CE-related investments and initiatives.

The limited number of financial institutions integrated into the sample does not preclude an insightful qualitative analysis at the European level, given its novelty and scope in the financial sector and its inclusion of a typology of disclosed information related to sustainability and the CE. The main limitations of this study relate to the limited number of economic-financial variables obtained; this could be increased in future studies, as well as the number of annuities analyzed.

Regarding the motivations of financial institutions to improve their disclosure in terms of sustainability, future avenues of research could explore other theoretical frameworks, such as institutional theory, due to the increase in regulations relating to nonfinancial information disclosure. Another future line of enquiry could be raised by defining the risk profile of financial institutions that incorporate sustainability into their business operations and measuring the social impacts of the CE.

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