



Accounting for Sustainability,  
Social and Environmental Transparency

# TM4: Sustainability, Taxation and Strategic Decision Making

GLOSSARY



The glossary defines the core regulatory, financial, and accounting terms that intersect within the 2025–2026 EU ESG legislation and carbon carbon taxation mechanisms framework.

## Regulatory & Climate Terminology

- **Carbon Border Adjustment Mechanism (CBAM):** An EU climate measure that places a carbon price on carbon-intensive goods imported into the EU, ensuring foreign products face the same environmental penalties as domestic goods.
- **EU Emissions Trading System (EU ETS):** The EU's cornerstone "polluter pays" cap-and-trade market, which caps total greenhouse gas emissions from heavy industrial sectors and utilities by forcing them to buy or trade emission allowances.
- **EU ETS2:** The newly created extension of the EU carbon market launching in **2028** that applies a market-based carbon price to fuel combustion in commercial and public buildings, as well as road transport.
- **Energy Performance of Buildings Directive (EPBD):** An EU directive requiring all new public and university buildings to operate as Zero-Emission Buildings (ZEB) on an accelerated timeline.
- **Energy Efficiency Directive (EED):** Legislation mandating that public bodies renovate at least **3% of their total building floor area annually** to meet modern energy efficiency standards.
- **Corporate Sustainability Reporting Directive (CSRD):** EU legislation mandating that large companies publicly disclose their environmental risks, societal impacts, and detailed supply chain emissions.
- **European Sustainability Reporting Standards (ESRS):** The mandatory, standardized reporting blueprints used by organizations to comply with the disclosure requirements of the CSRD.
- **Academic ESG (ENQA / EHEA):** Distinct from environmental ESG, these are the *Standards and Guidelines for Quality Assurance in the European Higher Education Area* governing the academic accreditation and pedagogical quality of universities.
- **EU Social Climate Fund:** A multi-billion-euro EU funding pool fueled by ETS2 tax revenues, explicitly earmarked to subsidize clean energy retrofits and shield vulnerable energy consumers from price spikes.

## Sustainability Taxation & Fiscal Mechanisms

- **Carbon Pricing:** An environmental economic tool that captures the external costs of greenhouse gas emissions (such as crop damage or health care costs) and ties them to their source through a monetary price, usually per tonne of CO<sub>2</sub>e.
- **Upstream Taxation:** A tax enforcement mechanism levied at the point of initial production or import of a raw material rather than at the final point of retail sale. The EU ETS2 applies this upstream, meaning the financial liability rests on fuel wholesalers who subsequently pass 100% of the cost down to consumers.
- **Tax Arbitrage (Carbon Shifting):** The practice of structurally moving operational boundaries to relocate emissions from a highly regulated, carbon-taxed environment to an untaxed or consumer environment to artificially lower direct tax exposures.

- **Non-Deductible Tax Penalty:** A statutory distinction meaning environmental fines or passed-through carbon taxes cannot be used as business expenses to lower an organization's corporate income tax bracket. They must be paid entirely out of net operating income.
- **Shadow Carbon Pricing (Internal Carbon Fee):** An internal financial framework where an institution voluntarily places a mock tax tariff on its own departments' carbon emissions or procurement choices. This allows accountants to simulate and plan for true future compliance costs during capital budgeting.
- **Border Tax Adjustment (BTA):** A fiscal measure designed to level the economic playing field between domestic goods subject to a carbon tax and foreign imports. The EU's **CBAM** acts as a BTA, applying import certificates based on the weekly auction price of the domestic EU ETS market.

### Sustainability Penalties, Enforcement & Liabilities

- **Stranded Asset Risk:** The probability that a physical asset (such as an uninsulated historic campus hall or a decentralized fossil-fuel boiler) will suffer premature devaluation, conversion into a liability, or forced retirement due to tightening climate legislation.
- **Contractual "Step-Up" Clause:** A financial penalty built into green bonds or sustainability-linked loans. If the borrowing institution fails to verify its sustainability milestones via a carbon audit, the interest rate coupon automatically "steps up" by a pre-arranged percentage (e.g., 0.25% to 1.50%).
- **Scope 3 Supply Chain Disqualification:** A commercial penalty where a primary enterprise removes an institutional partner or vendor from its procurement network because that partner cannot provide verified carbon data, threatening the enterprise's own CSRD reporting compliance.
- **Statutory Non-Compliance Fine:** Fixed or compounding financial penalties levied directly by national energy ministries or municipal authorities for failing to meet statutory climate quotas, such as missing the EED's mandatory 3% annual public building deep-retrofit target.
- **Greenwashing Litigation / Statutory Misstatement:** Legal penalties or regulatory sanctions faced by an institution for disclosing inaccurate or intentionally omitted ESG data on financial reports, which misleads donors, students, or credit markets regarding the institution's true climate liabilities.

### Emissions Accounting Categories

- **Scope 1 Emissions:** Direct greenhouse gas emissions from sources that are owned or controlled by the university (e.g., campus natural gas boilers or university-owned fleet vehicles).
- **Scope 2 Emissions:** Indirect greenhouse gas emissions from the generation of electricity, heating, or cooling purchased and consumed by the university.
- **Scope 3 Emissions:** All other indirect greenhouse gas emissions that occur throughout the university's upstream and downstream value chain, including student commuting, remote work, and corporate procurement.
- **Global Warming Potential (GWP):** A metric used to measure how much heat a greenhouse gas traps in the atmosphere relative to carbon dioxide; used in the EPBD to calculate whole life-cycle building emissions.

- **Whole Life-Cycle (WLC) Carbon:** The sum of all carbon emissions generated during a building's entire lifespan, spanning raw material extraction, manufacturing, construction, operational use, and eventual demolition.

## Finance & Accounting Concepts

- **Double Materiality:** An accounting principle requiring organizations to report on both how climate change financially impacts their business (outside-in) and how their operations impact the environment (inside-out).
- **Operating Expenses (OpEx):** The ongoing, day-to-day cash outflows required to run the university, such as monthly utility bills, which will be directly inflated by passed-through ETS2 carbon taxes.
- **Capital Expenditures (CapEx):** One-time financial investments used by the university to acquire, upgrade, and maintain physical assets, such as funding a building retrofit or heat pump installation.
- **Stranded Asset:** An asset (such as an un-renovated, historic campus building) that suffers early depreciation or devaluation due to changing regulatory environments, making it too expensive to operate legally.
- **Asset Impairment (IAS 36):** An accounting rule requiring organizations to write down the balance sheet carrying value of an asset if regulatory changes (like the EPBD zero-emission mandates) make the cost of legally operating the facility greater than its economic utility.
- **Greenium:** The financial discount or lower interest rate premium captured by an organization when issuing a Green Bond compared to a traditional commercial bank loan.
- **Step-Up Clause:** A contractual penalty clause in green financing that automatically increases the interest rate coupon if the university fails to hit its green carbon-reduction milestones.
- **Tax Arbitrage:** The financial practice of moving operational tasks or assets to different boundaries to legally minimize exposure to direct taxation (e.g., shifting on-campus learning to remote learning).
- **Tax Hypothecation (Ring-Fencing):** The legal practice of dedicating all or a portion of revenues raised by a specific tax to a defined public spending program, rather than absorbing it into general state coffers (e.g., dedicating EU ETS2 carbon tax revenues directly to feed the Social Climate Fund).

