Sustainable Finance

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Sustainable Finance Regulation in the European Union

Pathways, Practices and National Perspectives

Springer

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Chapter 5
Italy: Sustainable Finance in Italy

Patrizia Riva

Abbreviations

ABI	Associazione Bancaria Italiana
BoSA	Board of Statutory Auditors
BTAR	Banking Book Taxonomy Alignment Ratio
CONSOB	Commissione Nazionale per le Società e la Borsa
CSDD	Corporate Due Diligence Directive
CSRD	Corporate Social Responsibility Directive
EFRAG	European Financial Reporting Advisory Group
ESRS	European Sustainability Reporting Standards
GAR	Green Asset Ratio
ILO	International Labor Organization
ISA	International Standard on Assurance Engagements
KPIs	Key performance indicators
KRIs	Key risk indicators
LSIs	Less Significant Institutions
NFI	Non financial information
NFRD	Non Financial Information Directive
NZBA	Net-Zero Banking Alliance
PRI	Principles for Responsible Investment
RAF	Risk Appetite Framework
TCFD	Task Force Climate-related Financial Disclosures
UNGC	United Nations Global Compact

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5.1 Introduction

In Italy, the growing awareness of the effects of climate change and the framework provided by the evolution of the law requirements have increased companies' focus on sustainability. Bank of Italy recently highlighted that between 2021 and the start of 2023, about half of the firms in the industry (excluding construction) and more than one-third of those in services made or planned to make investments with the specific objective of improving energy efficiency and increasing their use or production of renewable energy (Bank of Italy, 2023).

On average, environmentally sustainable investments accounted for 24% of the total investment spending for those firms that made them in the last 2 years. As regards financing, firms have mainly drawn on internally generated resources and loans from banks or other financial intermediaries, and only a minority of firms (17%) relied primarily on public funding, and only 2% used equity or bond venture capital. Environmentally sustainable investments were particularly common among firms (in industries excluding construction) and are positively associated, on the whole, with the intensity with which firms perceive climate risk. In Italy, we find special attention paid to the reliability of non-financial information (NFI) or sustainability reports provided by companies. It is relevant to point out that Italy is one of the three countries, together with France and Spain, which have enacted the obligation of NFI Assurance since 2016 when transposing the NFRD. Furthermore, only Italy structurally requires a higher-level governance system for the processes that lead to drafting such reports, which consists of the supervision provided by the so-called Collegio Sindacale (Board of Statutory Auditors, or BoSA).

5.2 General Italian Regulatory Framework

Firstly, an analysis of the general framework is provided below. To this end, the recent amendments made to the (Italian) Constitutional Law are described below, and an examination of the corporate governance code of listed companies is proposed.

Amendments to the Italian Constitution

Constitutional Law No. 1 of 11 February 2022 amended Articles 9 and 41 of the Italian Constitution, recognizing an express importance to the protection of the environment, both in the part concerning Fundamental Principles and among the provisions of the so-called economic Constitution. In particular, the newly enacted paragraph 3 of Article 9 of the Constitution provides that the (Italian) Republic and, therefore, all Republican institutions: "*(…) shall protect the environment,*

biodiversity and ecosystems, also in the interest of future generations". The reference to future generations is essential. The action of public authorities to protect the environment takes on an intergenerational depth, in line with the provisions of other European constitutions, for example, the French, German, Polish, Portuguese, Swedish constitutions, and, even before that, with the principle of sustainable development, which requires pursuing development that ensures meeting the needs of the present generation without compromising the ability of future generations to realize their own needs (Brundtland Report published by the World Commission on Environment and Development in 1987). Article 41 of the Italian Constitution adds: "*Private economic enterprise shall be free. It may not be carried out against the common good or in such a manner that could damage health, the environment, safety, freedom, and human dignity. The law shall provide for appropriate programmes and controls so that public and private-sector economic activity may be oriented and co-ordinated for social and environmental purposes*". These are important and compelling recommendations that outline a precise path of values. The recently amended Article 41 of the Constitution requires considering environmental protection as a prevailing public interest to be imposed on private-sector entities from the outside, shaping their activity and limiting their freedom of economic initiative. Moreover, the wording of the law in legislative terms has imposed a specific objective on companies operating in the domestic context, transforming the environmental and social interest into an objective that must (not may) be pursued by regulated entities, thus putting the theme of sustainability in a new light.

Corporate Governance Code of Italian Listed Companies

In 2020, the Corporate Governance Committee amended the Corporate Governance Code for listed companies, which represents the benchmark for listed companies and is, therefore, a soft law instrument to take into account the issue of sustainability. Right at the opening of the document, more precisely in Principle I of Article 1 "*Role of the Board of Directors*", it is stated that the ultimate goal to be pursued by companies is "sustainable success." This means that a company's governing body's actions must consist of the "*creation of long-term value for the benefit of shareholders, taking into account the interests of other stakeholders that are relevant to the company.*" To understand the scope of this amendment, it is helpful to compare the current wording with the previous one contained in Article 1 of the 2018 Corporate Governance Code. Under Principle 1.P.2, it was stated verbatim that directors should act and make decisions with full knowledge of the facts and autonomously, pursuing "the priority objective of creating value for shareholders in a medium/long-term horizon." No mention was made of the interests of other stakeholders relevant to the company. However, the versatility of corporate objectives that companies that adhere to the Corporate Governance Code must systematically pursue has been made evident. The idea is, therefore, that company management must be inspired by the principles of social responsibility and must take into account both

the needs of shareholders and the needs of stakeholders to achieve the ultimate goal of viability by pursuing a complex equilibrium that enables the company to persist in the long term.

5.3 The ESG Disclosure of Italian Companies

A key role, always in the hands of governments, is also played by the availability of high-quality climate-related data and information. Indeed, from a macroeconomic perspective, the availability of such data is a precondition for monitoring financial stability risks and assessing vulnerabilities; from a more micro-economic perspective, ESG reporting increases the companies' awareness and could help them set targets, measure impacts, and govern the change in their organization (Loizzo & Schimperna, 2022; Bank of Italy, 2023).

Non-financial Reporting Requirement for Listed Companies

Legislative Decree No. 254/2016 Implementing Directive (EU) 2014/95 (NFRD)

Directive (EU) 2014/95 (NFRD) represents a milestone towards standardizing corporate reporting of Non-Financial Information (NFI), which is increasingly under the scrutiny of investors and governments to allocate capital and grant businesses the legitimacy and license to operate. On 10 January 2017, Legislative Decree No. 254 of 30 December 2016 was published in the Official Journal, transposing Directive (EU) 2014/95 (NFRD) in Italy. The Decree was entered into force on 25 January 2017, but its provisions became applicable to reports relating to financial years starting on 1 January 2017. Therefore, the first Non-Financial Statements (NFS) were drawn up during the following financial year, i.e., in 2018. According to Article 2 of Legislative Decree No. 254/2016, listed companies are required to respectively draw up an "individual non-financial statement" and a "consolidated non-financial statement" if, during the financial year, the number of their employees was more than five hundred on average and they exceeded at least one of the following thresholds at the reporting date: balance sheet total of €20 million; or, total net revenues from sales and services of €40 million. Individual Non-Financial Statements (as well as the consolidated Statements) must contain information "to the extent necessary to ensure understanding of the business activity, its performance, its results and the impact it produces," at least concerning the following topics: environmental, social and personnel-related; respect for human rights; and fight against active and passive corruption. Article 3 of the Decree also requires the following to be described in the document:

(a) *Business model for managing and organizing the company's activities*.
When describing their business model, companies may consider the opportunity to include appropriate information relating to their business environment, their organization and structure, the markets in which they operate, their objectives and strategies, and the main trends and factors that may influence their future development;
(b) *Policies followed by the company, including due diligence policies and results achieved through them*: any non-financial information disclosed by companies should help investors and other stakeholders understand and monitor the company's performance. The relevant disclosure on policy outcomes may indeed provide useful information on the strengths and vulnerabilities of the enterprise under review;
(c) *Main risks generated or suffered*.
Companies should disclose information on their main risks and how they mitigate them. Such risks may relate to their activities, products or services, their supply chain and business relationships, or other aspects. This may include appropriate scenarios of key short-, medium-, and long-term risks.

Roles of the Auditors & of the (Italian) Board of Statutory Auditors (BoSA)

Article 3, paragraph 7, of the Decree also states that the responsibility for ensuring that a report is drawn up and published in compliance with the provisions of the law lies with the Board of Directors. In fulfilling their obligations, directors must act according to criteria of professionalism and diligence. This requirement is not very different from the one enacted by other European countries. On the contrary, it certainly should be underlined that special emphasis has been given to the issue of reliability of non-financial information in Italy, which immediately imposed a number of assurance obligations on companies required to prepare non-financial reports. Italy, France and Spain are the only countries that have enacted the obligation of NFI Assurance since 2016 when transposing the NFRD. As will be further discussed below, with the future transposition of Directive (EU) 2464/2022 (CSRD), other European countries will also be called upon to be aligned on this point by making assurance compulsory in their turn. It has, in fact, been understood that this is an indispensable requirement in order to obtain greater robustness, thus reliability, of any NFI provided. Furthermore, it should be recalled that only Italy structurally requires a higher-level control system consisting in the supervision provided by the so-called *Collegio Sindacale* (Board of Statutory Auditors, or BoSA). The strict approach of Legislative Decree No. 254/2016 is also demonstrated by the fact that Article 8 imposes a number of administrative penalties and, if the necessary conditions are met, criminal prosecution, which all the above-mentioned parties responsible for drafting and supervising NFI may incur, i.e. directors, members of the Board of Statutory Auditors, as well as Auditors. The assessment and imposition of

administrative penalties are activities under the jurisdiction of *Commissione Nazionale per le Società e la Borsa* (CONSOB, National Commission for Companies and the Stock Exchange). Criminal prosecution is under the jurisdiction of Public Prosecutors.

(a) NFI Assurance by the Auditors

As mentioned above, an independent assurance of NFI has been made mandatory in Italy since 2016: the purpose of an Auditor's investigation is both the presence and contents of a Non-Financial Statement. Non-financial statements must be audited to ensure compliance with the relevant requirements. A report must be attached to the Non-Financial Statement and jointly published. The information must be audited and reported to the general shareholders' meeting and the company's annual report. Although for the time being not officially recognized, a standard covering NFI assessments has been set forth IAASB's ISAE 3000 (revised in 2013), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. It is the most widely used principle by professionals engaged in NFI audits (Riva & Bavagnoli, 2022). ISAE 3400 sets out two different levels of assurance: reasonable and limited. These two types of assurance share some key elements. In both cases, assurance providers must clearly define the criteria against which the subject matter will be evaluated, including levels of materiality to be used in assessing the outcome of tests. Providers will adopt the same risk basis for planning their work and delivering a written opinion. However, there are some significant differences. Reasonable assurance is achieved when the risk of a material misstatement of the subject matter has been reduced to a low level. To achieve this, assurance providers must carry out extensive procedures. Assurance providers should obtain sufficient evidence to confirm whether the subject matter meets such criteria. This is essentially the same assurance type as required in an audit of financial statements, where the independent auditor confirms whether the financial statements have been presented fairly. Reasonable assurance conclusions are framed positively. For example, 'based on the procedures performed, in our opinion, the management assertion on [subject matter] has been properly prepared.' To date, for the assurance of sustainability reports/CSR Reports, Europe's most widespread assurance method consists of providing a form of limited assurance. As documented by the European Commission in a survey conducted in 2020 to gather evidence for a review of NFRD, a large proportion of the respondents' non-financial reports that had been assured underwent a limited assurance procedure, i.e., 74% compared to 14% who had undergone reasonable assurance procedures and 11% who had undergone a mixed form of limited and reasonable assurance procedures. Regarding the type of information to be assessed, the most common procedure is to ensure all non-financial reports (i.e., sustainability reports, consolidated non-financial information statements or disclosure, any nonfinancial information published, etc.) and some KPIs, especially regarding Greenhouse gas emissions, energy and waste, employment issues, and the materiality process. In Italy, Commissione Nazionale per le Società e la Borsa

(CONSOB) has chosen to adopt a flexible approach, allowing companies to gradually approach the new requirements and gain the necessary experience over time so that the reporting and internal control systems and external reviews may evolve towards more complex forms at a later time. The current reference level for assessments of Sustainability Reports or NFS is "limited assurance," as such assessments are characterized by the recent enactment of regulatory provisions governing the drafting thereof within a limited scope, by a great quantity of qualitative information, by a scarcity of IT systems for data collection and aggregation, and by internal control systems not yet developed on a par with systems used for the processing of economic and financial data. It is therefore believed that assurance activities, in many cases, cannot be conducted with the necessary level of scope required to be able to express reasonable assurance and positive conclusions, or otherwise, such scope would necessitate a very high effort. In Italy, in particular, there are currently no cases of DNF or sustainability reports assessed with reasonable assurance. However, given the growing importance of sustainability information, companies will be able to request forms of reasonable assurance, at least regarding some particularly relevant types of information, in the form of "mixed" assurance, i.e., with more in-depth analyses, to increase the reliability of such disclosure statements further.

(b) Ex-ante Supervision by the Board of Statutory Auditors (B.o.S.A)

The existence of a Board of Statutory Auditors—BoSA (Collegio Sindacale in Italian) is a peculiar characteristic of the Italian corporate governance system. The Italian Civil Code requires a large number of companies, including SMEs (€4 million in assets or €4 million in revenues or 20 employees), to appoint a Board of Statutory Auditors, BoSA, dedicated to the ex-ante supervision over the board of directors and the company's management actions. In SMEs, this may be the sole auditor. The Board of Statutory Auditors has the task of supervising the Company's compliance with the law and the Bylaws, its conformity to the principles of correct administration, and in particular, the adequacy of its administration, accounting and organizational structure, and its concrete operation. To carry out its activities, the Board of Statutory Auditors, in addition to holding regular meetings and carrying out the controls as mentioned earlier, is required to attend the meetings of the Board of Directors, the company's shareholder meetings, and the executive committee meetings. In a nutshell, corporate control materializes in the following supervisory activities: (1) compliance with the law and the Bylaws; assessment of compliance of the corporate bodies' actions and resolutions with legal provisions and with the provisions of the Bylaws; (2) compliance with the principles of correct administration: assessment of compliance of the directors' operating choices with the general criteria of economic rationality, without delving into the need for, or cost-effectiveness of, such choices; (3) adequacy of the organizational, administrative, and accounting structure adopted by the company and its concrete operation: assessment of the adequacy and operation of company guidelines and procedures, including those relating to the collection and production of financial information. The control tasks over non-financial information delegated to the

Board of Statutory Auditors should be included within the scope of supervisory functions entrusted to the said body according to general principles (Riva & Accettura, 2023). The Board of Statutory Auditors' supervisory work therefore, concerns the adequacy of organizational structures defined by the directors for the pursuit of the strategic objectives identified by the company in social and environmental areas and internal control system and procedures implemented by the directors for risk management purposes and for the collection of data to be included in the NFS. Should such supervisory activities reveal significant risks in regard to the inadequacy of the company's organizational structure, the Board of Statutory Auditors will be required to request the company's CEO, first and foremost, to adopt a corrective action plan in such regard. It will be required to monitor the implementation thereof during its term of office. Associazione per le società per azioni italiane (Assonime, Association for Italian joint-stock corporations) has specified that the Board of Statutory Auditors is required "to perform overall supervisory tasks on systems and processes, which also include non-financial reporting systems and processes, not to verify the correctness of the Non-Financial Statement, but for a different and broader purpose of verifying compliance with the rules of correct administration governing administrative action under the legislation in question."

Expansion of Parties Involved: Implementing CSRD, Directive (EU) 2464/2022

In December 2022, the Parliament and the Council of the European Union adopted the final version of Directive (EU) 2464/2022, known as the Corporate Sustainability Reporting Directive (CSRD), which modified the current reporting requirements of the Non-Financial Reporting Directive (NFRD). The goal of the CSRD is to improve sustainability reporting and contribute to the transition towards a fully sustainable and inclusive economic and financial system in line with the European Green Deal and the United Nations Sustainable Development Goals (SDGs). The new Directive very significantly extends the adoption of sustainability reporting requirements to all large European businesses, banks, and insurance companies, whether listed or unlisted, as well as to all listed companies, with the sole exception of micro-listed companies. The threshold for defining a company as "large" has been set by Accounting Directive 34/2013, i.e., a company should exceed two of the following three criteria at the reporting date to be considered a large company: €20 million in total assets; €40 million in revenues; 250 employees on average per year. In Italy, this means that the number of companies required to prepare a Non-Financial Statement will go from approximately 200 to about 5000. For listed SMEs, the requirement has been postponed until 2026 or, by exercising a specific option, until 2028. For "other SMEs", i.e. unlisted SMEs, there are no formal non-financial reporting obligations. Still, it is worth emphasizing that they may also be affected

by the new disclosure requirement as they may be involved in it indirectly. Companies required to submit a report will be called to provide information concerning companies along their production chain to be able to disclose their value chain. The CSRD requires that sustainability information should, as far as possible, cover a company's entire value chain. It is, therefore, reasonable to believe that supply chain leading companies will increasingly be requesting sustainability information from SMEs within their supply chain. Furthermore, an additional indication in this regard is that, as mentioned above, the European Union plans to draft further appropriate standards specifically regarding voluntary sustainability reporting requirements for unlisted SMEs. With the implementation of the CSRD, it will no longer be permitted to draw up a separate report to provide information on sustainability. Indeed, "Recital 57" clarifies that the possibility of publishing a separate report hinders the availability of information that may link financial information to information on sustainability issues. Italian companies will, therefore, be required to disclose information on sustainability in a specific, clearly identifiable section of their report on operations. Among the main innovations introduced by the CSRD, as mentioned above, there is the definition of a European reporting standard that should be commensurate with the level of ambition of the European Union Green Deal and the EU's climate neutrality objective for 2050, in addition to the requirements of other EU legislation and policies, such as the Sustainable Finance Disclosure Regulation and other requirements or recommendations—for example relating to greenhouse gas emissions (EU ETS) or the measurement of environmental performance along the life cycle of products and organizations, as well as the Corporate Sustainability Due Diligence Directive (CSDD), currently being drafted.

The European Sustainability Reporting Standards (ESRS) have been drafted and proposed to the European Commission by the European Financial Reporting Advisory Group (EFRAG). The Framework being developed by the European Union provides for issuing the following three sets of standards, which will therefore become "the" reference standards for Italian companies: general standards, industry standards, and simplified standards for SMEs. As mentioned above, under the CSRD, the assurance of sustainability disclosures will be imposed on all European member states. Italy has already enacted this requirement for some time, as described above. However, it must be emphasized that the CSRD proposal constitutes a path that aims to lead to an assurance level that should be similar for financial reporting and sustainability reporting purposes. European legislators have become aware of the lack of common principles at the European level to certify an entity's compliance with sustainability reporting. Therefore, they have considered it appropriate to adopt a gradual approach to improve the reliability and accuracy of sustainability disclosures, firstly by only requiring limited assurance to be obtained. In particular, assurance must concern compliance with the European Sustainability Reporting Standards (ESRS) in the process of being drafted, compliance with the procedures carried out by companies to identify the information to be disclosed according to sustainability reporting standards (materiality analysis), as well as their compliance with marking obligations. It has thus been established that, by 1 October 2026, the Commission should adopt delegated acts to publish standards

aimed at acquiring a limited level of assurance on sustainability reporting compliance, which will establish the procedures that auditors will be required to apply, including the planning of auditing activities, examination of and responses to risks, and description of the conclusions to be included in the sustainability report. The possibility of requiring companies to obtain reasonable assurance will be assessed later.

5.4 Guidelines on Sustainable Finance for the Italian Financial Sector

After considering the legislation on corporate disclosure, this paragraph will focus on the regulatory requirements that govern the Italian financial sector (Arrigoni, 2023, Coppotelli, 2022, De Giudice, 2023). These requirements guide the conduct of financial operations and encourage financial practices referred to as sustainable finance. Table 5.1 summarizes the regulatory and corporate governance documents taken into consideration in this chapter.

The Bank of Italy's Supervisory Expectations on Climate-Related and Environmental Risks

In April 2022, the Bank of Italy published a document entitled *Aspettative di vigilanza sui rischi climatici e ambientali* (Supervisory Expectations on Climate-Related and Environmental Risks), in which it stated that a sustainable growth model should be based on the full integration of environmental, social, and governance (ESG) factors. Renovating the traditional economic growth paradigm, now at the center of the international political agenda, may promote long-term progress that is resilient to external shocks and is, therefore, essential in order to manage the transformations that society and the economic system will have to face in the coming years. In particular, the Bank of Italy has identified the following as relevant: effects of climate change and decarbonization policies; degradation of ecosystems and loss of biodiversity; precariousness and lack of security in the jobs market; and risks linked to low social inclusion and growing inequalities.

Among the ESG components, special attention is paid to environmental issues. This, among other things, results from renewed attention to the so-called United Nations Climate Change Conference Cop26 held in Glasgow in November 2021, which followed the path traced by COP21, Paris 2015, and newly confirmed the objectives set out at that time. At a European level, such objectives materialized in a program dubbed "Green Deal", presented by the European Commission in 2019, under which the Union countries entered into a commitment to reducing greenhouse gas emissions by at least 55. Italy has made these objectives its own by incorporating them into a plan called *Piano Nazionale di Ripresa e Resilienza* (PNRR, National

Table 5.1 Summary of the regulatory and corporate governance documents taken into consideration by the Italian authorities

Summary table of documents examined		
Main sources of Italian legislation	Main sources of EU legislation	State of the art in Italy
1. *Article 41, paragraph 3, of the Constitution (ITA)*: This regulates appropriate plans and controls to guide and coordinate public- and private-sector business activities for social and environmental purposes. 2. *Corporate Governance Code (ITA)*: This provides guidance on the need to pursue sustainable success. 3. *Legislative Decree No. 254/2016 (ITA, transposing the NFRD)*: This introduces the requirement to draft a non-financial statement only for entities of public interest. 4. *Law No. 220 of 9 December 2021 (ITA)*: This introduces a total ban on the financing of companies that, directly or through subsidiaries or affiliated companies, carry out one or more activities related to anti-personnel mines, cluster bombs, and related munitions and sub-munitions, of any nature or composition, or parts thereof. Financial entities are required to define suitable procedural safeguards. 5. *The Bank of Italy's Supervisory Expectations on Climate-Related and Environmental Risks of April 2022 (ITA)*: This defines 12 expectations aimed at integrating climate and environmental risks into the processes and governance of financial entities.	1. *ECB Guide on climate-related and environmental risks of November 2020*: This formulates 13 expectations to integrate emerging climate and environmental risks within the risk management frameworks of financial institutions. 2. *EBA action plan: guidelines on loan origination and monitoring*: This (1) requires the inclusion of ESG factors in credit risk policies and procedures and specific "green" criteria; and (2) requires climate change risks (transitional and physical risks) associated with the borrower to be taken into consideration. 3. *SFDR Directive (Reg. EU 2019/2088)* in force from 2021 defines the concept of sustainable investment and imposes common rules on different categories of financial operators concerning the disclosure of information on sustainability issues. 4. *CSRD Directive (Directive EU 2022/2464)* in force starting from 2024. This extends sustainability reporting requirements to all large companies and sets forth the assurance requirement. 5. *Taxonomy Regulation (Reg. EU 2020/852)* establishes six environmental objectives and the methods through which an economic activity may be classified as sustainable, i.e. whether such activity: (1) contributes to at least one of the goals, (2) without significantly damaging any of the others, (3) meets the technical screening criteria established by the Commission, and (4) is carried out in compliance with the minimum guarantees for the protection of human rights; 6. *Delegated Regulations (EU) 2022/1214 and 2023/363*: Publication of information relating to an entity's exposure to economic activities associated with nuclear energy and fossil gas, as well as the amount and extent of exposure to economic activities eligible for the taxonomy.	1. Findings of the Bank of Italy's November 2022 Survey on climate and environmental risks. Main findings on a sample of less significant institutions (*LSIs* banks) 2. Findings of the Bank of Italy's January 2023 survey on the degree of alignment of Financial Entities with supervisory expectations regarding climate and environmental risks

Recovery and Resilience Plan). The Bank of Italy has emphasized that the ongoing transformation will offer new opportunities and risks for the Italian financial sector.

It is, therefore, essential for operators to prepare suitable safeguards and develop adequate practices to identify, measure, monitor, and mitigate such risks, continuing to guarantee the necessary access to debt and assisting companies engaged in the long and complex transition process with new finance and adequate consultancy services (Anchino et al., 2022; Costa et al., 2022; Di Anonio, 2023; Siani, 2023; Simonetti, 2022). The ability to communicate the integration of climate and environmental risks into one's strategic and operational model is equally important, thereby avoiding incorrect practices (e.g., green-washing), which, on the contrary, would discourage the development of sustainable finance and undermine the operators' reputation. In 2022, the Bank of Italy, as mentioned above, is aware of the fact that climate and environmental risks—which may, in turn, be traced back to traditional financial, credit, market, operational, and liquidity risks—may also have implications for banks and non-banking financial entities under the direct supervision and in line with similar initiatives previously adopted by the ECB and other national supervisory authorities, provided a first set of guidelines entitled "Supervisory expectations." These consider integrating climate-related and environmental risks in corporate strategies, governance and control systems, risk management framework, and disclosure statements by supervised banking and financial entities. Such expectations consist of twelve recommendations of particular importance for operators, as summarized below.

1. *Governance*. The governing bodies of financial entities play an active guidance and governance role in integrating climate-related and environmental risks into the entity's corporate culture and strategy and into its corporate risk appetite framework (where applicable) within the risk limits of the asset portfolios being managed by consistently defining the main company policies and adapting organizational and management systems. In this view, the governing body should approve an appropriate plan of initiatives.
2. *Business Model and Strategy*. When defining and implementing their corporate strategy, financial entities should identify which climate-related and environmental risks can impact their corporate context and understand and measure their impacts to ensure the resilience of their business model and guide their development prospects.
3. *Organizational system and operational processes*. Governing bodies should progressively perform actions involving their organization and operational processes given climate related and environmental risks consistently with and in proportion to assessments made regarding their materiality.
4. *Risk management system*. Financial entities should map any events that may occur because of physical and transitional climate-related and environmental risks and should integrate their risk management system by identifying risks that may be influenced and the prudential implications thereof. *Physical risk* refers to the economic impact arising from the expected increase in natural events whose manifestation may be defined as "extreme" or "chronic". *Acute physical risks* depend on the occurrence of extreme environmental events (such

as floods, heat waves, or droughts) linked to climate change, which may increase the intensity and frequency thereof. *Chronic physical risks*, on the other hand, are determined by climate events that manifest themselves progressively (e.g. gradual rise in temperatures and sea levels, deterioration of ecosystems, or loss of biodiversity). All these types of events may influence the level of production and may even compromise it permanently. *Transitional risk* refers to the economic impact resulting from the adoption of regulations aimed at reducing carbon emissions and encouraging the development of renewable energy, resulting from technological developments and from changing consumer preferences and market confidence.

5. *Availability of an adequate information system regarding climate-related and environmental risks*. The efficiency and effectiveness of an entity's Risk Management system are strictly connected to the availability of an adequate information system from a qualitative and quantitative standpoint. Financial entities should implement actions aimed at creating a comprehensive, high-quality database on climate-related and environmental risk profiles, integrated into an information system suitable for supporting the creation of metrics for the assessment of climate-related and environmental risks.
6. *Integration of risk limitation system*. based on adequate materiality analyses, financial entities should incorporate climate-related and environmental risks into their corporate capital and liquidity assessment processes by supplementing their risk limitation systems.
7. *Need for regular assessment updates*. Given the markedly dynamic nature of climate-related risks, financial entities should outline a plan for regularly reviewing and updating the decisions taken in relation to their assessment methodologies and tools to continuously preserve their validity and significance.
8. *Credit risk*. Financial entities should integrate climate-related and environmental risks into all phases of their credit process, adapting the relevant policies and procedures.
9. *Market risk*. Financial entities should consider the possible impact of climate-related and environmental risks on the pricing of investments in financial instruments, either proprietary assets or assets managed on behalf of third parties, including on a forward-looking basis, in order to minimize the risk of losses. Physical events could lead to changes in expectations, increased risk premiums, increased volatility, and losses in asset value on some markets. Transitional risk factors could generate a sudden repricing of financial instruments linked to sectors affected by environmentally non-sustainable activities. Furthermore, the growing interest of investors in sustainable investment strategies could lead to increased demand for financial instruments considered to be "green" compared to other instruments, thus causing a relative price variation due—if all other factors remain unchanged—to the level of compliance of issuers with the ESG framework.
10. *Operational risks*. Financial entities should consider the possible impact of climate-related and environmental risks on business continuity and on their reputation and legal risk level. Business continuity could be disrupted due to tangible damage to real properties, company branch offices, or data processing centres following extreme climate-related and environmental events.

Furthermore, the evolution of consumer sensitivity regarding climate-related issues may lead to reputation and legal liability risks for financial entities because of the financing of controversial activities from an environmental standpoint. Financial entities may also be exposed to reputation risk if stakeholders perceive that sustainability issues have been promoted exclusively for marketing purposes, without the concrete implementation of actions aimed at supporting the ecological transition.

11. *Liquidity risk*. Financial entities may integrate climate-related and environmental risks into their liquidity risk measurement and management systems by estimating the potential worsening of their liquidity position due to cash outflows and/or decreases in the amount of their reserves and/or changes in the liquidity of internal capital adequacy assessment processes. Financial entities required to draft the Internal Liquidity Adequacy Assessment Process (ILAAP) report must include climate-related and environmental risks in it. Alternatively, such risks will have to be discussed in the Internal Capital Adequacy Assessment Process (ICAAP) report, or in other similar documentation among those included in reporting requirements to which specific financial entities may be subject.
12. *Disclosure to the market*. Financial entities should provide themselves with the infrastructure, data, and processes necessary to disclose the ways in which they integrate environmental risk drivers into their corporate strategy, internal organization, and risk management systems, including the metrics used to assess climate-related risks and sustainability goals.

The above examination reveals that the Bank of Italy's guidelines make reference to the vision previously stated by the European Central Bank (ECB) in its *Guide of the European Central Bank (ECB) on climate-related and environmental risks* (November 2020) regarding the safe and prudent management of climate-related and environmental risks under the current prudential framework, especially when the Bank of Italy describes its expectations regarding how regulated entities should take into account such risks (as drivers for pre-existing risk categories) in the formulation and implementation of their corporate strategies and governance and risk management systems. The Guide also illustrates how, according to the ECB, entities should increase transparency by strengthening disclosures on climate-related and environmental issues. To this end, the ECB has issued a list of thirteen Risk Expectations in order to integrate emerging climate-related and environmental risks into the risk management frameworks of financial institutions. These risks form the basis of the instructions given by the Bank of Italy in the guidelines examined above.

Impact of European Guidelines on Italian Operators

The Bank of Italy's instructions discussed in the preceding paragraph are part of a broader and more complex European regulatory framework which national institutions openly make reference to and operators are consequently required to heed. In

particular, in 2018 the European Commission published an "Action Plan for Sustainable Finance", proposing measures aimed at strengthening the role of the financial sector in the creation of a sustainable economy in social and environmental terms. Among the various Action Plan proposals, the entry into force of the Sustainable Finance Disclosure Regulation (SFDR) and of the EU Taxonomy Regulation should be emphasized. The European Commission has also adopted a package of measures aimed at encouraging capital flows into sustainable activities across the Union, including amendments to the delegated acts of the second Markets in Financial Instruments Directive (MiFID II), of the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, and of the Alternative Investment Fund Managers Directive (AIFMD), integrating sustainability factors and risks into provisions applicable to investment service providers and asset managers, especially in governance and risk management systems. The "EBA Guidelines on Loan Origination and Monitoring" recommending financial entities to incorporate ESG factors and risks associated with them into their credit risk management policies by adopting a fully comprehensive approach came into force in June 2021. In parallel, the EBA published the "Report on ESG Risk Management and Supervision", which sets out a common definition of ESG risks, discusses the transmission channels thereof, and identifies their management and inclusion methods in the regulatory and supervisory framework of banks. On the supervisory level, in November 2020 the ECB published a specific guide on climate-related and environmental risks outlining its expectations in regard of the methods to integrate climate-related and environmental risks into the strategies, business models, governance processes, and risk management frameworks of significant banks, specifying the type of information to be published as part of such public disclosure statement. The main instructions under EU regulations which, as emphasized above, may have an impact on the choices of Italian operators are summarized below.

Adoption of the Sustainable Finance Disclosure Regulation (SFDR)

Italian operators are required to comply with Regulation (EU) 2019/2088, (later supplemented by Regulation 852/2020, in regard of which reference should be made to the following paragraph), regarding Sustainable Finance Disclosure (SFDR). This Regulation constitutes an important reference as it defines the concept of "sustainable investment" (Article 2, 17) and imposes common rules on different categories of financial operators concerning the disclosure of information on sustainability issues.

With reference to *entities,* i.e. financial operators and advisors, the Regulation establishes that they must disclose data on how they take environmental, social, and governance (ESG) factors into consideration at two levels. The processes followed to make investment decisions should be considered first. Subsequently, the assessments made with reference to financial products sold on the European Union

markets should also be described. The *Sustainable Finance Disclosures Regulation (SFDR)* requires asset managers to assess and disclose how sustainability risks are considered in their investment processes and how they consider investment decisions that might result in adverse effects on sustainability factors, known as Principal Adverse Impacts (PAIs). More specifically, all financial entities are required to disclose, on their websites, how they integrate sustainability risks into their decision-making processes, how their remuneration policies guiding behaviour are consistent with the integration of sustainability risks, and, finally, how they have identified, examined, and entered a commitment to reducing the adverse impacts of their investment policies on sustainability factors. If a financial entity fails to take into consideration any adverse impacts arising from their choices, they will be required to explain the reason for such circumstances according to the "comply or explain" principle.

With reference to the *scope* of the Regulation, i.e. financial products, the Regulation requires the disclosure of information on how sustainability risks have been taken into consideration in investment decisions and on the consequences they could have on returns. Information should be made available in pre-contractual disclosure statements and the products should also be accompanied by information on the adverse impacts of such investment policies on sustainability factors. It should be emphasized that more detailed information is required regarding products that are defined as "sustainable" products. Two categories of products are identified in the Regulation: (1) "Products that promote environmental and/or social characteristics", described in Article 8, i.e. products which integrate some binding sustainability criteria into the investment process, for example if they apply an exclusions approach or best-in-class strategy; and (2) Products whose objective is sustainable investment, as described in Article 9. Operators who wish to classify their products in one or the other category will be required to clarify how their products meet sustainability characteristics, or how they achieve the objective of sustainable investment. Investors should be able to access data on the operators' website, pre-contractual disclosures, and regular reports.

Taxonomy for the Detection of Sustainable Business Activities

Regulation (EU) 852 of July 2020, as mentioned above, sets six environmental objectives, and describes the methods to classify a sustainable economic activity. This Regulation is also known as *EU Taxonomy Regulation* and outlines the classification framework to determine whether an economic activity is environmentally sustainable, thus requiring the reporting on eligibility and alignment against six environmental objectives.[1] The taxonomy is a common EU-wide classification of economic activities that may be considered environmentally sustainable.

[1] The EU Taxonomy is a classification system that helps companies and investors identify environmentally sustainable economic activities to make sustainable investment decisions. Environmentally

It is conceived as a tool to guide the choices of investors and businesses in view of the transition towards economic growth without adverse impacts on the environment and, in particular, on the climate. Activities are selected according to their ability to contribute to six environmental objectives identified by the European Commission: climate change mitigation; adaptation to climate change; sustainable use and protection of water and marine resources; transition towards a circular economy, including with reference to waste reduction and recycling; pollution prevention and control; and protection of the biodiversity and health of ecosystems (Marucci, 2022). The Taxonomy Regulation also sets out four overarching conditions that an economic activity must meet in order to qualify as environmentally sustainable: making a substantial contribution to at least one environmental objective; doing no significant harm to any of the other five environmental objectives; complying with minimum social safeguards (for example, those set out in the framework agreements of the International Labour Organization—ILO); and, complying with the technical screening criteria set out in the Taxonomy delegated acts.

To facilitate the adoption of the Taxonomy of sustainable investments, the Commission has prepared a Taxonomy Compass which provides a visual representation of the contents of the Taxonomy itself. By using it, operators can evaluate the activities included the objectives to which they contribute, and the criteria they must meet for the purpose of mitigating and managing adaptation to climate change.

Integration of the Taxonomy with Activities Linked to Nuclear Energy and Fossil Gas

The European Commission has assessed that private-sector investment in the gas and nuclear energy sector could play a role in the transition. The activities selected in these two business sectors are in line with the EU's climate-related and environmental objectives and will make it possible to move away from polluting activities more rapidly, such as coal production, in favour of renewable energy sources, which will be the main basis for a future zero climate-related impact. Strict conditions have therefore been established, to which one may add some nuclear and gas activities, as transitional activities, to activities previously included in the first delegated act on climate change mitigation and adaptation. More specifically, strict conditions are required for: gas and nuclear activities which contribute to the transition towards climate neutrality; nuclear activities which meet nuclear energy and environmental

sustainable economic activities are described as activities which "make a substantial contribution to at least one of the EU's climate and environmental objectives", while at the same time not significantly harming any of these objectives and meeting minimum safeguards. The EU Taxonomy is not a mandatory list for investors to invest in. It does not set mandatory requirements on environmental performance for companies or for financial products. Investors are free to choose what to invest in. However, it is expected that over time, the EU Taxonomy will encourage a transition towards sustainability to achieve the EU's climate and environmental goals.

safety requirements; and gas activities which contribute to the transition from coal to renewable energy sources.

Consequently, under Delegated Regulation (EU) 1214/2022 and subsequently under Delegated Regulation (EU) 363/2023 (which amended Delegated Regulation (EU) 2022/1288 of the Commission of 6 April 2022, which had in turn supplemented Regulation (EU) 2019/2088 i.e. the SFDR), operators will be required to publish information relating to: (1) their exposure to economic activities linked to nuclear energy and fossil gas; and (2) the amount and extent of their exposure to economic activities eligible for the taxonomy. In other words, an update was made of the Regulatory Technical Standards (RTS) regarding the content and presentation of information relating to disclosure in pre-contractual documents and regular reports for financial products that invest in sustainable economic activities, with reference to gas and nuclear energy.

Impact of the European Banking Authority

Italian financial operators will be required to consider the instructions of the European Banking Authority (EBA), which published (1) Guidelines in which a road map for the adoption of sustainability principles was described in December 2019; and (2) the Final draft implementing technical standards on prudential disclosures on ESG risks in January 2022.

The former document requires financial companies to implement specific actions in the following direction: (1) inclusion of ESG factors in credit risk policies and procedures by defining "green" criteria; and (2) evaluation of climate-related risks, whether transitional or physical, associated with the financed entity. To effectively implement such instructions, operators are, first, required to consider their own peculiarities in terms of strategy, organizational model, business model, available financial instruments, and business sector to which they belong. Operators should clarify their objectives for the adoption of ESG to apply such goals in operational terms to define a behaviour model, set out a vision, and therefore redefine the entity's corporate culture. Secondly, the EBA refers to Risk Management as a key area for several activities that require a review of processes to integrate ESG factors. These include the definition of a Risk Appetite Framework, i.e. tolerance thresholds, definition of Key Risk Indicators, and monitoring activities over capital requirements.

Finally, financial operators are required to review their credit granting processes. The express intent of the European Commission is to exploit the vehicle of financial operators as a lever to increase the use of sustainable practices throughout the economy. To this end, a recalibration of the banks' capital requirements is also envisaged with the so-called "green support factor", for investments that, being justified in terms of risk and keeping financial stability, are associated with tangible sustainability elements.

In January 2022, the EBA published technical standards on the prudential disclosure of ESG risks, with the aim of expanding the current Pillar 3 framework, i.e. requiring institutions to report qualitative and quantitative information on ESG risks, with a specific focus on climate-related risk, as well as quantitative information on key performance indicators (KPIs) on climate change mitigation measures, including the Green Asset Ratio (GAR) and the Banking Book Taxonomy Alignment Ratio (BTAR). The Green Asset Ratio (GAR) is used to calculate sustainable investments at banks. It represents the share of a bank's taxonomy-aligned economic activities and sustainable investments on its total assets. However, assets that are not aligned with the taxonomy include both assets that are not aligned with the taxonomy and assets whose sustainability cannot be assessed, for example, because they are not covered by the taxonomy or the NFRD/CSRD. As a result, many banks, particularly those focused on providing debt to SMEs, are unable to calculate their GARs in a meaningful way. To provide further information on the extent to which banks finance sustainable activities, the BTAR explicitly includes exposures to entities not covered by the NFRD/CSRD. The challenge for banks is thus to collect the necessary data bilaterally from their customers or to estimate missing data. Nonetheless, a pure focus on GARs would give banks the incentive to lend only to companies covered by the NFRD-CSRD and discourage them from accompanying companies not covered by the NFRD-CSRD in their efforts to transition to carbon neutrality. Italian banks, just as European banks, will have to publish the result of these indicators starting in January 2024 with reference to December 2023.

Ban on the Financing of Production of Anti-Personnel Mines and Cluster Bombs

Finally, it is deemed appropriate to recall here, albeit briefly, the fact that Law No. 220 of 9 December 2021 enacted a total ban in Italy on the financing of companies established in any legal form, with headquarters in Italy or abroad, which, directly or through controlled or associated companies, carry out the construction, production, development, assembly, repair, storage, employment, use, warehousing, stocking, holding, promotion, selling, distribution, import, export, transfer, or shipping of anti-personnel mines, cluster munitions and sub-munitions, of any nature or composition, or parts thereof.

5.5 Implementation in Italy

In this final paragraph, we aim to describe the state of the art in Italy by discussing the findings of two recent surveys conducted by the Bank of Italy.

Findings of November 2022 Bank of Italy Questionnaire Survey

Following the issue, in April 2022, of the document "Supervisory Expectations" examined above, the Bank of Italy conducted a first survey on the extent of integration of climate and environmental risks into the organizational system of the Less Significant Institutions (LSIs) under its direct supervision and distributed to a sample group of 21 Banks (selected to ensure broad diversification in terms of business model, size and geographical area in which the banks operate) a self-assessment questionnaire consisting of four sections: (1) governance and risk appetite, (2) materially assessment, (3) business model and strategy, (4) risk management. As mentioned in the Bank of Italy's report, "Apart from a few positive exceptions, the survey, which covered both transition and physical risks, showed that there is a low degree of alignment with the expectations but, at the same time, it revealed a widespread and growing awareness of the key role of this issue".

In particular, it is reported a diffuse lack of knowledge of ESG matters on the boards of directors, although many banks have established dedicated training programs for their board members; in addition, such knowledge is often also a criterion for evaluating the collective suitability of boards. Another important issue is that a quantitative approach in the measurement of climate risk is still barely used and not fully incorporated in their business model to express ESG targets (in fact, the use of related Key Risk Indicators (KRIs) and Key Performance Indicators (KPIs) is not common) and this is because of the scarcity of data and the lack of IT systems capable of properly handling such data. Most banks (included in the sample) have conducted only a qualitative assessment of the potential impact of environmental factors on the most significant risks to their business models (while a residual proportion of banks conducted no assessment at all). However, the survey also shows increasing attention to ESG issues, and several intermediaries carried out specific analyses aimed at mapping the regulatory framework and/or competitive environment and determining the actions needed to deploy appropriate processes, policies, and strategies(in the short and medium term) to ensure the future sustainability of their business model.

Findings of January 2023 Bank of Italy Questionnaire Survey

Following the first survey focused on the Banks (LSIs), the Bank of Italy also distributed a self-assessment questionnaire to a sample group of 86 non-banking financial entities, including 40 asset management companies, aiming to assess the level of integration of climate-related and environmental risks into their management paradigms, in particular concerning the following areas: (1) governance and organization; (2) business model and strategy, (3) risk management system; and (4) market disclosure. The analysis of responses showed a limited alignment with expectations. Although attention is given to Environmental, Social, and Governance (ESG) issues

by senior management generally, in most cases, widespread deficiencies were found, with delays in the implementation, and often also in the planning, of structural actions regarding the various corporate areas involved. Regarding business models and strategies, areas of weakness emerged in assessing how environmental and climate-related risks may influence the competitive and regulatory framework in which each company operates. The majority of financial entities limited themselves to attributing the sustainability of their business models to the presence, in their commercial offer, of products proposed as "green" or "socially responsible." Little attention was paid to the achievement of measurable sustainability objectives as part of their company strategy or to the monitoring of specific performance indicators identified only by a small number of operators. Consequently, the need was emphasized for financial entities who wish to integrate the objectives of combating climate/environmental change into their business models to translate such commitment into measurable sustainability targets.

A differentiated degree of compliance with expectations emerged concerning governance and organizational systems. While for a large part of respondents, the issue of sustainability was being addressed by their company's senior management, there was, however, a non-negligible number of companies in which the degree of involvement of governance bodies was only partial or, in some cases, null. In particular, areas of weakness emerged concerning the lack of expertise on climate-related and environmental issues by governing bodies and an insufficient reporting system. Greater commitment on the part of financial entities in the use of the training lever is desirable: given the complexity of the entities and their continuous evolution—in terms of scientific knowledge and regulatory framework -, training activities must be arranged for and conducted regularly. They should not be limited to sporadic initiatives. Correct monitoring of ESG issues also requires roles and responsibilities within the governing body and/or board committees to be defined and formalized and an effective reporting system to be ensured with adequate frequency.

Finally, the ability of remuneration policies to promote behavior aimed at achieving ESG objectives should be strengthened, including through the identification of specific parameters. About the risk management system, the need for financial entities to speed up their efforts to align with expectations, thus requiring their control units to develop adequate actions, should be emphasized. A widespread problem can be traced back to difficulties in finding reliable and useful data for measuring risks; the quality of information collected mainly from external providers is not being assessed adequately in light of poor data governance strategies and insufficient integration into corporate information systems. Supervisory expectations require the implementation of a systematic integration of sustainability risks into an entity's corporate risk management system.

To this end, it will be necessary for financial entities to complete their mapping of risk events that could occur concerning climate-related and environmental factors and evaluate the materiality and prudential implications thereof. Once a full mapping of these risks has been completed, the acceptable exposure must be determined by defining an adequate system of risk thresholds and indicators, supplementing the

Risk Appetite Framework, if appropriate. In summary, the respondents' general awareness of the need for adaptation has not been translated into sufficiently outlined plans.

Required Action-Plan to All Financial Entities

In light of the findings of the investigations conducted, the Bank of Italy required all financial entities to prepare a suitable "Action Plan" to incorporate consistently the aforementioned expectations of the Authority. In particular, the Bank of Italy has required the governing bodies of LSI banks "to approve a suitable action plan for the next three years to set out a gradual alignment process with the expectations." These action plans will benchmark the supervisory dialogue with the LSIs. More specifically, the Bank will continue to examine and monitor the progress of the initiatives adopted and planned by the intermediaries involved in the survey, which are expected to approve the plan and provide it to the Bank by 31 January 2023 unless they have already done so. At the same time, discussions will begin with the banks not involved in the survey, whose deadline for producing an action plan is 31 March 2023.

The Bank of Italy has also required an Action Plan for the other non-banking financial entities to include: (a) self-assessment of the degree of alignment of company practices with the Expectations; (b) assessment of the materiality of exposure to climate-related and environmental risks based on the specific business model adopted and size and complexity of the company; (c) identification of specific actions to be implemented to fill the gaps found; and (d) definition of priorities and time necessary to complete the various initiatives, taking into account the intensity of exposure to risks and depending on the size and complexity of company operations. After drawing up an "Action Plan" approved by the Boards of Directors of each financial entity involved, accompanied by a report from the Board of Statutory Auditors (BoSA), the same was submitted to the Bank of Italy (by the end of the first quarter of 2023). The Supervisory Review and Evaluation Process (SREP) that the Authority will conduct regarding all supervised financial entities will be taken into consideration on an annual basis.

Good-Practices as Benchmarks for Financial Entities

To support financial entities in the preparation of their "Action Plan," during its investigation, the Supervisory Authority identified some "good corporate practices" for the integration of ESG risks. Despite the weaknesses illustrated above, the analysis of the questionnaires, for example, made it possible to find out that: (a) concerning business models and associated strategic risk, some financial entities had carried out an analysis of their business context and an assessment of the materiality

of climate related risks, as a key prerequisite for proceeding with the definition of sustainability strategies. In this regard, the good practice of implementing a monitoring system on the degree of achievement of ESG objectives defined during strategic planning through the identification of specific KPIs also emerged; (b) concerning governance and control systems, some financial entities had prepared a particular sustainability policy by defining the relevant responsibilities in such regard, directly attributing duties to the Board of Directors or creating special organizational structures. Other companies had provided training programs for employees and managers and had included measurable, not merely formal, sustainability objectives in their remuneration policies; and (c) in the area of risk management, some financial entities had started, or at least planned, an initial mapping of the effects of climate-related and environmental risks on their business to evaluate the impact thereof on the various corporate areas. The findings of these analyses will form the basis for introducing sustainability risks into the Risk Appetite Framework (RAF) and capital adequacy self-assessment processes.

5.6 Case Study: Mediobanca Group Approach to Sustainability

We follow with a unique case study of Mediobanca Group. The Mediobanca Group is the fifth Italian bank that is considering capitalization and a premier specialized financial group offering Wealth Management, Consumer Banking, and Corporate Investment Banking services. Its impeccable reputation in Italy results from nearly eight decades of success driven by a responsible approach to business and services that meet the highest standards of excellence. The Group has adopted a Code of Ethics and a Code of Conduct, which define the basic principles to help defend its reputation and set out the values on which its daily operations are based. The Policy is divided into four sections based on areas considered to be priorities: measures to tackle bribery and corruption, human rights, diversity and inclusion, and climate change and the environment. The sustainability approach of Mediobanca Group is detailed in Box 5.1.

Box 5.1 Growth and Sustainability Are Features of Mediobanca's DNA
The Group's strategy is based on the conviction that ethics and profit are not necessarily in opposition because long-term economic growth has to go hand-in-hand with social and environmental progress. To promote a culture geared towards business ethics, integrity, and sustainability, the Group has adopted a Code of Ethics and a Code of Conduct, which define the basic principles to help defend its reputation and set out the values on which its daily operations are based. Mediobanca has also adopted a Group Sustainability Policy to consolidate this approach to govern its direct impacts and identify roles and

responsibilities. The Policy is divided into four sections based on areas considered to be priorities: measures to tackle bribery and corruption, human rights, diversity and inclusion, and climate change and the environment. It is based on the principal reference declarations and regulations, including the Universal Declaration of Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on the Environment and Development. It applies to the whole Group in the countries where Mediobanca operates, and the Group also encourages its customers and suppliers to adopt the Policies principles and provisions. In line with the roadmap, which sets out the Group's objectives in the area of diversity and inclusion, the Mediobanca Group Diversity, Equity, and Inclusion Code has been adopted to promote an inclusive corporate culture in which diversity and equity are defended, without any form of discrimination, including in external relations. With a specific focus on Environment and Climate Change, which is another of the priorities stated in the Group Sustainability Policy, awareness of the fundamental role of finance in the transition to a net-zero emissions economy has led Mediobanca to launch a series of initiatives aimed at raising awareness throughout the organization at all levels—from the Board of Directors and its Committee to the entire personnel—on risk and opportunities linked to and arising from climate change. Climate change and the other topics on which the Group's indirect social and environmental impacts are relevant are governed in the Group ESG Policy, which defines the reference principles and the positive and negative screening criteria applicable to lending, proprietary investing, and investment advisory services to clients. In defining the Policy, reference was made to internationally recognized principles, such as the Universal Declaration of Human Rights, the ten principles of the UN Global Compact, and the United Nations Sustainable Development Goals (SDGs).

To ensure sustainability is more firmly integrated into the company's operations, the Group set a series of ESG objectives (all of which have been comfortably delivered), qualitative and quantitative, in the 2019–2023 Strategic Plan. As further confirmation of the desire to ensure that sustainability is firmly integrated into the Group's industrial strategy, the new 2023–2026 Strategic Plan contains new quantitative ESG targets, also included in the staff performance evaluation and remuneration policies for the corporate population, and identifies a series of cross-divisional actions to help contribute towards a more sustainable future. In the 2023–2026 Strategic Plan, Mediobanca reiterated its climate commitment to achieve carbon neutrality by 2050, with the interim target of a 35% reduction in financed emissions intensity by 2030. At the same time, the Group maintained its focus on direct impact, confirming the use of electricity 100% from renewable sources by

2026 and maintaining carbon neutrality on its emissions. Coherently with its ambition of aligning its business activities with the goals of the Paris Agreement, Mediobanca formalized its support to Climate-related Financial Disclosures (TCFD) and joined the Net-Zero Banking Alliance (NZBA), committing to reduce greenhouse gas emissions arising from its credit and investment portfolio at the path required to achieve a net-zero economy by 2050. There are only two international associations and initiatives the Group participates in to consolidate further its contribution to growth, which is responsible and sustainable:

- *United Nations Global Compact*. United Nations initiative to get businesses and firms worldwide to adopt sustainable and socially responsible policies and to report on their implementation. The Group is a member of the Global Compact and a participant in the Global Compact Italian Network.
- *Principles for Responsible Banking (PRB)*. The Mediobanca Group signed up to the PRB in April 2021. The PRB was launched by the United Nations in 2019 and has the aim of incentivizing banks to set objectives for sustainable growth aligned with those of the UN 2030 Agenda and the Paris Agreement.
- *Principles for Responsible Investment (PRI)*. Mediobanca SGR, RAM AI, and Polus Capital Management have all signed up to the PRI, a United Nations Supported international network to promote sustainable and responsible investment by institutional investors by integrating sustainability considerations into investment decisions and shareholder activism.
- *Net-Zero Banking Alliance (NZBA)*. The NZBA is an alliance set up by the United Nations Environment Programme Finance Initiative (UNEP FI), to align loan and investment portfolios with the target of achieving net zero emissions by 2050 in line with the Paris Agreement.
- *Net Zero Asset Managers Initiative (NZAMI)*. Initiative, to which the Group is a signatory via RAM, which brings together an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 °C.
- *Task Force On Climate Financial Disclosure (TCFD)*. In April 2022 Mediobanca adhered to the recommendations made by the Task Force on Climate-related Financial Disclosure set up by the Financial Stability Board (FSB), to disclose and transparently represent information on its environmental impact through the TCFD Report.
- *Valore D*. Mediobanca participates in Valore D, the first Italian association of large businesses set up to support diversity and women in leadership.

5.7 Summary Table of Documents Examined

The following table summarizes the regulatory and corporate governance documents taken into consideration in this chapter.

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