

The Capital Markets Union for Sustainable Growth in Europe

Contribution to the Public Consultation
on the Interim Report of the High Level Expert Group on
Sustainable Finance

by

Italian Banking Insurance and Finance Federation (FeBAF)

Member associations:

ABI (Italian Banking Association), ANIA (Italian Insurers' Association), AIFI (Private Equity, Venture Capital and Private Debt Association), ASSORETI (Investment Advisor's firms Association), Assofiduciaria (Fiduciary and Trust Services Association), Assogestioni (Asset Management Industry Association), Assofin (Household Credit Sector Association), Assoimmobiliare (Real Estate Association), Assoprevidenza (Supplementary Pensions Association), and Assosim (Securities Brokerage Association)



ABI Associazione Bancaria Italiana

Ania
Associazione Nazionale fra le Imprese Assicuratrici

AIFI
Italian Private Equity Venture Capital and Private Debt Association

ASSORETI

Assofiduciaria

ASSOFIN

ASSOGESTIONI
associazione dei risparmiatori

ASSOIMMOBILIARE
Associazione dell'Industria Immobiliare

assoprevidenza

**ASSOCIAZIONE INTERMEDIARI
MERCATI FINANZIARI - ASSOSIM**

Brussels, 20 September, 2017

Foreword

The current consultation on sustainable finance is strictly intertwined with the EU Action plan on the Capital Markets Union (CMU), that includes sustainable finance as one of its main pillars and is one of our Federation's main fields of activity at European, international and domestic level. This is the basic premise underpinning the contents, motivation and aims of this paper, which contributes to the public consultation launched by the High Level Expert Group on sustainable finance. The Capital Markets Union (CMU) is the largest and most ambitious programme of structural reform launched by the European Commission and Parliament in the 2014-2019 legislature. It not only moves forward the agenda of European financial and institutional integration, but also interacts closely with similar processes in the banking sector (the Banking Union), the Single Market for Services, the forthcoming reform of regulation and supervision architectures, and the overall framework of economic governance in the EU, and for the Economic and Monetary Union (EMU). Most importantly, the CMU represents a fundamental basis - considering the crisis of recent years and its long-lasting consequences - for enhancing investment, economic growth and employment in the frame of sustainability, stable conditions of public finance.

We are contributing to this consultation in co-operation with the member organisations of Febaf, representing Italy's main business associations in the field of investment and finance: the Italian Banking Association (ABI), the insurers' association (ANIA), the private-equity, venture-capital and private debt association (AIFI), the investment advisor's firms association (ASSORETI), the fiduciary and trust services association (Assofiduciaria), the asset management industry association (Assogestioni), the household credit sector association (Assofin), the real-estate association (Assoimmobiliare), the supplementary pensions and assistance association (Assoprevidenza), and the securities brokerage association (Assosim).

It is our hope that this consultation provide the Commission with useful information and suggestions. We count on continuing the dialogue and the cooperation between our institutions and organisations on fundamental matter, and stand ready to provide further clarification and additional information, if needed. For convenience, below is our e-mail address: info@febaf.it.

Brussels, 20 September 2017

FeBAF – The Italian Banking, Insurance and Finance Federation – was established in 2008 by the Italian Banking Association (Abi) and the National Association of Insurance Companies (Ania). FeBAF currently associates Abi, Ania, Aifi, Assoreti, Assofiduciaria, Assofin, Assogestioni, Assoimmobiliare, Assoprevidenza, and Assosim.

Our mission:

- to promote the role of the banking, insurance and financial industry in the pursuit of the country's general interests;
- to represent the positions of member associations on economic and social policies in a systematic relationship with political and monetary authorities, trade associations and the public opinion;
- to spread a culture of free market and competitiveness, by promoting transparency and responsiveness to consumers and savers in the banking, insurance and financial sectors;
- to represent the interests of the Italian financial community in relations with European institutions, with the aim of consolidating dialogue with other Italian public and private stakeholders, so as to act as part of a single national strategy and system in Europe.

More information at www.febaf.it and [@febaf](https://twitter.com/febaf). If you are interested in our English newsletter, it is possibile to subscribe here: [Spotlight](#).

Sommario

Introduction	3
Answers to the Questionnaire.....	4
The most important issue that needs to be addressed	4
Develop a classification system for sustainable assets and financial products	5
Establish a European standard and label for green bonds and other sustainable assets	6
Create “Sustainable Infrastructure Europe” to channel finance into sustainable projects	6
Mismatched time horizons and short-termism versus long-term orientation.....	7
Governance of the investment and analyst community	8
A strong pipeline of sustainable projects for investment	9
Integrating sustainability and long-term perspectives into credit ratings.....	9
Role of banks	10
Role of insurers	11
Social dimensions	12
Other	12

Introduction

The Italian Banking Insurance and Finance Federation is pleased to provide its contribution to the High Level Expert Group consultation on Sustainable Finance. This contribution has been prepared in co-operation with our members, which are the main financial associations operating in Italy representing banks, insurance companies and funds.

The present consultation is strictly intertwined with the EU Action plan on the Capital Markets Union (CMU), that includes sustainable finance as one of its main pillars and is one of our Federation' s main fields of activity at European, international and domestic level.

The commitment to sustainability plays a fundamental role in the mission of the Italian Banking Insurance and Finance Federation (FeBAF).

Please note that:

- The Federation signed in 2012 a joint declaration with its members. The Charter of Sustainable and Responsible Investment of Italian Finance (see attached) promotes the dissemination of three main principles: 1. Sustainable and Responsible Investments; 2. Disclosure; 3. Medium-long term view.
- FeBAF is a supporter of United Nations Environment Programme - Finance Initiative (UNEP FI) and it's a supporter member of the Principles Responsible Investment (PRI) and of Principles of Sustainable Finance (PSI) of the United Nations.
- FeBAF is supporter member of ARISE, the UNISDR (the UN secretariat responsible for the implementation of the International Strategy for Disaster Reduction) Private Sector Alliance for Disaster Resilient Societies. As such, we are committed to raise awareness with respect to Disaster Risks, aiming at the implementation of projects and activities to achieve the targets of the Sendai Framework.
- In 2015 FeBAF joined the Paris Pledge, the declaration of commitment of the civil society against the climate change, with regards to the 2015 United Nations Climate Change Conference, COP21.
- FeBAF is one of the 160 members of the Italian Alliance for sustainable development (ASVIS). Under its aegis of this alliance FeBAF and other business organizations signed a joint Declaration of commitment on sustainable development.
- FeBAF strongly supports the Italian National Dialogue for the Sustainable Finance which involves Italian Ministries and National Authorities under the leadership of the Italian Ministry of Environment and the involvement of UNEP. We co-chair a group of experts in order to develop Milan as a hub of the sustainable finance.
- FeBAF organizes periodical seminars dedicated to these subjects, often in cooperation with other associations and institutions, as i.e. the European Movement-Italy, Integrate, and the Italian Forum for Sustainable Finance (FFS).
- Since 2014, the Federation has organized The Rome Investment Forum, an annual international Conference where we host a session dedicated to sustainability, resilience, ethics in finance and impact investing.

Given the above, we feel committed to support all initiatives - including the present Interim Report - aimed at sharing and disseminating a common culture of sustainability, and provide hereby our response to the questionnaire.

Answers to the Questionnaire

Question 1. From your constituency's point of view, what is the most important issue that needs to be addressed to move towards sustainable finance? (sustainable finance being understood as improving the contribution of finance to long-term sustainable and inclusive growth, as well as strengthening financial stability by considering material environmental, social and governance factors)

- Ensuring stability and certainty to the European legislation and, consequently, to domestic policies, is a fundamental prerequisite for fostering medium to long-term investments.
- The other fundamental aspect is related to tax interventions promoting green and social oriented goods and services, because a level playing field should be guaranteed at EU level in order to avoid competitive distortions.
- To this end, the Interim Report should highlight the importance of including the so-called "negative externalities" as an essential part of the financial investment and, more generally, in the definition of the final price of goods and services.
- Raise awareness (sharing of practices among operators; integrating ESG goals along side with the UN 2030 Agenda into the European and national policies; promoting a new productive and consumption culture) on the impacts of finance on the economy (finance for growth), on the environment (i.e. ecological reconversion of the economic system) and on society (i.e. creating job opportunities) and help integrating sustainability (ESG factors) into financial institutions' operations and core strategy in close collaboration with their stakeholders, with the aim of:
 - maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
 - identifying, preventing and mitigating their possible adverse impacts¹.
- Focus on impacts and long term finance should allow Financial Intermediaries and stakeholders to better investigate which kind of answers (financial products and services as long as revised processes and procedures) they can provide to satisfy the uncover needs of the market and to cover the emerging risks and to evaluate the future trend and their consequences on business activities (i.e. climate change, migrations).
- The opportunity for business to include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of their activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters ² should be valued to create a common set of informations and data to build on.
- A common taxonomy, set of minimum standards and disclosure framework are essential for efficient allocation of financial resources to green assets, market and risk analysis, development of new comparable products and benchmarks. The EC should build on work of

¹ EU COM(2011) 681 "COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. A renewed EU strategy 2011-14 for Corporate Social Responsibility"

² DIRECTIVE 2014/95/EU

the TCFD and the UNEP FI pilot (methodologies to implement the TCFD recommendations) ensuring it is appropriate to the EU economic, legal and regulatory environment.

- Long-term finance is constrained by regulatory requirements, challenges to perform risk assessment on the long-term horizon, or demand for higher risk and liquidity premiums, making the projects less viable from economic and finance perspective. Some constraints can be addressed by regulatory or policy decisions and clarity and certainty of the regulatory environment and public policies. For insurers, the specific regulatory area that needs to be addressed is the Solvency II framework, which, as the draft HLEG report highlights, creates unnecessary barriers to investing in long-term assets.
- Incentivizing the lending to green projects, providing assistance as well as risk sharing by public sector would act as catalyst to environmental policies, given the role banks can play as transmitters of political economic impulses. Also, building a common EU scheme for sustainable public-private partnership, incentivizing the cooperation between public and financial institutions, could help to speed the transition.
- Any change in prudential regulation which could have unintended consequences (stability of the financial system lending to small and mid-sized businesses that cannot access EU's underdeveloped capital markets etc) should be carefully considered.
- A stronger link between Sustainable/Green Finance and Disaster Risk Reduction should be made. Disaster Risk Reduction should always be taken into account when designing a Sustainable Financial System and advancing policy options to mobilize capital for sustainable development. The private sector and the public sector have a shared interest and must work together to build disaster resilience. This would reduce the impact on public finances, while at the same time fostering investments that favor jobs and growth. Financial Regulation and Fiscal Policies should promote sound risk management and disaster risk reduction.
- Financial education programs and strategies towards savers, investors, and companies could adopt ESGs criteria.

Develop a classification system for sustainable assets and financial products

Question 2. *What do you think such an EU taxonomy for sustainable assets and financial products should include?*

- The EU should give priority to considering how it could use existing or developing international definitions and initiatives in order to provide a common EU and a set of minimum standards. A useful option is the use of the United Nations' SDGs as a starting point for defining sustainable assets and financial products. Any EU initiatives and standardisation should at all times leave room for innovation in the different sectors. The use of review clauses could allow for adjusting standards to innovative developments from the investors' side.
- The work on taxonomy should consider all dimensions of sustainability, including criteria of Social and Governance dimension. While Environment and Social aspects have more to do with impact (including climate(carbon-related) assets, green asset, circular economy asset), Governance can help to analyze short-termism speculative practices, involvement

of tax heavens, risky products, information asymmetry between financial institutions and investors.

Establish a European standard and label for green bonds and other sustainable assets

Question 3. *What considerations should the EU keep in mind when establishing a European standard and label for green bonds and other sustainable assets? How can the EU ensure high-quality standards and labels that avoid misuse/green-washing?*

- A common EU standard has a potential to support growth of the Green/Sustainable Bond market so long as it does not impose overly strict requirements on issuers so as not to curb the development of a nascent market. However, this standard should define in particular the reporting procedures for green/sustainable bonds, which should be the same for all, preventing the green washing and the procedures to calculate the greenhouse gas emissions avoided. Defining standard criteria shall not result in limitations and obligations that, in the medium-long run, could create obstacles to fundraising and investment activities.
- As a first step, green instruments on the basis of covered bond and the project bond should be developed.
- The development of a green covered bond is feasible through the definition of the standards needed for new housing or rehabilitation of old housing considered as green. In these areas, best practices are developing in the local markets.
- The green project bond could have a green label if the underlying project is deemed green. Provision of a third-party assessment of risks that the investor can benchmark his own assessment against, together with the development of common taxonomy, valuation and reporting will mitigate the risk of green washing.
- For a "Green Use of Proceeds Bond", which accounts for the vast majority of outstanding green bonds, investors then have the chance to apply a mix of both standards for their own assessment.

Create "Sustainable Infrastructure Europe" to channel finance into sustainable projects

Question 4. *What key services do you think an entity like "Sustainable Infrastructure Europe" should provide, more specifically in terms of advisory services and connecting public authorities with private investors?*

- The European Investment Advisory Hub (EIAH) is an efficient single point of entry for municipalities to receive advice on sustainable projects. Creation of a separate dedicated organization is not seen necessary. We therefore welcome the HLEG's recommendation to leverage the EIAH with subsidiaries in the regions and expand its services to:
 - Work alongside local authorities and policy makers to increase understanding of how private capital can accelerate short-term deployment of sustainable infrastructure solutions

- Improve the sustainability of currently investable assets, e.g. water companies etc. by improving regulatory mechanisms (including measures involving sustainability objectives and linking rewards to those objectives)
 - Work on legislation that promotes adoption of sustainability measures across national and local infrastructure and the involvement of private capital (e.g. through land value capture policies to support compact urban development)
 - Give guidance to local authorities on international best practice of “free, prior and informed consent” of local populations engaged by institutions in determining the infrastructure projects that have an impact on local communities (i.e. collecting and spreading best practices of communities involvement in the management of environmental assets for social participation and inclusion: from “civic crowdfunding” projects to Renewable Energy Cooperatives).
- To support the EIAH, policy-makers should send a clear political signal by prioritizing the sustainable sectors and defining specific actions to improve the demand for such assets.
 - An environmental due diligence should be performed also for projects/activities not explicitly categorized as green. Otherwise banks will not be aware of part of their credit risk deriving from the exposure of its borrower to ECC risks. It is difficult for banks to perform such a due diligence and we suggest the Sustainable Infrastructure Europe level to implement a robust EU Environmental Climate Change risk categorizing system by economic sectors/sub-sectors/areas (areas like alluvial, coastal areas, etc.). This system for ECC Screening should be implemented and updated periodically with the engagement of stakeholders including the banking sector.
 - Building a common EU scheme for sustainable public-private partnership, incentivizing the cooperation between public and financial institutions could help to speed the transition, but would require further education to EU’s municipalities and procurement authorities on the benefits of PPP transactions, as compared to funding through public funding.

Mismatched time horizons and short-termism versus long-term orientation

Question 5. *It is frequently stated that the inherent short-termism in finance, especially financial markets, represents a distraction from, or even obstacle to, a long-term orientation in economic decision-making, including investments that are essential for sustainability. Do you agree with this statement?*

Please choose 1 option from the list below

- Yes
- No
- Don't know/no opinion/not relevant

Question 5.1. *If you agree with this statement, which sectors of the economy and financial system are particularly affected by the 'mismatch of time horizons'? What are possible measures to resolve or attenuate this conflict?*

- The maturity transformation and risk assessment are key activities of banks and as such are

not perceived by banks themselves as a main obstacle for long term funding. Instead, compliance with regulatory requirements and even more importantly, the instability and uncertainty of the regulatory environment forces banks to build their balance sheets in a constrained way to:

- comply with the current regulatory requirement
 - optimize the use of capital under the current regulatory environment and
 - avoid “locking in” capital in case of future changes to the regulatory framework.
- The majority of the investments are measured in very short periods of time (even below a year). This impacts on how investors interact with management teams and make investment decisions. Long-termism can be fostered by promoting the training of the financial sector on ESG impacts of their investment decision and modifying how investment professionals’ performance is measured.
 - In case of insurers, the nature of long-term liabilities both requires and allows insurers to take a long-term view. However, while the insurance industry has the ability and the intention to invest long-term, it is often prevented or disincentivised to do so by regulations that are not appropriately designed and/or calibrated. Solvency II, EMIR and IFRS are examples of developments of recent years on which the insurance industry has raised concerns regarding unintended consequences in the area of long-term investment.
 - IR may further stress the importance to integrate the so-called “Welfare plan” and remuneration systems of the Boards of directors and the top management of companies with non financial objectives, possibly oriented to the pursuit of SDGs. It could be thus possible to start a top down integration process of Strategic Plans with the companies’ Sustainability Plans in the medium-to-long term. ESG & SDGs awareness and commitment among employees should also be highlighted and fostered in accordance with the Industry 4.0 principles.

Governance of the investment and analyst community

Question 6. *What key levers do you think the EU could use to best align the investment and analyst community with long-term sustainability considerations in the real economy?*

- The EU could support the possibility of institutional investors to report on green/sustainable performance indicators of their investments to increase transparency and to enable investors to make their decisions also based on sustainability factors of the respective fund.
- Voluntary disclosures by issuers could improve climate-related information and analysis tools for analysts. We support the work of the FSB TF and its objective of greater public disclosure of financial risks arising from climate change and policy responses, where material and relevant to the business of a given issuer. Such disclosures should inform research analysts who play an important role in helping investor managers make informed decisions with the available information from a pre-offer (e.g. by publishing sector reports, background briefings for the media) to the aftermarket (e.g. through ongoing research on sectors or specific securities).
- Specific ESG training to analysts and investment managers can also be considered to help the development of best practices.

- The importance of responsible/sustainable investment should be promoted with regards to asset owners who are not yet PRI signatories to help building the capacity of smaller asset owners to meet responsible/sustainable mandate/fund requirements.

A strong pipeline of sustainable projects for investment

Question 7. *How can the EU best create a strong and visible pipeline of sustainable investment projects ready for investment at scale?*

- The European Commission, cooperating with the EIB, should propose guidelines on investing in green assets and should also establish new ad hoc financial instruments to sustain social inclusion projects even with dedicated measures on access to credit; to develop investment in project devoted to multistakeholder partnership (public, private, nonprofit subjects) oriented to circular economy and urban regeneration. Furthermore, since public projects, such as big green infrastructures are long term oriented and should be included in this pipeline, it could be helpful to promote and facilitate public investing on green/sustainable projects (for example avoiding too restrictive accounting rules on green/sustainable investments for public institutions or promoting a facility which could help in aggregate smaller local green/sustainable projects).
- The EU and national governments, through the EFSI, should continue to increasingly support projects that would otherwise not be financially viable, particularly for projects with unquantifiable usage/demand risk. Some of this risk could be mitigated through partial usage of guarantees provided by NPB, which would be a strong political signal and could turn an unmarketable transaction into one which would be marketable. To strengthen that development, we would welcome the inclusion of SDG goals in the EFSI investment criteria.
- In order to enhance the visibility of financeable green/sustainable projects, the European Investment Project Portal (EIPP) could be the main platform.
- Further education to EU's municipalities and procurement authorities on the benefits of PPP transactions, as compared to funding through public funding is necessary.

Integrating sustainability and long-term perspectives into credit ratings

Question 8. *What are some of the most effective ways to encourage credit rating agencies to take into consideration ESG factors and/or long-term risk factors?*

Please choose 1 option from the list below

- Create a European credit rating agency designed to track long-term sustainability risks
- Require all credit rating agencies to disclose whether and how they consider TCFD-related information in their credit ratings
- Require all credit rating agencies to include ESG factors as part of their rating
- All of the above

○ Other

Question 8.1. *Please specify what other ways you would deem most effective in encouraging credit rating agencies to take into consideration ESG and/or long-term risk factors.*

- We support the integration of ECC risk factors into ratings.
- Credit rating agencies should disclose whether and how they consider ESG factors in their ratings (and not be limited to the TCFD-recommendations).
- We support the statement on ESG in credit ratings from the working group of the UNPRI principles. Being private entities, CRAs should be able to set their own methodologies, at the same time we would support standardization of the criteria and scales of valuation (to make them comparable).
- Credit rating agencies should disclose and be transparent about the risks that are being factored into the ratings. They should be more specific on ESG risks by sectors. Irresponsible behaviour increasingly leads to financial impact as more data become available and affect ratings. CRAs should be more specific on the timeframe for which they indicate the ratings.

Role of banks

Question 9. *What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?*

- Alignment of public policies with the needs of the private sector (Industrial Strategies designed taking into account the UN SDGs).
- Risk sharing between banks and public entities when there is no market for such risks. Public entities should also provide technical assistance.
- Subsidies in the form of tax benefits or subsidized funding conditions/phase-out of inappropriate subsidies.
- Monetary policy measures (e.g. accepting certain green assets as collateral for central bank loans).
- Implementation of an EU ECC risk categorizing system for ECC screening.
- Development of standard contracts for various types of green projects.
- Dissemination of risk and performance data to speed up and standardize performance risk analysis.
- Review of OECD guidelines on sustainable lending to provide greater possibilities for commercial loans accompanying the respective projects.
- Green supporting factor for exposure that provide environmental benefits (calibration to be consistent with the financial risk-ensuring financial stability).

- Capital treatment that varies over the time to encourage financing of origination of sustainability assets and its subsequent refinance in capital markets.
- Changes to CRR2 re LCR and NSFR to reduce liquidity constraints for medium to long term green funding.
- Banks to foster retail investors' understanding of sustainable projects' positive consequences.

Role of insurers

Question 10. *What would be the best way to involve insurers more strongly on sustainability, particularly through long-term investment?*

- Given the significant role of insurers of long-term investors in the economy, and that such investments often support low carbon economies and include both debt-like and equity-like products, the key issue that needs to be addressed is to ensure that the industry is able to maintain and grow the existing long-term investment appetite.
- Appropriate design and calibration of regulation for long-term investors such as insurers is therefore essential.
- While we support the risk-based nature of regulations such as Solvency II and do not believe that prudential regulation should be used to provide artificial incentives to long-term investment, on the contrary, investigations should focus on identifying and removing disincentives, by appropriately designing and calibrating regulation that appropriately recognises and measures the actual risks faced. Solvency II is – and should remain – a risk-based framework, but more work is needed to ensure that the risks are correctly identified and measured. Unfortunately, regulations are sometimes designed in a way that does not recognise insurers' ability to invest long-term and creates unnecessary disincentives. For example, Solvency II treats insurers like traders and wrongly assumes that insurers are always and fully exposed to the market volatility of assets. This flawed assumption leads to exaggeration of liabilities, artificial volatility and excessive and unnecessarily high capital requirements, which ultimately disincentivise investments. Examples include unnecessarily high capital requirements applied to investments in infrastructure such as hospitals, schools, often with embedded government guarantees, and necessarily high capital requirements applied to real estate.
- Besides Solvency II and as the HLEG draft report rightly identifies, the impact of IFRS 9 on the level and on the volatility of reported profits should also be considered as a major regulatory obstacle for equity investment.
- The Interim Report often recalls the technical tools available for the sector so as to encourage a better breakdown of particularly serious risks for which there is no sufficient data available in order to define contract tariffs. In particular, risks connected to climate change (floods, storms, etc..) usually have low occurrence frequency. However, when they occur, they have high loss severity due to their destructive effects and the large involvement of directly or indirectly struck subjects. The Insurance block exemption

regulation n. 267/2010 (IBER) has been applied to the insurance sector until March 2017. Those insurers complying with what provided for by IBER as for tariff calculation and the setting-up of pools for common risk coverage were not submitted to the discipline under art. 101 and 102 of the Treaty on the Functioning of the European Union in the field of competition and enjoyed a safe harbour in the application of the provision. Currently, without a specific regulation, generic reference is usually made to the Guidelines on the application of art. 101 of the Treaty on the Functioning of the European Union to the EU Commission horizontal cooperation agreements (2011/C 11/01). Finally, if we want to encourage and foster a stronger intervention of the insurance sector in DRR, also through investments in specific infrastructures, we should somehow take account of the importance of data and information sharing which characterizes the insurance activity above all concerning new risks connected to the social and environmental changes under way.

Social dimensions

Question 11. *What do you think should be the priority when mobilising private capital for social dimensions of sustainable development?*

- Social stability needs to be recognised as a key systemic factor. Poor social protection, limited social inclusion, poor working conditions and climate change, and mega-trend impacts such as automation, urbanisation and changing demographics, create financial risks that need to be addressed by sustainable finance solutions. Social bonds would provide this solution but we invite the HLEG to consider more options.
- SDGs should be taken in due consideration when assessing priorities for private capital mobilization. In particular, 'No poverty' can be addressed also through 'Financial Inclusion'. When people are included in the financial system, they are better able to climb out of poverty by investing in business or education.
- Establishing a consistent definition of social enterprise used by the EIB, the EIF and the Commission is fundamental. Also, it should be a priority to fund pilot actions, e.g through the EaSI program, focused on the re-training of workers on new skills needed in a low carbon society and helping their placement.
- We would also recommend supporting the Impact Investing sector (a growing field as demonstrated by the Investing for Global Impact, a report by the Financial Times).
- Disaster Risk Reduction should always be taken into account when designing a Sustainable Financial System and advancing policy options to improve the financial system's effectiveness in mobilizing capital for sustainable development.

Other

Question 12. *Do you have any comments on the policy recommendations or policy areas mentioned in the Interim Report but not mentioned in this survey?*

- Improve corporate disclosure of revenue related to the SDGs in order to support equity/bond investors assessing and disclosing their positive impact (i.e. MSCI developed 'ESG Impact Metrics' to help investors identify publicly traded companies that generate revenue from positive social and environmental products and services).
 - Expanding data availability for more aspects of sustainability and number of companies for which this applies to. Sector specific positive impact metrics (i.e. amount of clean water/day provided, number of people trained) could be developed in cooperation with the sector. Companies could then be encouraged to report against these metrics. EU sector associations could support efforts to establish a global positive impact metric for their sector.
 - Expanding the availability of such metrics will make it easier for investors to measure the positive impact of public equity and debt funds, which could be an important way to improve communication to retail investors. The proportion of an investor's holdings of a company's equity and/or debt would represent the proportion of an investor's contribution to the company's positive impact (i.e. an investor supports X million liters/day of clean water through their equity/bond holdings of a water treatment company).
- We believe it is necessary that both European and national supervisors start building up capacity and tools in order to be able to consider ESG factors in the future in financial supervision.

Question 13. *In your view, is there any other area that the expert group should cover in their work?*

- Disaster Risk Reduction being essential to achieve sustainable development, it should always be taken into account when designing a Sustainable Financial System and advancing policy options to improve the financial system's effectiveness in mobilizing capital for sustainable development. Therefore the area and objectives of Disaster Risk Reduction should be expressly dealt with in the work of the HLEG.

Ways for Financial Regulation to reward financial enterprises doing good risk management aimed at disaster risk prevention, through reduced risk sensitive capital charges and/or fiscal incentives should be examined.

To encourage and foster a stronger intervention of the insurance sector in Disaster Risk Reduction, also through investments in critical infrastructures, the importance of data and information sharing which characterizes the insurance, and above all those concerning new risks connected to the social and environmental changes under way activity, should be taken into account.

Finally, disaster risk assessment should be a prerequisite for sustainable and resilient infrastructure and housing investments and the work should state clearly that preventing and reducing disaster risk is a key part of sustainable finance.

- We would suggest to cover the circular economy evaluating the possible cooperation with the newly established expert group "Support to Circular Economy Financing".
- The other fundamental aspect is related to tax interventions promoting green and social oriented goods and services, because a level playing field should be guaranteed at EU level in order to avoid competitive distortions.

- Some studies highlighted the growing attention that Private Equity operators, Limited Partners and General Partners, are progressively dedicating to sustainability. In general, the reasons lying at the basis of the interest of PE managers towards sustainable investments are the following:
 - reducing risks and creating value;
 - meeting the expectations and needs of the investors;
 - positioning in relation to investors and target companies;
 - visibility, especially in the framework of international projects;
 - transparency: the adoption of ESG criteria often implies the obligation or at least the incentive to report on the results achieved in relation to ESG issues.

With reference to the Italian context, our PE actors usually deal with family-owned SMEs, often not very careful in relation to transparency and governance issues. In this regard, the implementation of ESG criteria is particularly useful in order to improve transparency in the balance sheets and augmenting the efficiency of the governance structure, two elements that have contributed to weaken Italian SMEs and strengthen distrust from international actors. Moreover, a more sustainable approach could represent a positive advantage also to implement a more professional management in the companies. Another element to consider is that making a company more sustainable and pointing out these elements within the due diligence process could contribute to increase the value of the company, making easier to find exit opportunities. Finally, in the fundraising activity, showing sustainability elements within the investment strategy could represent a great advantage. This is particularly true for the Italian context where pension funds and insurance firms (main LPs categories) are progressively requiring attention towards ESG criteria.

- In addition, we would like to emphasize that the efforts taken should not be limited to the financial sector only. As the financial sector serves the real economy, the HLEG should focus on cross-industrial efforts, and the new roles of governments and policy makers.
- The last “strategic” consideration to evaluate in dealing with sustainable future planning in Europe, in a changing geopolitical context, may be that ESG criteria could also take into account contribution of other cultures and sensibilities. In this sense, to make an example, positive links and connection with the so-called “Islamic finance” which somehow refer to the exclusion criteria that characterised the first stage of SRI in particular, should be explored in order to attract wider funds and social financing channels.
- Millions of Islamic observants live in Europe following specific provisions for their investments, sometimes transferring elsewhere the economic resources gained in Europe. It would be adequate to think of some possible forms of “financial inclusion” allowing higher integration.

Annex



Charter of Sustainable and Responsible Investment of Italian Finance

ABI Associazione
Bancaria
Italiana

 **ANIA**
Associazione Nazionale
fra le Imprese Assicuratrici

 **ASSOGESTIONI**
associazione del risparmio gestito

AIFI

 **Assofiduciaria**

 **ASSOIMMOBILIARE**
Associazione dell'Industria Immobiliare

 **assoprevidenza**

ASSOSIM[®]
Associazione Italiana Intermediari Mobiliari

ASCOSIM
SIM DI CONSULENZA

 **ASSORETI**

 **FEDERIMMOBILIARE**

Introduction

The principle role of finance is to channel capital into the real economy to deliver sustainable growth over the medium to long term. In assessing investment it is therefore essential to consider a broader range of parameters beyond strictly financial ones.

The crisis that has affected international financial markets in the recent years is the result of various factors that have been addressed both through policy measures and with self-regulation initiatives by financial institutions; however, a greater awareness and responsibility among financial operators, with an eye on the possible environmental and social consequences of their choices, is key to the creation of a healthier financial environment and a more stable economy in the long run.

Considering the loss of confidence among companies and consumers that resulted from the economic crisis, the European Commission, has recently renewed its commitment to the promotion of Corporate Social Responsibility (CSR) by presenting the new strategy for 2011-2014 which encourages, amongst the lines of action, the dissemination of best practices, increased self-regulation and co-regulation, the disclosure of social and environmental information, the transparency of accountable investment policies adopted, policy alignment at European and international level, the introduction of CSR in teaching and research. .

The financial sector organizations Ascosim, Assofiduciaria, Assoimmobiliare, Assoprevidenza, Assoreti, Assosim and Federimmobiliare, the Federation for real estate, consider it crucial to promote the integration between the criteria driving the decision making of financial institutions and a sustainable development perspective, generally understood as the search for a balance between social, environmental and economic elements when investing. Therefore, they subscribe to the "Sustainable Investment Charter and Responsible for Italian Finance", already signed by ABI, ANIA, Assogestioni, AIFI and FeBAF, in consideration of the high social value of the principles expressed by of the financial industry.

With the signature of the "Charter of Sustainable and Responsible Investment of the Italian Finance", they acknowledge the relevance and the high social value of the principles contained in the Charter itself.

The signatory organisations also underline the importance of the adoption of this Charter on the occasion of the Italian Sustainable and Responsible Investment (SRI) Week organized by the Italian Sustainable Investment Forum.

The members of each Association are free to choose autonomously their approach to the principles established in the Charter, through the voluntary adoption of sustainable and responsible investment strategies and of ESG (Environmental, Social, Governance) criteria.

By subscribing to the present document, the signatory organisations declare to share its objectives and renew the common effort in spreading the culture of sustainability and social responsibility amongst their members and the business community as a whole. They also reinvigorate their willingness to promote the debate on social responsibility within the financial community and to support the adoption of sustainable and responsible investment practices. They aim at encouraging the dialogue among the Italian financial sector, the civil society and European and international institutions.

Principle 1 – Sustainable and Responsible Investments

It is fundamental for the financial community to recognise the importance of the environmental, social, and governance issues within their investment decision making processes, not only on a moral ground but also with a risk management perspective.

In the current ever changing environment, the implementation of sustainable policies by the recipients of investments (companies and, to some extent, States) may have a positive impact on their economic performance. The companies who are able to foresee and respond to the future social and environmental challenges will be better equipped to deal with the different risks they are exposed to (in particular, reputational, legal, and financial) and will be more competitive in the market place, at the same time stimulating other companies to also engage in a sustainability path.

Therefore, the signatory organisations trust that institutional investors, acting both for themselves and in third party interests, will look at the ESG variables with increasing attention, fully integrating the extra-financial analysis with the fundamental analysis and the investment processes. This is thoroughly in line with the new strategy of the European Commission, according to which, investors may contribute to a more efficient capital allocation and to the achievement of long-term investment objectives through the integrating of extra-financial information in their investment decisions¹.

At the same time, the signatories hope that:

- practitioners and academics will cooperate more closely to develop and constantly improve analysis methods and measurement tools of the ESG variables and their impact assessment;
- statistical analysis regarding the performances of the SRI investments will be developed and spread, in order to widen the knowledge of the benefits of this approach, also in a financial perspective.

Principle 2 – Disclosure

Disclosure is a fundamental value for every modern social system. Disclosure means giving access to essential information regarding the nature of an economic activity, the way in which it is managed and the impacts it has on stakeholders.

Transparency strengthens fiduciary relations among market players and lowers transaction costs, reducing information asymmetries. Accountability and responsibility imply the recognition of the *other* as an individual, legitimated to collect detailed and useful information in order to formulate a complete and mature opinion and choose knowingly.

On this point, the European Commission, in its strategic document, identifies the disclosure of extra-financial information as an essential part of the concept of *accountability*, which could help enhance trust in financial operators, especially in the present context².

Signatory organisations therefore hope that:

- there will be a progressive improvement in the quality and availability of information regarding environmental, social, and governance aspects (such an objective should involve financial institutions, distribution channels, investors, companies and other stakeholders);

¹ COM(2011) 681, “A renewed EU strategy 2011 – 2014 for Corporate Social Responsibility”

² COM(2011) 681, “A renewed EU strategy 2011 – 2014 for Corporate Social Responsibility”

- institutional investors (such as banks, asset managers, pension funds, insurance companies) and fund and portfolio managers who adopt sustainable and responsible criteria (ESG) within their investment strategies, will comply ever more effectively with the regulatory requirements providing thorough pre-contractual information and periodical financial reporting, with regards to the content of their ESG policies, the objectives pursued and the results obtained;
- companies, mostly those issuing listed securities, will communicate, if the case, the adoption of sustainable development strategies, their implementation and the results attained.

In conclusion, signatory organisations do hope that the process towards the definition of shared and recognised standards regarding pre-contractual information and ESG financial reporting will be sped up.

Principle 3 – Medium-long term view

The goal of sustainable development calls for a far-sighted perspective and a cultural change, leading people to interrogate more and more about the medium-long term effects of their investment choices and compounding them with their more immediate needs.

The adoption of such a perspective and the integration of the ESG criteria in the decision making processes sets the conditions for the reduction of serious distortions in decision-making generated by the tendency to focus exclusively on short term results (the so-called “short-termism”).

For this purpose signatory organisations hope that:

- institutional investors will strive to develop a strategic asset allocation consistent with their investment time horizons;
- companies will review management incentive schemes so to reward the creation of value for all stakeholders and avoid the consequences of opportunistic behaviour;
- financial institutions will sustain investors in the access to medium-long term investments through the creation of a dedicated offering.

In conclusion, signatory organisations do hope that the Legislator will promote suitable measures to support citizens’ medium-long term saving.

In line with the above, the signatories of this document are available to discuss the principles of the “Charter of Sustainable and Responsible Investment of Italian Finance”, to promote public awareness and stimulate discussion on the issues concerned and are willing to receive from stakeholders new inputs and suggestions.

Rome, 7th november 2013

Background

The Charter of sustainable finance was signed on 6th July 2012 by the Italian representatives of the banking, insurance and financial sectors - ABI, ANIA and ASSOGESTIONI - and their Federation (FeBAF). AIFI, the Italian association of private equity and venture capital, signed the Charter when joining the Federation on January 2013.