

Italy



Italy's financial regulatory environment has substantially improved over the last year and achieves good results on all three dimensions. The improvement mainly results from EU regulation becoming effective. As with all countries and regions considered, there is still ample room for improvement for the Italian regulatory financial environment to become truly 'fit for Paris'. Actual financial regulation and policies would require further improvement to support the transition to a low-carbon economy through and by the financial sector.

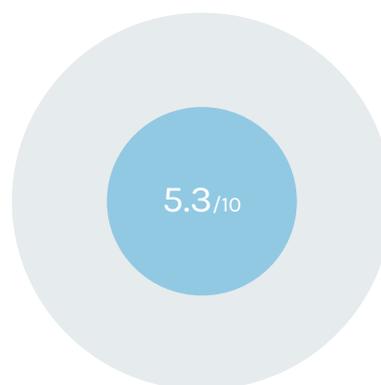
The 3fP-Tracker assessment shows that Italy is taking first steps to become Paris-aligned. The Italian Prime Minister Mr. Giuseppe Conte proposed the creation of a Green New Deal, which could lead to substantially increased action on green financial market regulation in Italy. Sustainable finance is starting to gain traction at Italian public institutions such as the Institute for the Supervision of Insurance Undertakings (IVASS) and market institutions such as Borsa Italiana S.p.A., the company managing the Italian Stock Exchange. The Italian enabling environment mainly profits from support of green finance with public incentives and the activity of civil society organizations and market associations.

TRANSPARENCY & DISCLOSURE

On transparency, Italy's efforts to green the financial system show some progress, which is driven mainly by EU-level legislation. The Sustainable Finance Disclosure Regulation (SFDR) will increase transparency on Paris-relevant considerations to a large extent. The integration of the Shareholder Rights Directive II in June 2019 has increased responsibility and power for shareholder engagement with respect to ESG considerations. ESG considerations were already included in the Italian pension funds legislation applicable prior to the implementation of the IORP II Directive. The implementation of such a Directive now also requires an assessment of climate-related risks, which must be taken into account by the fund's risk management system.

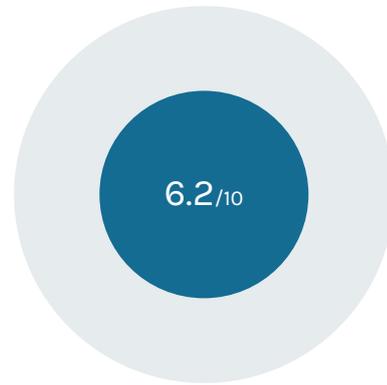
The Italian Corporate Governance Code applicable to listed companies aims at inclusion of climate considerations in executive remuneration. The companies adopting the Code are required to apply it starting from the first financial year that begins after 31 December 2020, while the disclosure shall be provided in the corporate governance report to be published during 2022.

Reporting on climate change related governance is partially covered by the Decree on Disclosure of Non-Financial Information (Legislative decree No. 254/2016) that implements the EU Non-financial Reporting Directive (EU Directive 2014/95) into Italian law. The Decree requires the disclosure of, among others, environmental data and the publication of a non-financial statement with respect to which a "reasonable assurance" or a "limited assurance" by an external accounting firm must be provided. The Guidance by the European Commission on reporting climate-related information improves climate-related aspects in relation to non-financial reporting on a voluntary basis.



SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY

The supervisory environment in Italy is good. Italy has put in place, in particular, an ambitious governance system for insurance undertakings. Insurances must identify, assess and manage any risk affecting the company. Moreover, the provision requires that the structure of the governance system must be such that any type of risk, including environmental and social risks, affecting the company and triggered by the company must be identified, assessed and managed. In the public consultation leading up to the approval of Regulation No. 38, IVASS clarified that climate risk is within the range of risks to be covered and managed under Article 4.2. IVASS explains that such provision is meant to 'steer insurance companies towards sustainability by taking decisions aimed at increasing medium to long-term value and by paying close attention to the management of matters that are not profit-oriented.' Furthermore, through the establishment of the dedicated Observatory for Sustainable Finance in 2018, the Italian government has started to increase awareness on climate change related risk and opportunities as well as on the impact that climate risk may have on financial institutions.



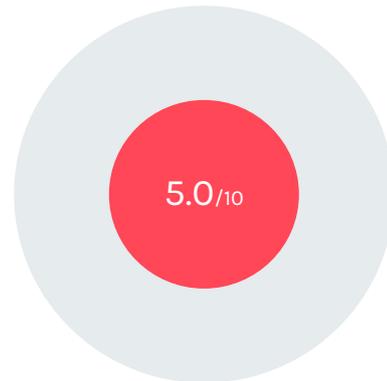
ENABLING ENVIRONMENT

The enabling environment of Italy has still some room for improvement. The 3fP-Tracker result in this dimension is mainly driven by support of green finance with public incentives as well as the introduction of the EU Taxonomy through the Taxonomy Regulation. The Italian Code for Public Procurement sets forth the rules applicable to public procurements. It provides guarantees for risk reduction support provisions if the entities participating in the process or the supplies to be procured hold certain 'green' certifications.

The Bank of Italy announced the integration of ESG factors in its (equity) investment policy in order to achieve a better environmental impact of its financial investments from 2019. The Bank plans to disclose the performance of the investments and the activities undertaken to increase the ESG profile of the portfolio so that its experience and methodology may be useful for other investors. CDP S.p.A. is a joint-stock company under control by the Italian Ministry of Economy and Finance that supports Italy's social and economic growth, facilitating the achievement of the 17 Sustainable Development Goals, integrating the concept of sustainability into business activities.

In 2019, the Italian government created the 'Italian Innovation Fund' that will adopt venture capital criteria to fund start up, innovative SMEs and projects in areas such as EcoIndustries, New Materials, Mobility, Social Impact. The Fund has an initial budget of €1 billion.

The Italian Prime Minister Mr. Conte proposed the creation of a Green New Deal along the lines of the positions by the incoming EU Commissioner. The Deal would include the incorporation of a reference to the protection of the environment in the Italian constitution and the issuance of Italy's first green government bond.



Note for interpreting this evaluation: given current state of methodology development, data availabilities and market experiences, the ideal total score (10) might not be realistically achievable in some categories today, best practices today score significantly lower.