

SUPERVISORY EXPECTATIONS ON CLIMATE AND ENVIRONMENTAL RISKS: THE BANK OF ITALY'S INFORMATION NOTICE TO NON-BANKING INTERMEDIARIES

In April 2022, the Bank of Italy issued its "*Supervisory Expectations on Climate and Environmental Risks*" (hereinafter, the "**Expectations**"), containing general, non-binding guidelines for supervised banking and financial intermediaries on the integration of climate and environmental risks into their governance and control systems, business model and strategy, organisational system and operational processes, risk management system and market disclosure ⁽¹⁾.

Already during 2022, the Authority started a preliminary discussion with the entities under its supervision on their degree of compliance with the Expectations and their respective adjustment plans. In particular, with reference to non-banking intermediaries, the Bank of Italy distributed to a sample of 86 non-banking intermediaries a self-assessment questionnaire aimed at evaluating the level of integration of climate and environmental risks in their management models.

As a result of this thematic investigation, on 10 January 2023 the Authority published an information notice (hereinafter, the "**Information Notice**") ⁽²⁾ containing the evidences emerged in the course of said analysis, in which it requested, *inter alia*, the boards of directors of all non-banking intermediaries to define and approve specific Action Plans capable of fostering, in the medium term, the progressive integration of climate and environmental risks into corporate strategies, governance and control systems and risk management frameworks.

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⁽¹⁾ <https://www.bancaditalia.it/media/notizia/aspettative-di-vigilanza-sui-rischi-climatici-e-ambientali/>

⁽²⁾ <https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/comunicazioni/com-20230110/index.html>

1. Main critical points

The analysis of the responses received by the Authority in the context of the aforementioned survey revealed a limited alignment of non-banking intermediaries with the Expectations.

Against a generalised attention to Environmental, Social and Governance (ESG) issues by the top management, in most cases widespread deficiencies were found, with delays in the implementation and, often, also in the planning of structural interventions on the various company profiles concerned.

Below are the 3 points of attention that emerged from the examination of the replies to the questionnaires, as summarised in the Information Notice:

- business model and strategy: the Authority pointed out that the majority of intermediaries merely referred the issue of the sustainability of the business model to the presence of products proposed as "green" or "socially responsible" in their commercial offerings. Little attention was paid to the achievement of measurable sustainability objectives of the corporate strategy and the monitoring of specific performance indicators, which were only identified by a small number of operators;
- governance and organisational system: the Authority noted that, although the degree of compliance with the Expectations was differentiated, for a non-negligible percentage of companies, areas of weakness emerged linked to the low presence in the administrative bodies of competences on climate and environmental issues and an insufficient reporting system;
- risk management system: the Authority emphasises the need for intermediaries to accelerate their efforts to align with the Expectations by developing appropriate action by the control functions.

2. Action Plans

In light of the critical issues identified in connection with the intervention plans and the strengthening of the organisational controls illustrated by the intermediaries in the self-assessment questionnaire, the Bank of Italy has asked all intermediaries to prepare an "Action Plan" that: (i) identifies the specific interventions that they intend to put in place to fill the gaps identified; (ii) specifies the priorities and timeframes necessary to complete the various initiatives, in consideration of the intensity of exposure to risks and according to the size and complexity of the company's operations; (iii) takes into account the weaknesses and needs for improvement that emerged from the self-assessment questionnaires outlined above.

The Plan, approved by the Board of Directors, shall be submitted to the Bank of Italy, together with the assessment of the Board of Statutory Auditors, by 31 March 2023 and shall be taken into account in the Prudential Review and Evaluation Process (SREP) that the Bank of Italy carries out annually with regard to all supervised intermediaries.

3. Category initiatives

In the asset management sector, the Italian Association of Private Equity, Venture Capital and Private Debt (AIFI) has recently informed its members that it is organising a debate with the Bank of Italy to discuss the indications formulated by the Authority within the Information Notice and how to comply with them.

Such a discussion may be very useful especially for intermediaries who have not currently included Article 8 or Article 9 of Regulation (EU) 2019/2088 (SFDR) products in their offerings, thus not having a particular ESG characterisation.

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The sole purpose of this Client Alert is to provide general information. Consequently, it does not represent a legal opinion nor can it in any way be considered as a substitute for specific legal advice.

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