BANCA D'ITALIA
EUROSISTEMA

# Responsible Investment Charter of the Bank of Italy

July 2021

# RESPONSIBLE INVESTMENT CHARTER OF THE BANK OF ITALY

## *Introduction*

The risks to sustainability, particularly climate-related risks, may have negative effects on the soundness of individual intermediaries and on the stability of the financial system; they may interfere with the monetary policy transmission channels, to the point of compromising the objective of price stability; lastly, they may affect the Bank of Italy's capital strength, which is a keystone for maintaining independence so as not to be conditioned politically or administratively and for carrying out its institutional functions.

As part of the tasks entrusted to it by law, the Bank considers the implications of these risks in its analyses and investment strategies. In the responsible investment charter, the Bank defines its vision of sustainable finance, takes on commitments to promote it and explains, in its role as a long-term investor, the principles underlying its management of the financial portfolio and foreign exchange reserves.

## *1. The institutional and regulatory framework*

The European System of Central Banks (ESCB), of which the Bank of Italy is an integral part, supports - without prejudice to the objective of price stability - the EU's general economic policies with a view to contributing to the achievement of its objectives (Article 127 of the Treaty on the Functioning of the European Union). These include preserving, protecting and improving the quality of the environment, protecting human health, the prudent and rational utilization of natural resources, and promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change (Article 191).

In incorporating sustainability in its investment strategies, the Bank of Italy refers in particular to:

- the principles of the United Nations Global Compact, the United Nations' Sustainable Development Goals for 2030 Agenda and the 2015 Paris Agreement on climate change;
- the recommendations of the Network for Greening the Financial System, an organization comprising central banks and supervisory authorities that, on a voluntary basis, share best practices both for managing environmental and climate-related risks and for promoting the involvement of the financial system in the transition towards a sustainable economy;
- the Eurosystem's common stance for climate change-related sustainable investments in non-monetary policy portfolios.

For its own investment strategy, the Bank of Italy applies exclusion criteria based on:

- the eight fundamental conventions of the International Labour Organization (ILO), regarding forced labour (No. 29, 1930), the freedom of association and protection of the right to organize (No. 87, 1948), the right to organize and to collective bargaining (No. 98, 1949), equal remuneration (No. 100, 1951), the abolition of forced labour (No. 105, 1957), discrimination in employment and in occupations (No. 111, 1958), the minimum age for hiring (No. 138, 1973) and the worst forms of child labour (No. 182, 1999);
- international treaties on controversial weapons, particularly the conventions on biological weapons (1975), chemical weapons (1997), anti-personnel mines (1997) and cluster munitions (2008);
- the Treaty on the Non-Proliferation of Nuclear Weapons (1968);

– Protocols I, III and IV of the convention prohibiting or restricting the use of certain conventional weapons, which refer respectively to weapons with non-detectable fragments, incendiary weapons and blinding laser weapons.

## *2. The general principles for the sustainability of investment*

The Bank recognizes the definition of sustainable development as a model for development that can meet the needs of the present generation without compromising the ability of future generations to meet their own needs.

The Bank has adopted a broad concept of sustainability, which includes considerations on environmental, social and economic aspects. As regards investment, it places considerable emphasis on environmental, social and governance (ESG) factors, giving priority to firms that: (a) focus on the responsible use of natural resources and their effects on ecosystems; (b) maintain adequate conditions regarding safety, health, justice, equality and inclusion; and (c) generate income and employment in compliance with ethical principles and the best practices of corporate governance.

## *3. The scope of application*

The charter applies to financial portfolio and foreign exchange reserves investments, managed under the Bank’s own responsibility. It does not apply to monetary policy portfolios.

The financial portfolio and the foreign exchange reserves have the twofold function of contributing to covering firms’ costs and preserving the Bank’s capital strength against risks relating to its institutional activities. The foreign exchange reserves help to maintain the credibility of the European System of Central Banks and can be used to intervene in the foreign exchange market; they also allow Italy to fulfil its commitments towards international financial institutions.

## 4. *The Bank of Italy's commitments*

The Bank's commitments aim to:

a) promote economic, environmental and social sustainability in the long term by encouraging initiatives on the part of issuers, intermediaries and other financial system operators to produce and disclose transparent information on sustainability, with a view to balanced and sustainable economic growth.

b) integrate the ESG criteria into investment allocation and into the risk measurement and management systems, by promoting the spread of good practices for sustainable investment and risk management in the financial system. When making investment decisions, the Bank favours those with the best ESG profile and applies exclusions based on the fundamental conventions on labour and on the abovementioned international treaties on controversial weapons; finally, it excludes tobacco producers;

c) process and publish information on and analyses of sustainable finance; regularly publish the results achieved in managing its investments and the impact on society and the environment; contribute to the dissemination of the culture of sustainable finance both in the financial system and among citizens.

Banca d'Italia per gli
**Investimenti sostenibili**

*Printed by the Printing and Publishing Division of the Bank of Italy*