

Banca d'Italia's pledge on carbon transition and sustainable finance ahead of COP26

As a central bank, investor, supervisory authority and large organization, Banca d'Italia is committed to addressing the global and systemic risks posed by climate change. It is equally committed to considering sustainability factors to facilitate the smooth development of sustainable finance.¹

In particular, Banca d'Italia believes that consistent, comparable data for all market participants and institutions on sustainability and decarbonization commitments and targets are essential to placing the financial system on the path to an orderly transition. This is why we are contributing to a broad spectrum of activities, such as research, policy decision-making, and guidelines developed by international and European bodies.² Along with Italy's Ministry of Economy and Finance, Banca d'Italia is leading the G20 Finance track on Sustainable Finance that has reinvigorated the Sustainable Finance Study Group, with the United States and China as co-chairs, elevating it to a permanent working group (Sustainable Finance Working Group). The Presidency, under our impulse, has also taken other initiatives to enhance G20 leadership in the area of sustainable finance. It has asked the IMF to consider climate-related data needs in preparing a new Data Gap Initiative; it has requested the FSB to report on both disclosure and data gaps, focusing on climate-related financial risks; it will examine how to scale up digital finance to promote sustainable economic growth.

On the promotion of digital innovation for sustainable finance, Banca d'Italia and the Bank for International Settlements Innovation Hub have launched the G20 TechSprint 2021 competition. The event is designed to attract the international community of innovators to provide original technological solutions to overcome data challenges and to support climate-related risk assessment and management, as well as to mobilize capital for the green transition.

Our institution is also a member of [The Italian Natural Capital Committee](#). The Committee, led by the Ministry of the Environment, submits to the Prime Minister and to the Ministry of Finance an annual report prepared by a group of experts from Universities and research centers, including from Banca d'Italia.

Our **research** into climate-related risks has produced several documents: a recent [Financial Stability Report](#) estimates loan exposures to physical and transitional climate risks for Italy and the latest [Annual Report for 2020](#) contains in-depth analyses of climate-related financial risks and other sustainable finance issues. These estimates are the result of an extensive analysis of energy systems, environmental issues and, more recently, their impacts on financial markets. A recent [paper](#) describes why central banks are concerned about climate change issues and presents the results of research into climate-related risks to the Italian financial system.

¹ In the last couple of years, environmental issues have been the subject of many speeches by members of the Governing Board: the Governor this year in [April](#), [May \(2\)](#), [June](#), [September](#), and last year in [May](#) and [September](#), and by Senior Deputy Governor Signorini (this year in [May](#), last year in [October](#), [July](#) and [February](#)) and Deputy Governor Angelini ([July](#)), Cipollone ([April](#)) and Perrazzelli ([May](#)).

² Among the others, the Network for Greening the Financial System (NGFS), the Financial Stability Board, the Basel Committee on Banking Supervision, the European Central Bank, the Single Supervisory Mechanism, the European Systemic Risk Board, and the European Banking Authority.

As a **public investor**, since 2019 Banca d'Italia has integrated ESG criteria into its equity investment policy, resulting in a 30 per cent drop in portfolio-related carbon emissions at the end of 2019 compared with the previous portfolio composition. The sustainability criteria have since been extended to other portfolios of equity funds, corporate bonds and purchases of green bonds.

Last July, we published our [Responsible Investment Charter](#) for our financial portfolio and foreign exchange reserves investments. The Charter sets out Banca d'Italia's **vision** of sustainability and the **principles** and **criteria** underlying the sustainable management of our financial investments; it also details the **commitments** through which we intend to further our work on a sustainable model for economic growth.

Because we believe in leading by example, we have consistently [disclosed the relevant methodologies and results to the public](#) of our sustainable investment policy. We have done this both nationally, via the annual [Report on operations and activity of the Bank of Italy](#), and internationally, by sharing our experience in the form of case studies in the NGFS Reports on Sustainable and Responsible Investment practices for central banks' portfolio management (in [2019](#) and [2020](#)) and in an [OECD report](#). We are also working on the development of methodologies for sustainable investing through research e.g. on [carbon transition risk and equity returns](#) and [innovative methodologies for sustainable investing](#). We are monitoring the sustainable finance developments towards low-carbon and Paris-aligned investment solutions.

In 2022, we will disclose what progress has been made in the carbon footprint of our responsible investments, publishing a *Sustainable Investment Report* aligned with the recommendations of the Task Force on Climate-related Financial Disclosures.

In 2023, we will develop a climate stress testing exercise of our investments and of the entire balance sheet, using the NGFS scenarios to better identify: vulnerabilities in balance sheet exposures, gaps in firms' disclosure regarding low-carbon commitments and sustainability reporting, resources to scale up internal capabilities for measuring and managing climate-related financial risks.

As a **supervisory authority**, the Bank of Italy actively contributes to the production of international regulations, guidelines and standards aimed at building a framework for the disclosure, the management and supervision of climate-related financial risks, in respect to the three Basel Pillars as revised and strengthened by Basel III.

In Europe, where works are progressing at a faster pace, the Bank of Italy provides its technical support to the preparation of the [EBA Draft Technical Standards on Pillar 3](#) disclosures for large listed banks and of [Joint Regulatory Technical Standards on ESG disclosure](#) of the three ESAs (i.e. EBA, ESMA and EIOPA) for financial market participants.

To enhance the Pillar 2 framework in adequately capturing and managing the financial risks posed by sustainability, the Bank of Italy assists the SSM and the EBA works in shaping a [proposal on management and supervision of ESG risks](#) for credit institutions and investment firms. The Bank of Italy is also intensifying its dialogue with less significant institutions to raise awareness about the importance of governance in internalizing ESG factors in business strategy and decision making.

As an **organization** Banca d'Italia has been producing an [Environment Report](#) for more than ten years now. In it we assess the environmental footprint of all of our activities and in 2020, we held a series of internal training initiatives on climate and environmental risks involving both external and internal experts. Banca d'Italia recently pledged to be part of the drive towards carbon neutrality by joining an afforestation endeavour.