Sapienza-Consob Webinar on Climate risk and ESG factors
April 1, 2022

Good morning all.

I am very glad to welcome you at today seminar on Climate risk and ESG factors.
Academic seminars, where cross cutting and innovative researches are presented, generally allow an in-depth analysis of complex topics. My feeling is that today seminars will confirm this expectation.

As we all know, ESG topics have been growing in importance in financial markets in the last years and sustainability is at the core of the regulatory agenda.

Consob's mission is to enhance investor protection and promote stable and orderly financial markets. One of the key tools is to foster transparency and correct information on financial markets.

As always, with regard to sustainability, transparency and information become central.
This is not a new. This is a story similar to that of financial information. For decades, regulators, academics, practitioners have worked together to improve quality and comparability of information within the corporate governance framework where information is the fundamental tool to assess the business models of corporation.

Transparent and reliable disclosure rules are the first important step to support the EU strategy for transition to a sustainable economy and to channel financial resources into relevant economic activities.

In this respect, as we all know, the first legal strategy adopted at the EU level in the 2014 is the "Non-financial Disclosure Directive" (Directive 2014/95/EU). Such directive requires specific disclosure of certain sustainable risks (considered "non-financial" when not captured under the financial disclosure). Despite disclosure of certain items is subject to the "comply or explain" principle", still, the NFRD has the merit to have drawn boards' attention on ESG matters. At the same time, the "non-financial disclosure" allows the market to appreciate the ESG approach of issuers and their expected ESG results.

A further step in this direction is represented by the April 2021 proposal for a Corporate Sustainability Reporting Directive, the so-called CSRD ([1]), which amends and expands the scope of the NFRD and the "comply or explain" approach, as well as the number of «sustainability matters» to be reported. It is certainly not surprising that the proposal tries to respond to the global focus of discussions, namely how to increase understandability and comparability of information provided by different companies of different sizes, of different industry sectors.

During the last three years further initiatives have been adopted in EU to intervene, not only on the side of issuers transparency, but also on the behaviour of several market participants. Just to

([1]) Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting, as published on the 21st of April.

name a few: the SFDR ([2]) (Sustainable Financial Disclosure Regulation) and the Taxonomy Regulation ([3]); moreover, the proposal for a Corporate Sustainability Reporting Directive that I have already mentioned comes alongside to the very ambitious Proposal for a Directive on Corporate Sustainability Due Diligence ([4]).

On the side of the markets, the investors demand for ESG investments is growing significantly and new sustainable financial products are offered.

In this context, sustainable finance poses new challenges for market operators, including supervisory authorities:

1. Fast-evolving regulatory framework: multiple initiatives from the European legislators, financial supervisors andstandard setters have been launched; some are already in place, others are still in the making. All these create complexity and costs for companies. Moreover, divergencies in application of this complex regulatory framework undermine the smooth function of the markets. This requires regular monitoring by regulators across EU.

2. Growing demand for ESG investments: this demand should be coupled with adequate transparency on the effective sustainability of the financial products available in the markets and on the underlying sustainability profile of the issuers; otherwise the risks of misrepresentation and mis-selling to final investors cannot be avoided. Unreliable ESG labelling lead to a loss of trust in sustainable finance.

3. Risk of misalignment between investors' ESG preferences and products being offered to them; this risk may arise from investor limited financial education on ESG-investing and lack of expertise in the value chain.

4. Last but not least, supervisory capacity: the fast evolving framework is a big challenge for the supervisory authorities too, requiring to build new capacities in terms of an in depth knowledge of the relevant regulations as well as the necessary skills to embed such new requirements into the traditional supervisory approach: similar abilities and tools are not so easy to develop.

From the beginning of this new wave Consob established a Steering Committee on sustainable finance, that I am here to represent, whose task is to understand ESG topics across different angles. We have adopted a horizontal approach given the cross-cutting relevance of the subject. We also aim to promote the debate and research on the area of sustainable finance and we wish to increase our dialogue with the academy and markets participants.
My presence today at this seminar witnesses the importance of the interaction with the academy and the researchers involved.

([2]) Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
([3]) Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.
([4]) Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937.

Before concluding, I would like to address the three main drivers of attention in the field of sustainable finance for the years to come. They are also disclosed in the Consob strategic plan recently published.

1) Promote standardization and comparability of sustainability reporting (ESG)

This aspect is crucial. For years now, large EU companies have provided non-financial information as part of the annual disclosure in compliance with Non-financial Reporting Directive. However, there is evidence that is sometimes hard to compare information from company to company; the lack of comparability weakens the benefit of this information. Also, users of the information are often unsure whether they can trust it. Often the information is difficult to find and is rarely available in a machine-readable digital format.

As said, in April 2021, the European Commission has adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD). This proposal will expand the universe of companies required to disclose non-financial information, paying attention to reporting standards for sustainability. The proposal will also strengthen the role of auditors.

At the same time, attention must be placed on the principles of flexibility and proportionality with particular regard to SMEs. Furthermore, to ensure high quality reporting standards and meet the needs of issuers and users of the information reported, EFRAG has been tasked to develop reporting standard covering sustainability matters from a double-materiality perspective.

The proposal for a Directive on Corporate Sustainability Due Diligence recently adopted by the Commission marks a further step ahead; this proposal will complement the CSRD by adding a substantive corporate duty for some companies to perform due diligence to identify, prevent, mitigate and account for external harm resulting from adverse human rights and environmental impacts in the company's own operations, its subsidiaries and in the value chain.

This Directive will improve corporate governance practices to better integrate risk management and mitigation processes of human rights and environmental risks and will increase corporate accountability for adverse impacts.

2) Tackling greenwashing

Where information is limited, poor and not reliable the risk of greenwashing increases, thus undermining the ability of the market to price assets correctly and to address resources to genuine sustainable initiatives.

Greenwashing may lead to a progressive loss of confidence in sustainable finance products. Investigating this issue, defining its fundamental features and addressing it, is fundamental to protect investors.

In its call for action, a few days ago the IOSCO stats "*We need everyone in the securities sector to work with us now to promote good practices and call out greenwashing. Building trust through high standards of* *behaviour is critical so that investment products described as sustainable actually are" (press release 14 March 2022).*

3) Financial education

Not only transparency measures should be put in place and duly supervised, but the importance of financial literacy through financial education on sustainable investing should be acknowledged. In this respect is enough to mention how much the integration of ESG preference in the investor profile can direct the demand of ESG products.

I would like to conclude by saying that in this general framework, todays papers are very promising and I look forward to hear today's discussion.

Thanks again