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A Framework to evaluate ESG disclosure under EU regulation in the Italian financial services sector

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Abstract

Nowadays, it has been understood that finance plays a crucial role in supporting the sustainable growth of the economy and, especially in the last years, many policy interventions were specifically designed to steer capital flows towards greener and more equitable businesses. The European Commission, in 2018, adopted the "Action Plan on Financing Sustainable Growth" which is made up of ten key actions to further connect finance with sustainability. The project includes a Taxonomy for climate change mitigation, a non-financial reporting directive and the SFDR, namely a regulation on sustainability-related disclosures in the financial services sector. These measures relate with the issue of ESG disclosure and, in particular, the latter one lays down harmonised rules on transparency about the integration of sustainability risks and considerations in the provision of financial services. Furthermore, the sustainable finance industry has been supplied with a number of initiatives, norms and principles which are voluntarily adopted by financial actors and contribute to the spread of good and responsible practices, especially regarding investment related activities.

The objective of this thesis, therefore, is twofold: it aims, on one side, at understanding to what extent the Italian financial sector aligns to the SFDR while, on the other one, at identifying the most widespread approaches and practices to sustainable finance. To fulfil these two goals, we set up a research on 417 Italian financial actors' websites, looking for disclosures reporting firms' commitment and approaches to sustainable finance. At the end of the investigation, then, we provided a picture on the sets of data we gathered and consequently, by breaking down this information, we reported the most interesting insights that have emerged. Regarding disclosures covering the duties laid down by the SFDR, it has been revealed that not all of the analysed subjects in the sample have reached full compliance with the regulation and this is especially true for some specific categories of financial actors. Great part of the analysis' results, indeed, came from the division of the research sample in smaller sets, according to different criteria, like the main business run by the financial intermediaries. Ultimately, starting from our evidence, we tried to establish different connections between the offer of sustainable financial products and the rate of adoption of good investment practices and we discovered that financial

actors who offer ESG investments (as defined by SFDR classification) are more prone in adopting responsible principles.

Keywords: SFDR, ESG Investing, Sustainable Finance, ESG Disclosure, Responsible Investing.

Abstract in lingua italiana

Nel contesto attuale, il ruolo della finanza a supporto della crescita sostenibile dell'economia si è sedimentato e, specialmente negli ultimi anni, sono nate molte iniziative da parte di legislatori con lo scopo di riorientare i flussi di capitale verso imprese responsabili dal punto di vista ambientale e sociale. Nel 2018 la Commissione Europea ha adottato un "Piano d'Azione per la Finanza Sostenibile" che prevede 10 passi strategici per connettere finanza e sostenibilità. Il Progetto include una Tassonomia per la mitigazione dei cambiamenti climatici, una direttiva su dichiarazioni di carattere non finanziario e l'SFDR, un regolamento sull'informativa riguardante la sostenibilità nel settore dei servizi finanziari. Tutte queste misure sono legate al tema della dichiarazione ESG da parte di attori finanziari e, in particolare, l'SFDR stabilisce norme armonizzate per quanto riguarda l'integrazione e considerazione dei rischi di sostenibilità nell'offerta di servizi finanziari. Inoltre, l'industria della finanza sostenibile è stata oggetto di una serie di iniziative, norme e principi la cui adozione avviene su base volontaria da parte degli attori finanziari e, di conseguenza, ciò contribuisce alla diffusione di buone e responsabili pratiche di investimento. L'obiettivo di questa tesi, dunque, è duplice: da un lato cercare di verificare il livello di adeguamento da parte di intermediari finanziari alle norme poste dall'SFDR mentre, dall'altro, identificare gli approcci più diffusi per la finanza sostenibile. Per raggiungere tale scopo, è stata impostata un'analisi su 417 siti web di attori finanziari italiani alla ricerca di informative dichiaranti gli impegni e gli approcci alle attività di investimento sostenibile. Alla fine dell'indagine, abbiamo riportato una panoramica sui dati raccolti e, conseguentemente, un'analisi dettagliata sui risultati più interessanti. Per quanto riguarda l'SFDR, ciò che è emerso è che non tutti i soggetti all'interno del campione studiato sono completamente adempienti agli articoli del regolamento, soprattutto per quanto riguarda alcune categorie di partecipanti ai mercati finanziari e consulenti finanziari. Gran parte dei risultati, infatti, sono stati rilevati a seguito di una più raffinata divisione del perimetro di ricerca in classi, definite secondo diversi criteri come, ad esempio, il tipo di business condotto dagli intermediari finanziari. Infine, a partire dalle evidenze di ricerca, abbiamo cercato di stabilire alcune relazioni, tra cui quella tra l'offerta di prodotti sostenibili e il tasso di adozione di buone pratiche di investimento, scoprendo che attori finanziari che offrono

investimenti ESG (come definiti da SFDR) sono più inclini a seguire principi di finanza sostenibile.

Parole chiave: SSFDR, Investimenti ESG, Finanza Sostenibile, Informativa ESG, Investimenti Responsabili.

Contents

1 | Introduction

As the world, today, faces many environmental, social, and economic challenges, the financial sector has become crucial in its role of diverting capital flows to the mitigation of these issues. Many financial and non-financial players, indeed, have been promoting initiatives to address sustainability challenges (Cunha et al., 2021), implementing the idea behind "Sustainable Finance". This concept refers to many different facets of finance, but it mainly stems from the concept of "Sustainable Development" that is development that "meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Commission, 1987). Therefore, under this view, finance becomes a tool enabling the sustainable growth of the economy while fighting the several issues that firms are put up against. The challenges under question fall under the "ESG" acronym which stands for Environmental, Social and Governance.
This label first appeared in the United Nations Program Initiative in the Freshfields Report in October 2005 and, although there are no generally recognized lists of Environmental, Social and Governance issues, Matos (2020) highlights the ones that firms typically face, as shown in Table 1.1.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Climate Change and Carbon Emission	Workforce health and safety, diversity, and training	Shareholder rights
Natural resource use and energy and water management	Customer and product responsibility	Composition of board of directors (independence and diversity)
Pollution and waste	Community relations and charitable activities	Management compensation policy
Ecodesign and innovation		Fraud and bribery

Table 1.1: ESG issues examples (Matos, 2020)

Nevertheless, the concern is that some of them could affect firm's value creation since it lies, in great part, in intangible assets, and those ESG challenges mostly refer to intangibles which, usually, are not present within traditional financial accounting statements (Matos, 2020). Therefore, firms have started integrating Sustainability and Environmental, Social, and Governance considerations into their business practices and strategies. Furthermore, ESG integration could represent a tool to protect firms' reputation, to reduce costs by increasing efficiency and to manage risk. However, if risk management is the only perspective through which firms adopt ESG integration, this could lead to underperformance with respect to peers since, in the absence of major innovation, even if ESG performance increases, financial results may still decline (Kotsantonis et al., 2016). Eventually, the issue which received most attention, especially in the last years, is climate change (Matos, 2020). In particular, after this environmental challenge, a number of (global) initiatives, also involving the financial sector, were born. The most remarkable examples at the international scale are the Sustainable Development Goals (SDG) and the Paris Agreement which have "landmarked the commitment of the international community towards a more sustainable society and a climate-neutral economy" (Migliorelli, 2021). The first initiative was adopted in 2015 by all United Nations member states, as part of the 2030 Agenda for Sustainable Development, and it consist of a set of 17 objectives covering the three pillars in the ESG paradigm (United Nations, 2015a). The Paris Agreement, on the other hand, was signed, again, in 2015 by 196 Parties and its goal is to "limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels" (United Nations, 2015b). The connection between climate change and finance is outlined in art. 2.1.c of the Accord which states the parties' commitment to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (United Nations, 2015b). Article 9, then, is spurring developed countries "to take the lead in mobilizing climate finance from a wide variety of sources" (United Nations, 2015b). Climate Finance is that part of the more general "sustainable finance" which focuses on the climate action, and, to this broad category, it is necessary to add stocks and flows directed to policies with sustainability objectives but not included in the SDGs (Migliorelli, 2021). Consequently, sustainable finance can be defined as "the management of financial resources and investments with the aim of promoting long lasting, positive, and measurable social and environmental impacts" (Cunha et al., 2021). According to Migliorelli (2021), if at the rise of ESG concept sustainable finance had a more risk-management view, with the evolution of society and policies its meaning consolidated around the need of steering financial resources towards a more sustainable and climate-neutral economy. For this reason, Migliorelli (2021) claims that this change in the view of sustainable finance explains the growth in the number of financial institutions

adopting sustainable finance practices that recently occurred. In addition, also policy intervention is sharing this perspective with the European Union developing, in 2018, the "Sustainable finance strategy and implementation of the Action Plan on financing Sustainable Growth". Among the other objectives, indeed, with that plan the European Commission aims at reorienting capital flows towards a more sustainable economy and, thus, it defines sustainable finance as "the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects" (European Commission, 2018). To this end, Migliorelli (2021) claims that policy measures aiming at mainstreaming sustainable finance could accelerate the sell-off by financial players of "non sustainable" securities. Furthermore, ESG Investing by Institutional Investors is also driven by clients' demand who may be willing to see their wealth be allocated in more sustainable ways (Matos, 2020). Investing sustainably, indeed, besides being the purpose of many global initiatives and policies, has also been questioned for its ability to generate superior performances with respect to traditional finance. Much research has been focusing on this issue, often ending up with opposing results. However, Giese et al. (2019) claim that the majority of the studies, including theirs, have found a positive correlation between ESG (measured through MSCI ESG ratings) and financial performance. More specifically, higher ESG rated companies were "more profitable and paid higher dividends", especially if compared with low-rated ESG ones and that companies with high ESG risk exposure "must also have very strong management, whereas a company with limited exposure can have a more modest approach" (Giese et al., 2019). Ultimately, over the past 10 years, it has been found that high ESG-rated companies incurred less frequently in idiosyncratic risk related incidents, suggesting that they were better at mitigating serious business risks (Giese et al., 2019).

Finally, policy makers have been focusing on the disclosure of ESG information, especially for financial players, trying to create a more transparent market and steer investors' decision making (Migliorelli, 2021). Many projects and initiatives are in place, today, trying to supply the market with reporting standards concerning non-financial information. The Climate Disclosure Project (CDP), for instance, "runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts". Further climate related reporting frameworks are offered by the Climate Disclosure Standards Board (CDSB), an international consortium of business and environmental NGOs, and by the Task Force on climate-related Financial Disclosure (TCFD). Other, more generalist, disclosure standards are brought by the Principle for Responsible Investments (PRI) which is spurring its signatories to take up good and sustainable investment practices (UNPRI, 2022) and the Global Reporting initiative (GRI). The EU, then, is very

active in this field, since it has proposed and adopted many reporting initiatives, starting in 2014 with the Non-Financial Reporting Directive (NFRD) (Directive EU 2014/95). However, a great momentum to the sustainability disclosures standards in the financial sector has been provided by the Sustainable Finance Disclosure Regulation (SFDR) (Regulation EU 2019/2088) which lays down "harmonised rules for financial market participants and financial advisers on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products" (Art. 1 SFDR, 2019).

Eventually, among other things, all the above-mentioned initiatives in the ESG disclosure field aim at tackling a widespread concern affecting sustainable finance. Simultaneously to the establishment of this concept, indeed, the discussion on whether deceptive strategies can be put in place to promote different products and services to build a sustainability-oriented image is also emerging (Migliorelli, 2021), leading to the so called "greenwashing" phenomenon. In addition, according to Cunha et al. (2021), no consensus on the definition of Sustainable finance has been reached since, as also reported in this section, a large number of terms describing what it implies have been coined.

The research that will be thoroughly described and analysed in the following chapters originated from the issues that have just been discussed in this short premise. Thus, this work is centred around the concepts of sustainable finance and ESG investing, with a strong focus on the regulatory environment surrounding them. In addition, the issue of disclosure, as already revealed, is considered crucial in the industry and, hence, the Sustainable Finance Disclosure Regulation (Regulation EU 2088/2019) represents a common thread for the entire analysis. The following section will synthetize what has been the evidence revealed by the literature regarding these issues and will definitely frame the concepts that have been mentioned so far, helping to understand the rationale of our work.

2 | Literature Review

2.1. ESG Investing

2.1.1. Introduction

The first chapter of this literature review is entirely devoted to the exploration of the ESG investing paradigm. The research focused on tracking the evolution of the relationship between sustainable finance and the approaches to Socially Responsible Investments, analysing a relevant and widespread set of frameworks seeking to conjugate these two financial concepts. However, before presenting the results that emerged from literature, it is first necessary to frame the market surrounding the ESG investing sector in order to understand the relevance of the content at the centre of our analysis.

2.1.2. ESG Investing and Sustainable Finance

ESG stands for Environmental, Social, and Governance. Investors are increasingly including these non-financial aspects in their analytical procedures in order to detect major risks and growth opportunities. This new way of investing is recognised by most as ESG investing. The practice of ESG investing started in the 1960s, with investors excluding from their portfolios stocks of those companies belonging to "sinful" industries like tobacco production or involvement in the South African apartheid regime (Sciarelli et al., 2021). By incorporating ESG issues, investors have a more comprehensive perspective of the firms they invest in, which may contribute to mitigate risks and identify opportunities (Napoletano and Curry, 2022).

In their analyses, investors are often supported by scores on companies' environmental impact and social responsibility metrics, evaluated by third-party, independent organisations and researchers. Although these ESG measures are usually not considered in required financial reporting, due to the recent growth of their use among investors corporations are increasingly including them within their annual reports or in a different one devoted to sustainability (CFA Institute, 2022).

Here is a deeper look at the three evaluation criteria used for ESG investing, as described by Curry et al. (2022):

• Environment: This factor highlights the impact generated by a company on the environment. Examples include a company's carbon footprint, the harmful chemicals used in its production processes, and its supply chain's sustainability.
• Social: This factor focuses on the social impact of the company both on the employees and in the broader community Social variables include LGBTQ+ equality, ethnic diversity in both the executive suite and personnel as a whole, inclusion initiatives and recruiting procedures, and more. It also examines how a corporation promotes social good in the broader world, outside of its corporate realm.
• Governance: This factor refers to the ability of internal governance procedures to foster positive change within a company. Governance encompasses concerns ranging from CEO compensation to leadership diversity, as well as the leadership's responsiveness and interaction with shareholders.

Thanks to ESG investing, therefore, market participants start to consider in their decision-making the ways in which environmental, social, and governance risks and opportunities can influence companies' performance. Investors who consider ESG factors are able to invest sustainably without affecting financial returns as in a standard investment approach case (S&P Global, 2020). Hence, ESG investing can be seen as one of the first materializations of sustainable finance in financial markets, a concept that has evolved over time. As societal and policy patterns evolved, the meaning of sustainable finance has gradually consolidated around the need to provide sufficient financial resources to the transition toward a more sustainable society and a climate-neutral economy (Migliorelli, 2021). This incremental shift in mindset may also help explaining the observed acceleration, in recent years, in the adoption of sustainable finance practices by financial institutions (Migliorelli, 2021).

Migliorelli (2021) in his study defines Sustainable finance as "finance to support sectors or activities that contribute to the achievement of, or to the improvement in, at least one of the relevant sustainability dimensions". As a matter of fact, the proposed definition of sustainable finance emphasizes the awareness of the role of finance in supporting sustainability, which is now also known as "finance for sustainability" (ibid). Under this definition, all the different ESG investing approaches and strategies represent the means through which achieve the improvement in ESG dimensions claimed by sustainable finance in Migliorelli's definition.

However, since there is no single recognized definition of what sustainable finance is, there

is a proliferation of many alternative meanings based on what the underlying interests of financial institutions or governments are at the time, resulting in heterogeneity in the language (Migliorelli, 2021). The sections that follow will go deeper into the proposed definitions and the evolution of sustainable finance presenting, at the same time, a descriptive study of the many ESG investing approaches at its support: from techniques to prevent reputational concerns by introducing negative screening criteria to those deliberately pursuing good environmental and social effects, exploring their origins, intentions, and limitations.

2.1.3. Market Overview

The ESG industry has been experiencing a sharp growth over the last several years, with ESG funds in Europe nearly doubling their 2019 inflows in 2020, reaching 233 billion USD in new investments as shown in Figure 2.1 (Bioy et al., 2020). In 2017, asset managers crafted over 505 new ESG products and repurposed over 250 conventional funds in order to be ready for demand in 2020 (Bioy et al., 2020). For what concerns U.S., ESG funds reached around USD21.5 billion in the first three months of 2021, more than twice the amount seen in the first quarter of 2020 (USD10.4 billion) which, in turn, was about 5 times larger than the quantities relative to the first quarter of the previous year.

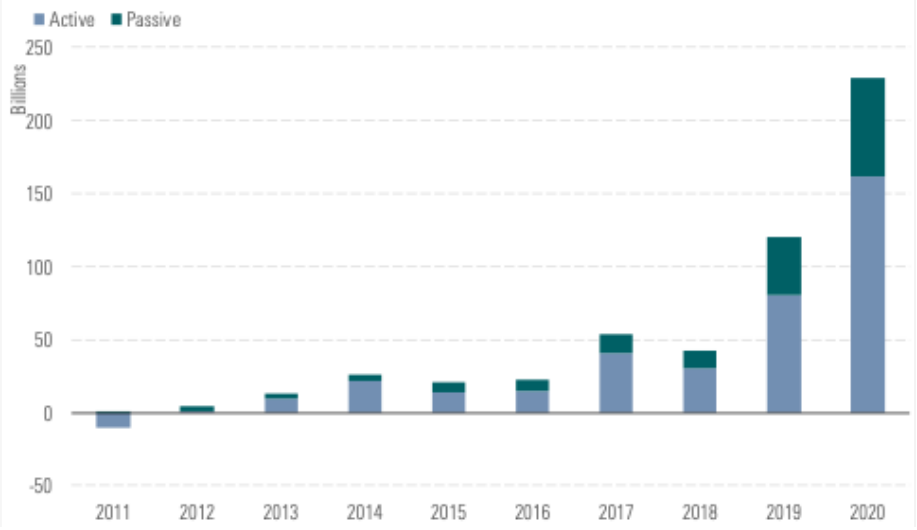

Figure 2.1: Annual European Sustainable Funds Net Inflows (EUR Billion)(Bioy et al., 2020)

The accelerating pace of growth shows that extreme occurrences of the last years, like COVID-19 and climatic disasters, are making investors shift their attention to ESG in-

vestment rather than other alternatives. A reason for that could be that investors perceive ESG as 'pandemic-proof' funds, since those incorporating ESG factors tend by construction to invest more in sectors that have faced the crisis better, such as healthcare and tech, and invest less in those that have been most impacted, such as transport, energy, materials (Jean-Jacques Barbéris, 2020). Evidence of this is given by a study carried out by the European Capital Market Institute (ECMI), in which they analysed investment flows in 1,662 ETFs listed on the US market, including 75 ETFs classified ESG, 24 specialised in environmental issues (low-carbon, water, clean energy, etc), 53 specialised in healthcare and 30 in tech. Cumulative flows have increased a lot throughout the crisis period for what concern ESG ETFs, while massive sales occurred after the initial phase of the Italian lockdown in traditional equity ETFs, but also for the ones specialised in sectors with little exposure, such as tech, and to a lesser extent, healthcare (see Figure 2.2) (Jean-Jacques Barbéris, 2020).

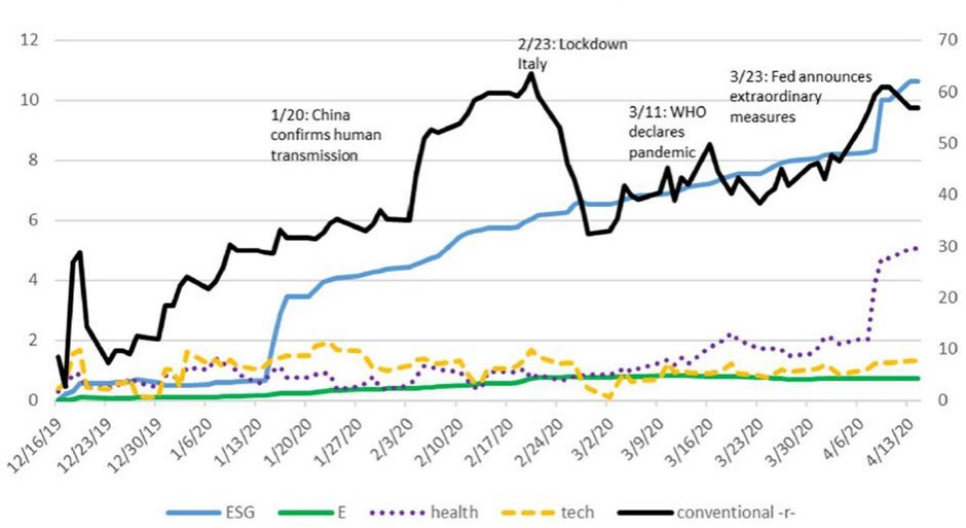

Figure 2.2: Cumulative flows into US-listed ETFs during the Covid-19 crisis (USD bn) (Jean-Jacques Barbéris, 2020)

Sustainable finance has found widespread adoption around the world but, above all, in Europe, which is leading the world in ESG issuance and has become the global hub for ESG bonds (Janse and Bradford, 2021). In fact, according to Janse and Bradford (2021) report, the Euro has overtaken the USD as the dominant currency in the world when it comes to sustainable finance since the share of global sustainable capital markets denominated in euro accounts for the 50% of the total against USD's 27%. (see Figure 2.3)

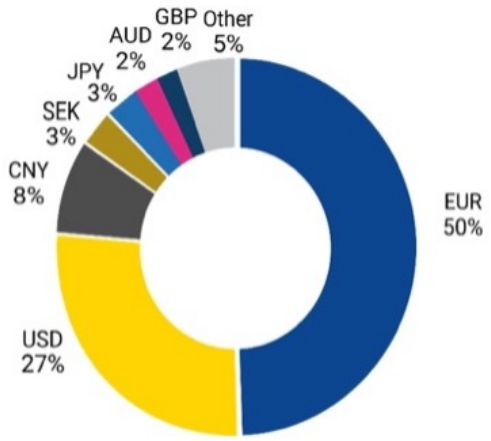

Figure 2.3: Sustainable Capital Market Volumes breakdown by currency denomination (Janse and Bradford, 2021)

Consequently, it is not unreasonable to assume that Europe will entice an even greater number of significant investments from non-EU investors in the years to come (Redondo Alamillos and de Mariz, 2022).

It is possible that the unbalance that has just been raised between the EU and the US can be explained by their different regulatory environments and policy interventions. In the European financial sector, for instance, a regulation regarding the disclosure of sustainable financial information has been adopted. This set of requirements is known as the Sustainable Financial Disclosure Regulation (SFDR) and it was published by the European commission in 2019 but started to apply in March 2021. It mandates that all participants and advisers in the European financial market publish comprehensive information on different sources regarding the way they incorporate environmental, social, and governance (ESG) aspects into their investing activity. This applies to both the entities that participate in the market and the products that are made available by those entities. After the implementation of this regulation, mutual funds' efforts in ESG increased, as did the ratings of EU funds in comparison to those in the US funds that were not subject to the SFDR (Becker et al., 2022). A possibility to witness the adoption of a regulation for the disclosure of sustainable finance information such as SFDR even in US is given by a phenomenon known as the "Brussels Effect". Academics believe that it has a good chance of occurring and has the potential to allow the United States to stay up with the European Union in terms of both ESG ratings and investments. This idea asserts, in its most fundamental form, that businesses located in areas of the world other than Europe, motivated by the worry of missing out on the opportunity to access the EU market, will adopt European regulation within their own company (Becker et al., 2022). However, as it stands nowadays, US seems to prefer a different approach, rather than the one proposed

by EU (Cornillie et al., 2021). This last concept, however, will be explored in greater detail in one of the next chapters. In conclusion, what emerged is that the market related to ESG investing is growing at global level and new demand from investors is not just caused by their need to hedge their returns against new crises, but it is also supported by policymakers with the introduction of new regulations promoting more transparency.

2.1.4. Socially Responsible Investment

Several direct and indirect ties have been established between finance and sustainability worlds over the last decade, especially after the financial and environmental scandals that have occurred since the late 1990s (e.g. Exxon Valdez, Bhopal, Nike, Parmalat, etc.) (Sciarelli et al., 2021). This encouraged analysts and fund managers to incorporate ESG data into investment strategies in order to reestablish social legitimacy and meet investors' increased emphasis on environmental, social, and governance criteria. This integration ends up in the formulation of a new class of investments called Socially Responsible Investments or SRI in short. According to Sciarelli et al. (2021), SRI combines "the traditional financial perspective with a perspective that is influenced by and oriented towards social and environmental issues". The Principles for Responsible Investments (PRI), an international network of investors supported by United Nations, made SRI its vocation and is considered the world's leading proponent of responsible investments. "The PRI defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership", and it works: "(1) to understand the investment implications of ESG factors; (2) to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions" (UNPRI, 2022). The objective of PRI is, ultimately, to develop a more sustainable financial system through the implementation of six principles which offer investors with a menu of potential activities for integrating environmental, social, and governance issues into investment practice (UNPRI, 2022). The principles are the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the

investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

Since PRI's launch in 2006, the interest in SRI has remarkably risen as evidenced by the growing number of signatories to the network which, as of today, exceeds 3,500 (UNPRI, 2022).

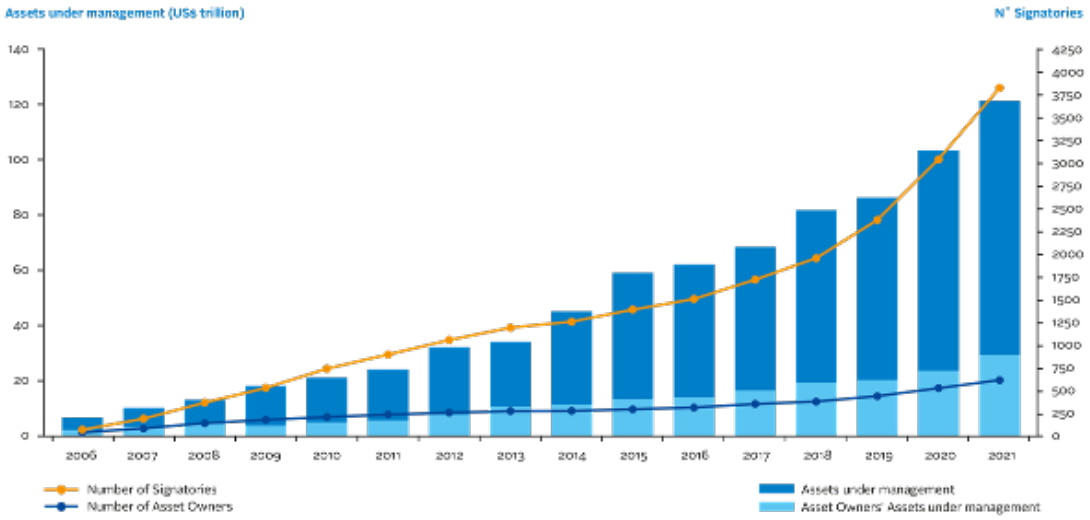

Figure 2.4: Number of PRI signatories since 2006 (UNPRI, 2022)

The increasing attention around this new investment rationale has been followed by a simultaneous evolution of its materialization within the financial market. As discussed by Sládková et al. (2021), therefore, the SRI paradigm has shifted from an "exclusion" approach to a more complete screening of the potential investee companies based on the positive contributions they provide to the society and environment. The framework that better shows the evolution of socially responsible investing's approach over time is the work developed by Schoenmaker (2018) in which he theorized three levels of sustainable finance that are each characterized by an increasing adoption of ESG factors within investment strategies. Sustainable Finance 1.0 is the level at which financial institutions have begun to shun non-sustainable enterprises from a risk standpoint. In the second stage, Sustainable Finance 2.0, financial institutions seek for businesses whose financial, social, and environmental objectives were balanced. While the leaders are investing in and lending to sustainable enterprises that provide long-term value for the broader commu-

nity, Sustainable Finance 3.0 is investing in and lending to such businesses. Schoenmaker (2018) also described the transition from shareholder value to stakeholder value in the investment objective, also known as the triple bottom line: people, planet, and profit. This concept is summarized in the following table:

Sustainable Finance Typology	Value created	Ranking of factors	Optimisation	Horizon
Finance-as-usual	Shareholder value	F	Max F	Short term
Sustainable Finance 1.0	Refined shareholder value	F>>S and E	Max F subject to S and E	Short term
Sustainable Finance 2.0	Stakeholder value	I = F+S+E	Optimise I	Medium term
Sustainable Finance 3.0	Common good value	S and E > F	Optimise S and E subject to F	Long term

Table 2.1: Framework for sustainable finance by Dirk Schoenmaker 2018

Table 2.1 summarizes Schoenmaker's framework using 4 variables to describe each level of sustainable finance : i) the value created, which defines the counterparty whose value is maximized (i.e. finance-as-usual aims at maximizing shareholders' value); ii) the ranking of the three factors: it identifies the relationships and the hierarchy among the main value-drivers which are financial value (F), social impact (S), environmental impact (E) ; iii) the optimization method, which illustrates the shape of the maximization function characterizing each sustainable finance typology; and iv) the horizon, which provides information about the maturity of the investments sought by managers for each kind of sustainable finance. Hereafter a complete description of each level of sustainability is provided, employing Table.1 as a guiding scheme for their explanation:

-The first typology represents traditional finance, or "finance-as-usual," in which shareholder value is the single element guiding value maximisation through the best combination of financial return and risk. There are incentives for short-termism, such as quarterly financial reporting and investment performance benchmarking, even though the maximisation of shareholder value should be focused on the medium to long term (Schoenmaker, 2018). In traditional finance, the objective function that an investor is required to maximise is the portfolio's financial value (FV) alone by maximizing profits and minimizing risk, with no respect given to any other elements:

$maxFV = F(profits, risk)$

subject to $F'profits > 0, F'risk < 0$

Where FV = financial value = expected current and discounted future profits, F'profits

is the partial derivative of F with respect to profits, and F'risk with respect to the second term.

- Transitioning to Sustainable Finance 1.0: it represents the first step toward achieving sustainable finance since, under this approach, financial institutions avoid investing in or lending money to businesses that are considered to be "sinful." Some examples of these types of businesses include activities involved in the alcohol, tobacco, gambling, sex-related, and weapon manufacturing industries. This kind of investment strategies is commonly identified with the name of "negative screening". A more comprehensive explanation of this investment criterion is provided by PRI (UNPRI, 2022) which defines negative screening as:

• Eliminating certain industries, issuers, or securities due to poor environmental, social, and governance (ESG) performance in comparison to peers in the same industry, or based on specific ESG criteria, such as avoiding certain products/services, locations, or business practices;

• Complete abstinence from all activities, including those involving alcoholic beverages, cigarettes, gambling, adult entertainment, weapons of war, fossil fuels, and nuclear energy;

• establishes a materiality criterion, such as 10% of total revenue exposure or a percentage of total company activity or operation;

• The avoidance of investments that are the worst in their class by utilizing quantitative ESG metrics.

As it currently stands, negative screening is the second most widespread sustainable investment technique and, in 2020, it accounted for 15 trillion US dollars' worth of assets under management worldwide (Global Sustainable Investment Alliance, 2020). Under this approach, thus, investors optimize the financial value of their portfolio by increasing profits and reducing risk, just as they would do with a traditional finance perspective but, additionally, they are asked to prevent excessive negative effects to the society and to the environment. This last requirement is met by establishing a minimum level of social and environmental value (SEVmin) and, eventually, the objective function becomes:

$maxFV = F(profits, risk)$ subject to $F'profits > 0, F'risk < 0, SEV \geq SEVmin$

Where SEV = social and environmental value.

- In Sustainable Finance 2.0, the decision-making process at financial institutions takes environmental, social, and governance factors into account. More precisely, this investment strategy is called ESG integration, it corresponds to the deliberate and methodical

consideration of environmental, social, and governance issues within the context of financial analysis by investment managers. This approach represents the most widespread sustainable investment technique around the world, accounting for a total of USD 25.2 trillion in assets under management worldwide (Global Sustainable Investment Alliance, 2020). Investors and firms are spurred to internalise social and environmental externalities over the medium to long term as a consequence of pressures exerted by governments and societies in the form of future regulations and taxes. Putting a monetary value on social and environmental implications makes it easier to optimise the many components (F, S, E). In this manner, the total or integrated value may be determined by integrating the financial, social, and environmental aspects. The integrated value (IV) of an investor's portfolio may be optimised by increasing integrated earnings while simultaneously minimising risk (i.e. the variability of integrated profits) and ensuring that the portfolio's social and environmental impact SEVp does not deteriorate. Hence, the objective function change its form and it is given by:

$maxIV = F(integratedprofits, integratedrisk)$

subject to $F'intprofits > 0, F'intrisk < 0, SEV_{pt+1} \geq SEV_{pt}$

Where SEV_{pt+1}= next period social and environmental impact.

- Sustainable Finance 3.0 shifts the emphasis from risk to opportunity. Rather than avoiding the risk of including unsustainable businesses in their portfolios, financial institutions exclusively invest in sustainable businesses and initiatives. This approach makes use of financial resources to advance sustainable development in a variety of ways, by, for instance, providing support for the financing of healthcare, green buildings, wind farms, electric vehicle manufacturers, and projects involving the reuse of land. As opposed to starting with a blacklist of projects as SF 1.0 did, Sustainable Finance 3.0 starts with a positive selection of investment projects chosen for their potential to have a good influence on both society and the environment. This investment strategy is commonly known as "positive screening" that consists of (UNPRI, 2022):

• Investing in industries, issuers, or projects that have a good environmental, social, and governance (ESG) performance in comparison to others in the same business.
• The intentional inclusion of businesses into a given investment universe on the basis of the social or environmental benefits provided by the provision of their goods, services, or processes.
• Endorsing the best-in-class companies or those that are "leaders" in best practice in comparison to a peer group by employing quantitative ESG metrics.
• Positive developments related to the theme, such as companies in transition, renewable

or clean technology, social enterprises or initiatives.

Differently from the previous investment strategies, this is the least adopted one with USD 1.4 trillion in asset under management worldwide (Global Sustainable Investment Alliance, 2020). The goal function seeks to maximise the social and environmental value (SEV) of the investment while maintaining a minimal value of financial return (FVmin), which is the exact opposite of the goal function that was used in SF 1.0. The objective function is given by:

$maxSEV = F(impact, risk)$

subject to $F'impact > 0, F'risk < 0, FV_{t+1} \geq FV_{t+1}^{min}$

The minimum financial value can be presented as follows: $FV_{t+1}^{min} = (1+r^{fair})F_t^{min}$, where $r^{fair} \geq 0$ is a fair financial return for one period. The key change is that the role of finance FV turns from primacy (profit maximisation in Sustainale Finance 1.01) to serving (a means or condition to optimise sustainable development in Sustainable Finance 3.0).

What can be ultimately inferred from this classification, is that the maximum expression of SRI resides in Sustainable Finance 3.0. At this level, indeed, finance takes the role of a means to foster a transition to a more ESG-oriented economy and, at the same time, able to conjugate economic and sustainability goals.

The last framework that shall be presented allows to detect from a different perspective the three different stages of sustainable finance just discussed. This framework is the one proposed by Bengo et al. (2022) that has a very strong connection with the concept of blended value. According to Emerson (2003) definition, blended value is used to express commitment toward the generation of financial as well as social and environmental contributions, thus embracing a holistic approach to value generation and impact. Boundaries of the perimeter of blended value, however, are not well defined, favouring the entry of actors into the market that claim to be committed to the generation of social and environmental value, but often subordinated to the financial one (Bengo et al., 2022). For example, some actors propose the introduction of ESG principles as drivers of the generation or the protection of financial returns, either screening investment opportunities with relevant ESG performances or excluding those presenting certain ESG risks (Schoenmaker, 2018). Conversely, others consider certain ESG criteria as the main drivers for achieving positive impact out of their portfolios of investments (Schoenmaker, 2017). In order to better frame the concept of blended value it is time to finally move to the conceptual framework realised by Bengo et al. (2022) which is composed by three concentric circles identifying, respectively, different degrees in the centrality of the impact for sustainable

finance, namely low, medium, and high (Figure 2.5). In the first, inner circle, Bengo et al. (2022) examine the fundamental prerequisites for entering in a blended value context which requires investors to adopt environmental, social, and governance (ESG) strategies as a means of mitigating the potential for long-term financial risks resulting from negative ESG externalities. The intermediate circle (green) considers an investment opportunity that not only assesses potential ESG risks, but also generates top ESG performances. The biggest circle (orange) takes into account the purest dimension of blended value, which occurs when an investment strategy not only embraces ESG principles in terms of risk and performance, but also attempts to measure and generate the benefits deriving from its implementation. As a result, to adopt this investment approach, it is necessary to make sure that ESG standards are met and that a trajectory of the effects is defined for possible investment possibilities (Bengo et al., 2022). Nevertheless, investors do not sacrifice the potential for financial returns, but they are willing to accept returns that are lower than the market rate in order to maximise the impact. The goal of this specific strategy aiming at achieving blended value is to derive positive effects and generate an impact from the application of ESG criteria (ibid).

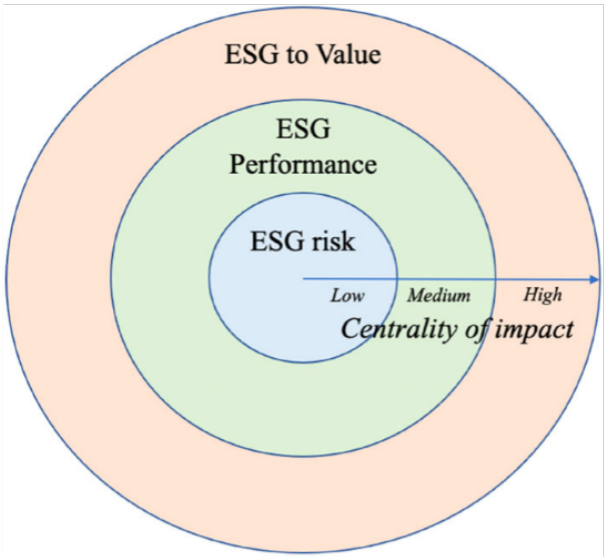

Figure 2.5: Blended value framework (Bengo et al., 2022)

2.1.5. Further Evolutions: Shareholders' Engagement, Impact Investing

In this chapter, two further strategies to sustainable finance are presented due to their importance and implications within financial markets, namely Shareholders Engagement and Impact Investing. The former represents an example of how the widespread activity of steering the investee company through voting rights in shareholders meetings has changed its scope from a pure for-profit perspective to a more ethic-centred one. The latter, instead, represents the most recent innovation in terms of ESG-based financial products, aiming at revolutionizing the classic financial perspective by seeking for positive environmental and social impact rather than financial gain.

Shareholders' Engagement

The term "shareholders' engagement" refers to the activities of firms' stockholders that are intended to change the ESG practices of companies (Kolbel et al., 2020). These activities include the right to vote on shareholders' proposals during annual general meetings, discussions during informal meetings with management, and criticizing the practices of companies (ibid). Evidence that shareholders' engagement can lead to changes in companies' activities that are detectable from external data sources, such as ratings, is provided by Barko et al. (2022) findings which demonstrate that shareholders' initiatives are associated with subsequent increases in the ESG ratings of targeted companies. Dimson et al. (2015), moreover, revealed evidence even for a financial return increase for enterprises that are the target of shareholders' participation, demonstrating favourable market responses to active-ownership engagements in U.S. public enterprises during the period of 1999–2009 using a proprietary dataset on responsible investing techniques. These environmental, social, and governance (ESG) efforts, on average, result in a positive size-adjusted abnormal return of the stock price of about +2.3% points in the year after the first engagement. There is no negative response to failure engagements; nonetheless, the average size-adjusted abnormal return after first engagement is 7.1% higher for successful engagements than it is for unsuccessful ones. Engagements centred on the topics of corporate governance and climate change had the highest positive abnormal returns. Allianz Global Investors, a fund management company based in Germany, has said that starting from the beginning of 2019, it would vote against big firms in the United Kingdom and Europe in which it has invested if they fail to executive compensation to ecological, social, and governance parameters. According to Matt Christensen, the global head of sustainable and impact investing at AllianzGI, "As an active investor, exercising our voting rights is

one of the most powerful tools we have to effect change" (Klasa, 2022). The percentage of shareholder engagements that are successful is contingent on a wide range of factors, including features of the engagement request, the firm, the investor and the particular procedure being used for the process (Kolbel et al., 2020). More in detail, Kolbel er al. (2020) identify three specific elements that have a significant impact on the overall success rate, and they are as follows:

- The first determinant is the cost of the reform that is associated with the engagement request. Therefore, proposals that demand some sort of expensive reorganization have lower success rates when compared to requests that include smaller costs, thus indicating that the odds of success drop as the costs of the proposed reform increase.
- The second determinant is the influence of investors: engagement requests have a better chance of being granted when the shareholder who is engaging controls a higher portion of the firm that is being sought after. However, the presence of larger holdings is not the only factor that causes an increase in investor influence. A major consideration is when the engagement is spearheaded by an investor who is from the same country as the company that is being engaged, which suggests that linguistic and cultural factors may also play a role. Additionally, the likelihood of success increases when significant asset managers that are well-known on a global scale are included in the group of investors participating in the endeavour (Kolbel et al., 2020).
- The degree of experience that the organization has had with ESG issues is the third determinant. Firms who have a history of complying with engagement requests have a better chance of having successful engagements, and companies that had good ESG ratings prior to the engagement are more likely to comply with engagement requirements (Kolbel et al., 2020). What is intriguing, however, is that it has been observed that following the engagement, businesses that had low ratings for their ex-ante ESG performance gain better scores, while firms that had high scores for their ex-ante ESG performance obtain lower scores. This last result can be surprising. If the active investor properly identifies corporations that have an environmental, social, or governance concern, then future ESG evaluations may include this new knowledge, and the updated ESG scores will then integrate the possible ESG problem. When it comes to companies who started off with high rankings, this tends to bring those numbers down. The interaction appears to suggest that organizations who were previously rated poorly are not "lost cases," and that even the highest performers may still have space for development (Barko et al., 2022).

Consequently, since participation in engagement activities results in an increase in shareholder value, the last point to consider is why companies could not willingly follow such a strategy. Although it is theoretically feasible for a company to enhance its ESG practices

even in the absence of outside involvement, there are few reasons why this is unlikely to occur to its maximum potential. The two reasons that have been identified by Dimson et al. (2015) are listed below:

- A first reason is that companies suffer from poor corporate governance, which indicates serious agency issues and a greater likelihood of deviating from shareholder value maximization, which would impede adoption of even value-enhancing ESG projects. This is due to the fact that poor corporate governance indicates serious agency issues and a greater likelihood of deviating from shareholder value maximization (Dimson et al., 2015).
- As a second reason, the active owner offers directional advice to the target firms, and in the absence of input from the outside, it is inevitable that some engaged companies would be unable to recognize and react correctly to ESG possibilities. In other words, the asset manager may develop acceptable norms and provide the essential ambiance for engaged enterprises to move to a new equilibrium with better company value and reduced ESG risks by working in conjunction with other active investors and stakeholders (Dimson et al., 2015).

Impact investing

Eleven years ago, the Rockefeller Foundation introduced the notion of impact investing, which was a game-changer for the traditional investment business (Rockefeller Philanthropy Advisors, 2020). The term "impact investments" refers to capital that is put into businesses, non-profit organizations, and investment funds with the goal of producing a social or environmental benefit in addition to a financial return on the investment (Rockefeller Philanthropy Advisors, 2020). Even if this definition can be interpreted for a diverse range of investments, there are still two essential components that need to be imperatively present in the strategy: intentionality and measurement. Moreover, the investor's objectives should include both social effect and financial return (ibid) and, although there is more agreement on criteria for financial return on investment (ROI), an impact investor must also quantify the social effect. Essentially, all investments have an effect on society, some positively, others negatively. Impact investors actively seek for investments with measurable beneficial social impact (ibid).

Eight years later the Rockefeller definition of impact investing, regulators manged to come up with the Sustainable Financial Disclosure Regulation (SFDR) aiming to, among other things, categorize investments in order to improve their measurability, and consequently comparability, allowing investors to undertake more thoughtful investment decisions. In particular, the SFDR requires financial market participants to make a distinction between sustainable financial products that enhance environmental or social qualities (Article 8)

and financial goods that have as their purpose a beneficial effect on the environment and society (Article 9). Since Article 9 products are required to work toward a sustainable investment goal, industry professionals often come to the deduction that such products are eligible for inclusion in the category of impact investments. However, the current criteria and disclosure requirements of the SFDR do not support this conclusion. Since of this, it is unclear whether sustainable investment strategies may or may not identify itself with a SFDR product category because there is uncertainty about the criteria. This can lead to a low level of their adoption by investors due to this lack of clarity. In fact, according to GSIA (2021), impact investment accounts for just 1% of the overall sustainable investment assets, the latter correspond to one-third of total assets under management at the moment (Rockefeller Philanthropy Advisors, 2020). Moreover, another side-effect related to the uncertainty around impact investment products is the greater possibility of "impact washing," also known as the inappropriate use of the phrase "impact investing" in order to entice financial backing without the goal of making a genuine contribution to the world (Krombholz et al., 2022).

In relation to this Krombholz et al. (2022) propose an interesting investigation into 185 funds that claim to be able to make a positive contribution to society and/or the environment, the majority of which are based in Europe (65%) and North America (24%). The purpose of the study was to determine whether the so-called impact funds actually live up to their claims or if they are nothing more than an empty promise. The findings of the research provide an overview of two primary concerns. To begin, it would seem that different asset managers have different conceptions of what constitutes a "genuine" impact investment. In light of this fact, the concept is often discussed in relation to a diverse combination of different asset classes and investing techniques. Secondly, while many industry professionals refer to products related to Article 9 as impact investments, actual data demonstrates that the majority of funds do not satisfy the need to produce any kind of impact (Krombholz et al., 2022). The Sustainable Finance Disclosure Regulation was adopted to promote greater openness as well as to provide assistance to asset owners in better comprehending and evaluating the sustainability characteristics of various investment products. However, from this study, it emerged that the funds that are categorized together as part of Article 8 or Article 9 are not even somewhat equivalent to one another. This is probably due to the fact that FMPs themselves do not know how to properly categorize their items (Krombholz et al., 2022).

Nevertheless, on the other side, funds caught investors not prepared as well when called to decide how to allocate their money in sustainable investments. In fact, as Heeb et al. (2022) argue, investors' choice, for what concerns sustainable investing, is more driven by their feelings than by an accurate analysis of fund's impact. Heeb et al. (2022) run an

experiment in which an investor was given the option of investing in either sustainable or non-sustainable businesses. It was observed that investors' willingness to pay (WTP) is not affected neither by the level of impact generated by the investment, nor it is influenced by the insensitivity to the level of impact. Relying on a post-experiment survey, it was found that investors' WTP is correlated with the level of positive emotions they experience when choosing the sustainable investment and not with their experience. However, the effect of the sustainable investment did not have any bearing on these favourable feelings. It was demonstrated, through an experiment with a panel of 527 experienced private investors as well as with a unique panel of 125 dedicated high-net-worth impact investors, that investors' willingness to pay per ton of CO2 was strongly correlated with this level of positive emotions, although it did not with investors' individual estimates of how much it costs to save one ton of CO2. This lends credence to the idea that investors' evaluations of effects are mostly influenced by their sentiments rather than the results of calculations. In the end, this implies that "the pleasant feelings that may be received from picking sustainable assets are a significant driver of the trend toward sustainable investing" (Heeb et al., 2022). In conclusion, despite impact investing represents nowadays the purest form of ESG investing that investors have in their menu of strategies, it remains at a low rate in terms of market adoption due to two main reasons: the lack of clarity regarding its definition, allowing adverse consequences like impact washing, and investors' willingness to pay more guided by feelings towards ESG trend rather than a true analysis of the investment.

This concludes our analysis on further developments of SRIs, in which we first introduced the argument reporting some definitions and the main international network. Then, we tried to investigate them through the study of different frameworks and finally reporting the last investment strategies characterizing the sustainable financial market.

2.2. Sustainability and Finance in the EU

European Union has many times placed itself at the forefront when coming to regulation specifically designed to foster ESG globally (Redondo Alamillos and de Mariz, 2022) and, often, EU policies were the driving force of the consolidation of the sustainability paradigm in the financial sector. However, the role of finance in the contribution towards a more sustainable growth of the economy has changed its face across time. Ahlström and Monciardini (2022) very well described the historical shifts in the relationship between the financial logic and sustainability goals, explaining how they moved from a conflicting to a more complementary stance. Authors, then, put this simultaneous evolution into relation with EU regulatory changes that followed. What has emerged from Ahlström and Monciardini (2022) is that, from the financial crisis to 2019, EU sustainability regulatory dynamics moved from voluntary to 'legislative driven' and, in a subsequent phase, from sustainability oriented to narrowing the view towards climate change only. This process was led by the prevalence of the financial logic in the society which, shortly after the financial crisis, drastically diminished, but regained momentum (in a second phase) thanks to the cooperation between large financial groups and alternative institutional forces like CSOs (Civil Society Organizations), which successfully framed the notion of sustainable finance (ibid). The last phase, in which the scope of sustainable finance driven by EU policies narrowed just to climate change, led to new conflicts in its views between financial players which aimed at a less drastic drift of finance and CSOs, which see finance as a mean for transformation (not only climate-change related) (ibid).
In the following paragraph, a panoramic view of the main EU regulatory provisions especially related to disclosure will be discussed to better understand the evolution of the sustainable finance paradigm.

2.3. Sustainable Finance Regulation in the EU

According to Claringbould et al. (2019), sustainable finance purpose is, as in a traditional view of investments, still the generation of financial returns but, together with it, investors also consider impacts of their activities along ESG criteria. The European Commission defines Sustainable finance as "the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects" (European Commission, 2018). At EU level, the designation of an ESG framework only started from 2010 with specific mandatory rules (EMAS" Regulation 2009/1221; "Timber" Regulation 2010/995; "NFRD" Directive 2014/95; "Conflict minerals" Regulation 2017/821) but the real turning point, according to Bengo et al. (2022) occurred in 2015, considered a pivotal year in the fight to climate change. On that year, indeed, the United Nations adopted the Sustainable Development Goals (SDGs) as part of the 2030 agenda while the Financial Stability Board created the Task Force on Climate-related Financial Disclosure (TCFD) to improve and increase reporting of climate-related financial information. On December 2015, finally, the Paris Accord was adopted by the delegates at the 21st Conference of the Parties with the aim of limiting the increase in the world's average temperature to no more than 2 °C above preindustrial levels . Article 2.1.c of the Paris Agreement states the commitment to align financial flows with a pathway towards low-carbon and climate-resilient development (European Commission, 2018). In 2016 the European commission started taking actions towards this direction by setting up a High-Level Expert Group on sustainable finance (HLEG). Its role, among others, is, indeed, to provide advice to the commission on how to steer the flow of public and private capital towards sustainable investment (European Commission, 2018). Another justification for a sustainable reorientation of capital flows was introduced in 2020 with the '2030 climate target plan' of the European commission, aiming at an "emissions reduction target of 55% by 2030 as compared to 1990". To reach that goal, The EU needs to invest approximately 350 billion Euro more every year during the 2021-30 period than it did during the previous decade. To this end, the Commission has since 2018 been developing a comprehensive policy agenda on sustainable finance, comprising the action plan on financing sustainable growth and the development of a renewed sustainable finance strategy (European Commission, 2018). Claringbould et al. (2019), more in general, identify several means the EU has at its disposal to foster sustainable finance. It can:

1) regulate the financial markets and banking sector;
2) provide financial support for investment;

3) give financial incentives to influence decisions;
4) provide information/assistance to foster better decision making;
5) enhance international cooperation between the EU and third countries.

The EU may use each of these options separately or in a combination to facilitate the spread of sustainable finance.
According to Redondo Alamillos and De Mariz (2022), the motivation for which Europe has issued significant regulations on sustainability was not only to foster ESG investments, but also to control the required compliance of corporations with the ESG commitment and, at the same time, be able to meet with Paris Accord Milestones. Claringbould et al. (2019), accordingly, identify the already mentioned Action Plan, the ETS (Emission Trading System) and EU Financial support as the three most important initiatives at EU level to foster sustainable finance. For the scope of our thesis, we are going to furtherly detail just the first framework and present the reference regulations that will help us introduce our work. The "Commission action plan on financing sustainable growth" was adopted in March 2018 and directly benefitted from recommendations of the HLEG. It "set out a comprehensive strategy to further connect finance with sustainability" (European Commission, 2018) and includes ten key actions divided into three categories which provide a direct and ambitious response to the Paris Agreement's targets (Redondo Alamillos and de Mariz, 2022).
The three categories are:

(1) Reorienting capital flows towards a more sustainable economy;
(2) Mainstreaming sustainability into risk management;
(3) Fostering transparency and long-termism.

The original Action Plan of 2018 was then finalised in July 2021 with the publication of the EU's Sustainable Finance Strategy, with a second round of regulatory intervention regarding sustainability-linked and transition bonds, considerations on green mortgages, an extension of the Taxonomy, and a clarification that investors' fiduciary duty includes ESG considerations (Redondo Alamillos and de Mariz, 2022).
Among the first category's measures, the Action Plan includes the EU Taxonomy (Regulation (EU) 2020/852), a classification system for sustainable activities. To achieve the second category's objective, the Commission adopted the Regulation on sustainability-related disclosures in the financial services sector (Regulation (EU) 2019/2088), also known as "Sustainable Finance Disclosure Regulation", SFDR in short. In the last category, finally, the Plan established to review Directive 2014/95/EU, also called the Non-Financial Reporting Directive (NFRD). We specifically highlighted these three measures, EU Taxonomy, NFRD and SFDR, because they are related, although in different ways, to Sus-

tainability disclosure, which is one key ingredient of our thesis. The two regulations and the directive are connected with each other, and we will briefly comment on all of them, while SFDR will be broken down in the next chapter. Redondo Alamillos and de Mariz (2022) work is taken as reference for the brief discussion that follows about the three measures.

The Non-Financial Disclosure Regulation (Directive 2014/95/EU, NFRD) came into force in 2017 and requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information (European Commission, 2017). The European Commission has adopted on 21 April 2021 the Corporate Sustainability Reporting Directive, amending specific disclosure requirements of non-financial nature to NFRD, including the specification to report according to mandatory EU sustainability reporting standards (European Commission, 2021a). Under NFDR, in particular, complying companies will have to publish reports, which will then have to be audited, on their policies regarding environmental protection, social responsibility, human rights, anti-corruption and bribery, and board diversity (Redondo Alamillos and de Mariz, 2022).

The Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088, SFDR), which was adopted by co-legislators in spring 2019 but started to apply in March 2021, lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors (European Commission, 2019). In addition, it also includes disclosure obligations as regards adverse impacts on sustainability matters at entity and financial products levels. The EU Taxonomy Regulation ((EU) 2020/852) for Economic activities entered into force on 12 July 2020 and its aim is to "provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable" (European Commission, 2020). Article 3 of the Regulation, hence, prescribes four criteria which an economic activity must respect to be considered environmentally sustainable, with the intention to create a common understanding among financial market and protect private investors from greenwashing (European Commission, 2020). Among those criteria, the mandate is for firms to 'contribute substantially' to at least one environmental objective among the ones listed in article 9 actively—either through economic activities that contribute to or financially support sustainable activities—with little to no harm to the rest of the objectives (Redondo Alamillos and de Mariz, 2022).

The Environmental objectives reported in art. 9 of Regulation (EU) 2020/852 (European Parliament, 2020) are:

(1) Climate change mitigation;

(2) Climate change adaptation;
(3) The sustainable use and protection of water and marine resources;
(4) The transition to a circular economy;
(5) Pollution prevention and control;
(6) The protection and restoration of biodiversity and ecosystems.

The EU Taxonomy regulation (European Parliament, 2020) applies to both the SFDR and the NFRD since it introduces new financial disclosure requirements in the SFDR for products at its scope and it conveys specificities to the actors of both measures (Redondo Alamillos and de Mariz, 2022), namely financial participants for SFDR and companies in the scope of NFRD.
To sum up, Redondo Alamillos and de Mariz (2022) argue that NFRD, SFDR, and the EU Taxonomy are essential for sustainability disclosure but overlap in certain items. In essence, the Taxonomy is a disclosure regulation that applies to companies and asset managers in the scope of SFDR and NFRD. SFDR and NFRD, on the other hand, are focused on detecting and mitigating sustainability risks (Redondo Alamillos and de Mariz, 2022). Consequently, another initiative worth to mention is the set of Regulatory Technical Standards (RTS) on ESG Disclosures. The RTS have been developed by the joint European Supervisory Authorities and their aim is to reinforce disclosure requirements at the product level and ensure alignment with environmental objectives under the EU taxonomy (Redondo Alamillos and de Mariz, 2022). RTS definition and role will be better defined in the next chapter.
Finally, Claringbould et al. (2019) identify 3 major challenges and political implications for sustainable finance in the EU:

(1) The EU is responsible for (only) around 9.1% of global greenhouse emissions and, even if it will achieve to become a net-zero emissions economy by 2050, the overall global impact would be very low for mitigating climate change, hence strong international cooperation is imperative (Claringbould et al., 2019).
(2) Putting sustainable finance into practice requires close cooperation among the European, national, regional and local levels of decision-making (ibid).
(3) Sustainable finance has a social dimension: if on one hand the transition to a lower-carbon and more sustainable economy has the potential to create new 'green jobs, on the other 'brown economic activities' (e.g.: coal mining or power generation) would have to undergo changes that may have negative implications, at least temporarily, on jobs and growth (ibid).

2.3.1. Sustainable Finance Disclosure Regulation – SFDR

SFDR Overview

On 9 December 2019, the European Parliament and the European Council had published the Sustainable Finance Disclosure Regulation in the Official Journal and it started to apply from 10 March 2021. The regulation seeks to establish harmonized rules for Financial Market Participants (FMPs) and Financial Advisers relatively to their sustainability disclosures. SFDR, indeed, requires the two sets of actors to communicate to investors how they integrate sustainability risks into their processes and to be transparent with regards to their financial products. Behind the adoption of SFDR, lays a number of motivations. The first point that the regulation should help to address, as reported in recital (8) SFDR, is the already discussed issue of the urgency of capital mobilization through the financial sector to tackle climate change. Then, recital (9) of the Regulation states that the absence of harmonised rules about sustainability disclosures to end investors, will likely lead to differences in disclosure standards and, consequently, create "distortions of competition". After all, divergent national disclosure standards and market-based practices "(i) make it very difficult to compare different financial products, (ii) create an uneven playing field for such products and for distribution channels, and (iii) erect additional barriers within the internal market" (Busch, 2021). Finally, as recital (10) explains, the regulation aims to reduce information asymmetries between FMPs and Financial advisers on one side (Agents), and investors on the other (Principal).
Moving around SFDR nomenclature is no easy task. The following paragraphs will try to clarify part of the regulation's vocabulary, reporting the main SFDR definitions.

Financial Market Participants

By Financial Market Participants (FMPs), the regulation (European Commission, 2019) refers to a large number of financial intermediaries and institutions, namely:

- An insurance undertaking which makes available an insurance-based investment product (IBIP);
- An investment firm and a credit institution providing portfolio management;
- Several entities involved in the provision and manufacturing of pension products;
- An alternative investment fund manager (AIFM), a manager of a qualifying venture capital fund (EuVECA), or a manager of a qualifying social entrepreneurship fund (EuSEF);
- A management company of an undertaking for collective investment in transferable

securities (UCITS management company).

Financial Advisers

Financial Adviser means:

- An insurance intermediary or undertaking providing insurance advice with regard to IBIPs;
- A credit institution or an investment firm providing investment advice;
- An AIFM or an UCITS management company providing investment advice.

Financial Product

'Financial product' refers to:

- An individually managed portfolio;
- An alternative investment fund (AIF) or a collective investment scheme (UCITS);
- An IBIP;
- A pension product, a pension scheme or a Pan-European personal pension product (PEPP).

Sustainability Risk

"'Sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment" (art. 2 SFDR).

Sustainability Factor

"'Sustainability factors' mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters" (art. 2 SFDR).

Sustainable investment

With 'Sustainable Investment', art. 2(17) SFDR refers to an *"investment in an economic activity that contributes to an environmental objective" measured by some key resource efficiency indicators or an investment in "an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures,*

employee relations, remuneration of staff and tax compliance" (European Commission, 2019).

The Regulation: Transparency Requirements

SFDR, from article 3, starts to lay down transparency duties for Financial Market Participants and Financial Advisers. Disclosure requirements differ according to the subject of the reported information, either entity or financial product, but also according to where the information is published: Website, pre-contractual disclosures, or Periodic Reports. We will briefly present the articles relative to transparency requirements and comment on them to properly frame the rationales behind our work and to better understand the literature review that will follow.

Entity Level Disclosures

Entity Level Disclosure provisions are laid down in articles 3, 4 and 5 of Regulation (EU) 2019/2088:

- Article 3 SFDR refers to 'Transparency of sustainability Risk Policies' on the Website. Financial Market Participants and Financial Advisers shall publish on their websites information about their policies on the integration of sustainability risks, respectively, in their investment decision-making process and in their investment advice or insurance advice (art. 3 SFDR), (European Commission, 2019). The EU legislator is of the opinion that the consideration of sustainability factors in the investment decision-making and advisory process can realise benefit beyond financial markets, like increasing the resilience of real-economy, the stability of the financial system and, ultimately, impact the risk-return of Financial Products (Hooghiemstra, 2020).
- Article 4 SFDR regards 'Transparency of adverse sustainability impacts at entity level'. In particular, this article is relative to the consideration of Principal Adverse Impacts (PAIs) by Financial Market Participants and Financial Advisers of, respectively, their investment decisions and advice. Recital (20) of SFDR defines Principal Adverse impacts as *"those impacts of investment decisions and advice that result in negative effects on sustainability factors"*.
  Article 4 of SFDR envisages the 'comply or explain' principle.
  - Comply:

    Article 4 states that Financial Market Participants, if they include principal adverse impacts of investment decisions on sustainability factors, must publish and maintain on their websites a *"statement on due diligence policies with re-*

spect to those impacts, taking due account of their size, the nature and scale of their activities and the types of financial products they make available" (Art. 4.1(a) SFDR). Financial market participants shall include, at least, the following information:

- *"information about their policies on the identification and prioritisation of principal adverse sustainability impacts and indicators;*
- *a description of the principal adverse sustainability impacts and of any actions in relation thereto taken or, where relevant, planned;*
- *brief summaries of engagement policies in accordance with the Directive on the exercise of certain rights of shareholders in listed companies, where applicable;*
- *a reference to their adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of their alignment with the objectives of the Paris Agreement".*

(art. 4(2) SFDR)

– Explain:

Financial Market Participants, where they do not consider adverse impacts of investment decisions on sustainability factors, *"must publish and maintain on their websites clear reasons for why they do not do so, including, where relevant, information as to whether and when they intend to consider such adverse impacts"* (Art. 4.1 (b) SFDR).
However, the 'comply or explain' principle, does not apply for Financial Market Participants which either exceeds on their balance sheet the average of 500 employees during the financial year or represent the parent undertaking of a large group. On these cases, indeed, Financial Market Participants *"must publish and maintain on their websites a statement on their due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors"* (art. 4.4 SFDR) that include the above-mentioned information.
Similarly, Financial Advisers, when they decide or must adopt the 'comply' formula, *"must publish and maintain on their websites: information as to whether, taking due account of their size, the nature and scale of their activities and the types of financial products they advise on, they consider in their investment advice or insurance advice the principal adverse impacts on sustainability fac-*

tors" (art. 4.5 (a) SFDR). If conditions for the 'explain' criterion are met, Financial Advisers must publish and maintain on their websites information as to *"why they do not to consider adverse impacts of investment decisions on sustainability factors in their investment advice or insurance advice, and, where relevant, including information as to whether and when they intend to consider such adverse impacts"* (Art. 4.5 (b) SFDR).

- Article 5 SFDR regulates the "Transparency of remuneration policies in relation to the integration of sustainability risks". Financial market participants and financial advisers *"shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks and shall publish that information on their websites"*. Hooghiemstra (2020) argues that the European Legislator considered that achieving more transparency on the remuneration policies, promotes sound and effective risk management with respect to sustainability risk, as long as the structure of remuneration itself does not encourage excessive risk taking.

Financial Product Level Disclosures

The following sections examine the main provisions the SFDR lays down at the financial product level.

Pre-Contractual Product Level Disclosures

- Article 6 SFDR regards the transparency on pre-contractual disclosures of the integration of sustainability risks at product level. The article adopts the 'comply or explain' principle.
  - Comply:

    According to this article, Financial Market Participants shall include descriptions of the following in pre-contractual disclosures:

    * *"the manner in which sustainability risks are integrated into their investment decisions;*
    * *the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available"*.

    (art. 6(1) SFDR)

  - Explain:

    Where financial market participants deem sustainability risks not to be rele-

vant, *"the descriptions referred to in the first subparagraph shall include a clear and concise explanation of the reasons therefor"* (art. 6(2) SFDR).
The same holds, mutatis mutandis, for financial advisers in their investment or insurance advisory activity.
In addition, the article lists, according to the reference sectoral legislation, how and where each Financial market Participant and Financial Adviser have to publish the pre-contractual information.

- Article 7 SFDR lays down different obligations to Financial Market Participants, contingent on the criterion, either comply or explain, they followed for transparency regarding article 4 SFDR on Principal Adverse Impacts.
  - Comply

    Financial Market Participants shall include in the disclosure relatively to article 6 SFDR, for each financial product, the following:
    - *"a clear and reasoned explanation of whether, and, if so, how a financial product considers principal adverse impacts on sustainability factors;*
    - *a statement that information on principal adverse impacts on sustainability factors is available in the information to be disclosed pursuant to Article 11(2)".*

    (art. 7(1) SFDR).
  - Explain

    Financial market participant *"shall include for each financial product a statement that the financial market participant does not consider the adverse impacts of investment decisions on sustainability factors and the reasons therefor"* (art. 7(2) SFDR).
- Article 8 SFDR defines transparency rules in the instance that one or more financial products promote environmental characteristics. In that case, information to be disclosed pursuant to Article 6(1) and (3) shall include the following:
  - *information on how those characteristics are met;*
  - *if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics".*

(Art. 8(1) SFDR) To this end, the Taxonomy Regulation (Regulation (EU) 2020/852) specifies some additional reporting requirements whenever a product promotes en-

vironmental characteristics. Thus, if a financial product is classified under art. 8 SFDR, *"the information to be disclosed in accordance with article 6 SFDR shall include (a) the information on the environmental objective or environmental objectives listed in Article 9 of Taxonomy Regulation to which the investment underlying the financial product contributes; and (b) a description of how and to what extent the investments underlying the financial product are in economic activities that qualify as environmentally sustainable under Article 3 of the Taxonomy regulation"*.
In addition, *"the description referred to in point (b) of the first subparagraph of this Article shall specify the proportion of investments in environmentally sustainable economic activities selected for the financial product"* (Art. 5 (EU) 2020/852 TR).
Finally, the information to be disclosed in accordance with Articles 6(3) and 11(2) SFDR must be accompanied by the following statement: *"The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities"* (Art. 6 Taxonomy Regulation).

- Article 9 SFDR provides rules on how to disclose information for all those products which have, as their objective, a sustainable investment. In that case, the information to be disclosed pursuant to Article 6(1) and (3) shall be accompanied by the following:

  – *information on how the designated index is aligned with that objective;*

  – *an explanation as to why and how the designated index aligned with that objective differs from a broad market index"*.

  (art. 9(1) SFDR) *"Where a financial product has sustainable investment as its objective and no index has been designated as a reference benchmark, the information to be disclosed pursuant to Article 6(1) and (3) shall include an explanation on how that objective is to be attained"* (art. 9(2) SFDR).
  In addition, *"where a financial product has a reduction in carbon emissions as its objective, the information to be disclosed pursuant to Article 6(1) and (3) shall include the objective of low carbon emission exposure in view of achieving the long-term global warming objectives of the Paris Agreement"* (Art. 9(3) SFDR).
  Again, the Taxonomy Regulation (Regulation (EU) 2020/852, TR), supplements this article with the disclosure obligations included in Article 5 TR which applies, mutatis mutandis, to both art. 8, 9 SFDR.

Website Product Level Disclosure

Article 10 SFDR sets transparency duties about products which promote environmental or social characteristics and have sustainable investments as their objective. For each financial product which refers to art. 8 or art. 9 SFDR, Financial Market Participants must publish on their website:

- *a description of the environmental or social characteristics or the sustainable investment objective;*
- *information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product;*
- *the information in the pre-contractual disclosures on whether a product promotes environmental or social characteristics"* (art. 8 SFDR) or has a sustainable investment as its objective;
- the information included in periodic reports (art. 11 SFDR).

art. 10(1) SFDR)

"The information specified above must be clear, succinct and understandable to investors. It must be published in a way that is accurate, fair, clear, not misleading, simple and concise and in a prominent easily accessible area of the website" (Art. 10 SFDR).

Periodic Reports Product Level Disclosure

The last mean of sustainability disclosure involves periodic reports, which may take the form of annual reports, PEPP benefit statements, or any other kind specified in article 11 (2) SFDR, according to the sectoral legislation. In case Financial Market participants make available a financial product which promotes environmental or social characteristics (art. 8 SFDR), art. 11 SFDR requires to include a description of the extent to which environmental or social characteristics are met in periodic reports. In case the financial product has a sustainable investment as its objective (art. 9 SFDR), art. 11 states periodic reports disclosure must include a description of:

- *"the overall sustainability-related impact of the financial product by means of relevant sustainability indicators;*

- *where an index has been designated as a reference benchmark, a comparison between the overall sustainability-related impact of the financial product with the impacts of the designated index and of a broad market index through sustainability indicators".*

(art. 11(1) SFDR)

This concludes our digression on the SFDR content useful for our work. We concentrated on the definitions and the main disclosures obligations both at entity and financial product levels. We understood that the regulation seeks to create harmonised rules about sustainability disclosures to end investors, assist the mobilization of capital towards the fight to climate change and reduce information asymmetries. In addition, from the product related disclosure requirements we went through, it can be inferred how FMPs are forced to classify their products as either an art. 6, 8 or 9 (Tanskanen, 2021). By conjugating these last two remarks of the analysis above, it is clear how SFDR "was enacted to address the twin objectives of increasing transparency of sustainability-related disclosures and to increase comparability of disclosures for end investors" (Joint Committee of the European Supervisory Authorities , 2021).
However, the discussion about SFDR is not yet completed: to strengthen its disclosure requirements, the European Supervisory Authorities (ESAs) have developed through the Joint Committee (JC) draft Regulatory Technical Standards (RTS). The following section will briefly introduce them reporting their main provisions.

Level 2 Disclosure

Recital (31) SFDR states: "The ESAs should be mandated, through the Joint Committee, to develop draft implementing technical standards to determine the standard presentation of information on the promotion of environmental or social characteristics and sustainable investments in marketing communications". To clarify, by ESAs, the Regulation means the three European Supervisory Authorities: EBA (European Banking Authority), ESMA (European Securities and Markets Authority) and EIOPA (European Insurance and Occupational Pension Authority). Regulatory Technical Standards (RTS) provides additional information regarding the content and presentation of disclosures under article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088 (Joint Committee of the European Supervisory Authorities , 2021). The draft RTS also contain templates for pre-contractual and periodic product disclosures that were subject to an online public survey and to two consumer testing exercises conducted in the Netherlands and Poland (Joint Committee of the European Supervisory Authorities , 2021). The draft RTS specifies, therefore, to include the following information in the SFDR disclosure obligations:

- The details of the presentation and content of the information in relation to the principle of 'do not significantly harm' (Article 2(17) SFDR) consistent with the content, methodologies, and presentation of indicators in relation to adverse impacts referred to in Article 4(6) and (7) SFDR (Article 2a SFDR).
- A statement on an entity's website of describing its due diligence policy in respect of the adverse impact of investment decisions on sustainability factors in relation to climate and other environment-related impacts (Article 4(6) SFDR) and adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters (Article 4(7) SFDR).
- Pre-contractual information on how a product with environmental or social characteristics meet those characteristics and if an index has been designated as a reference benchmark, whether and how that index is consistent with those characteristics (Article 8 SFDR).
- Pre-contractual information to show, where a product has sustainable investment objectives and a) has a designated index as a reference benchmark, how that index is aligned with the sustainable investment objective and an explanation as to why and how that designated index aligned with the objective differs from a broad market index (Article 9(1) SFDR); or b) if no index has been designated as a reference benchmark, an explanation on how those objectives are to be attained (Article 9(2)

SFDR).

- Information on an entity's website to describe the environmental or social characteristics of financial products or the sustainable investment and the methodologies used (Article 10 SFDR) (Joint Committee of the European Supervisory Authorities , 2021). Initially, RTS for SFDR were meant to entry into force on 10 March 2021, the same day the Regulation became effective but, later, the European Commission decided to delay their adoption to Januray 1, 2023.

On 22 October 2021 the ESAs also published their final report for an RTS regarding the taxonomy-related articles of the SFDR (Di Benedetto, 2021), namely Article 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088. This essentially amended the SFDR RTS to cover taxonomy-related points. Eventually, as announced by The Deputy Director-General of the European Commission, the application date of the RTS covering the SFDR have been delayed to 1 January 2023 *"Due to the length and technical detail of those 13 regulatory technical standards, the time of the submissions to the Commission, and to facilitate the smooth implementation of the delegated act by product manufacturers, financial advisers and supervisors"* (European Commission, 2021b).

ESG Disclosure in the Financial Sector and SFDR implications

The role of ESG Disclosure

This chapter makes extensive use of literature to explore the role of ESG disclosure in the financial sector and tries to identify the main pain points of SFDR.
Rules in the sustainable finance field and, in particular, those which aim at promoting transparency, are raising the question on whether they are able to actually increase the volume of ESG investments. Taking as reference EU, since it has been a first mover in this dominion, Cornillie et al. (2021) claim that opinions are divided: those who stand for "yes", argue that investments integrating Environment, Social and Governance (ESG) objectives beat the market in the longer term, while those who believe the answer is "No", say that sustainable disclosure is becoming an indicator-chasing and box-ticking exercise, diverting attention away from genuine alignment with net zero objectives. Cornillie et al. (2021) also argue that both answers are too simplistic: if it is true that phenomenon of ESG stocks outperforming the average market return during the COVID-19 outbreak does not guarantee long-term capital reallocation to sustainable investments, disclosure is, nevertheless, the only way to check on those companies with net zero promises. Buallay (2018) provides justification for the first answer, stating that sustainability reporting advocators believe that promoting the disclosure of ESG will benefit both the company and

stakeholders and, additionally, it shows the full picture of a firm future results as it reveals the financial and non-financial performances. Also Steuer and Tröger (2022) contribute to the discussion, analysing the role of ESG disclosure under the information asymmetry lens and arguing that investors, to evaluate one firm's environmental performance or exposure to climate risk, need all necessary information. If such information is not available, it is not clear on which basis investors should adjust their asset valuations in line with their financial and non-financial preferences (Steuer and Tröger, 2022) and, if information asymmetries persist, market may fail because of adverse selection (Akerlof, 1978). However, there are other motivations behind the need of feeding the financial sector with ESG disclosures although the implications of mandatory sustainable reporting are questioned. Steuer and Tröger (2022) claim that, traditionally, the most important rationale underpinning recent regulatory initiatives in green finance appears to be the standardization argument, since any single party who invests in creating a standardized disclosure framework incurs all the costs of undertaking such an effort without capturing all the benefits that subsequently accrue across all users of the created framework. Besides, standardization issue becomes relevant with climate-related information because the notion of "green" (and, more generally, "ESG") is sometimes prone to subjective interpretations, resulting in ambiguities. Steuer and Tröger (2022), then, through their discussion, showed that regulatory interventions in green finance aim at supplying labels which are quality signals that imply a normative assessment and raw data, that are unevaluated (quantitative and qualitative) information. Examples of labels are taxonomies, seals, ratings and indices, while transparency about raw data typically requires disclosures about emissions at economic activity, firm or portfolio levels. Raw data facilitates sophisticated traders' activities since they are able to draw the right conclusions from them, while labels help less sophisticated investors to better assess investment opportunities (Steuer and Tröger, 2022). Another relevant question in the ESG disclosure field is whether it has an impact on firms' performances. Sticking to the financial sector, Buallay (2018) analysed the relationship between banks performances in terms of Return on Equity (ROE), Return on Assets (ROA) and Tobins' Q (TQ) on one side and ESG reporting on the other. The study put into relation the three performance ratios with disclosure indicators regarding environmental, social and corporate governance, consequently mixed together in one unique indicator measuring the overall ESG disclosure level of the bank, provided by Bloomberg databases. Of course, as Buallay (2018) states during the path analysis, the banks' disclosures present some differences along bank-specific (Financial Leverage and Bank size) and macroeconomics (countries' GDP and countries' governance) factors. For instance, one relevant finding is that "ESG Disclosure indicators tend to be higher with banks that have more assets" (Buallay, 2018). Eventually, the study came to the conclusion that dis-

closing more information about ESG enhances company's performance. Breaking down the results along the three disclosure indicators, Buallay (2018) revealed that environmental disclosure positively affects ROE and TQ of European banks, meaning that in those countries stakeholders consider the environmental practices in their investment decisions as a main driver for better asset efficiency. On the other hand, CSR disclosure turned out to be negatively related to the three performance ratios (ibid). This is possibly due to the fact that CSR disclosure develops because executive management and boards of directors work in social policies for their own benefit, resulting in costs to the banks (ibid).
Under these premises, we analysed the reference EU measure regulating ESG Disclosure in the financial sector: SFDR (Regulation (EU) 2019/2088). In the analysis that follows, hence, we will try to provide some remarkable insights about the Regulation in its intention of bringing harmonisation and in its role of communication mean towards end investors.

SFDR Issues

SFDR is not a directive but collects a set of obligations about transparency for Financial Market Participants and Financial Advisers in the form of a Regulation. This is a very beneficial attribute from the point of view of harmonization. Busch (2021), indeed, argue that the provisions enacted through a regulation have a more direct effect, whereas the rules in a directive would have to be adapted to the national law to become effective within the national legal order of a Member State, thus possibly leading to all the risks of implementation differences between Member States. Another nice feature about the Regulation is that it finally gave a uniform meaning to the term "sustainable finance" which, before the SFDR implementation, lacked a harmonized definition (Tanskanen, 2021). Recital (17) SFDR states that "'sustainable investment' means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance". Tanskanen (2021), therefore, recognizes the positive contribution this definition gave to the understanding of the term 'sustainable investment', but also claims that some parts

of this recital could be discussed. For instance, art. 2(17) SFDR specifies that the investment must be made in an "economic activity". The kind of activities that fall within this term is not specified in the regulation nor in the related RTS (Tanskanen, 2021).
The Regulation, then, presents some features which are not so positive in terms of harmonization:

- The 'comply or explain' principle sometimes allows financial market participants and financial advisers to not adopt certain sustainability disclosures at entity and product level, as long as they explain why they do not intend to do so (Busch, 2021);
- To be classified as an art.8 fund, a financial product must 'promote' environmental or social characteristics. Tanskanen (2021) explains how the term 'promote' raises some questions in the sense that, within SFDR, it is not explicitly defined. Although recitals 18 and 19 RTS provide some guidance on this matter, Tanskanen (2021) is of the opinion that it seems that a financial product that uses a whichever ESG investing criteria may be sufficient to fall within the scope of the article. Another point exhibiting a general confusion on the term is provided by the ESAs which actually asked for clarification on the term 'promotion' in a letter to the European Commission;
- The difference between art. 8 and 9 SFDR is not so neat: art. 8 has been described as a category for products not fulfilling the requirements of art. 9, which must either have sustainable investment or a reduction in carbon emissions as its objective (Tanskanen, 2021) . The difficulty in the distinction between them is due to lack of a clear definition of the term 'promote' in art. 8 SFDR, which appears to be a somewhat broad article, where most funds and financial products applying some sort of ESG criteria into their investment process would qualify as an art. 8 (ibid) . Nevertheless, there is no visible sharp line between light and dark green funds (respectively art. 8 and 9), since the former are not prohibited to make sustainable investments, which is, instead, a prerequisite for the latter. Eventually, according to Tanskanen (2021) , the fact that funds could still invest in sustainable investments and not automatically be considered as dark green, make it more difficult to separate the articles from each other. This is also supported by the evidence included in a Morningstar report: just four months after the SFDR entered into force a wide range of products labelled Article 8 or Article 9 were already present in the market, but they often followed similar strategies in both categories, suggesting that some asset managers may have taken a too prudent approach or others a too generous approach (Bioy, 2021);

- The level 2 rules have been delayed due to Covid-19: public consultation on the draft of RTS has been postponed, while SFDR continued to apply from March 21st, 2021. Eventually, this brought a certain degree of confusion: SFDR was maintained as it is not conditional on the formal adoption and entry into force or application of the RTSs as it lays down at Level 1 general principles of sustainability-related disclosures, but in the meantime, the joint ESAs suggested to comply with the level 2 rules anyway (Busch, 2021);
- The relationship with the Taxonomy is often vague: the link between the principle of 'do not significantly harm' under SFDR and the concept of 'significant harm to environmental objectives' under taxonomy regulation represents a source of confusion (Busch, 2021). The expression is not explicitly defined in the SFDR but, however, the Taxonomy Regulation includes a new article, art. 2a SFDR, that concerns the principle of do no significant harm (DNSH) and, in addition, recital 36 of the TR expresses that the reason behind the amendments to the SFDR is to ensure consistency between the two regulations (Tanskanen, 2021). Finally, Recital 33 of the final draft RTS to the SFDR provides additional information regarding the link between the DNSH-principle to other articles, both within the SFDR and the TR (ibid);
- A central supervisor is lacking: as it currently stands, supervision and SFDR enforcement is a national supervisors duty. Busch (2021) explains how designating ESMA as the only supervisor and enforcer of the SFDR would be definetely something to consider but, unfortunately, some attempts have been made with other examples in the past, and they all failed because "More supervisory powers for ESMA (or for the other ESAs) are at the expense of the influence of the national supervisors and therefore of the Member States" (Busch, 2021).
- No harmonisation of liability law: civil liability for FMP and Financial advisers' breaches in the SFDR is left to the authority of national bodies (ibid). Supplementing the SFDR with truly European liability rules for a breach of the rules it enacts and fiduciary duties it features would be better from the harmonization side (ibid).
- No harmonisation of the administrative sanctioning regime: an European administrative sanctioning regime for a breach of the SFDR rules and fiduciary duties would be above any doubt preferable from the viewpoint of harmonisation (ibid).

Evidence

So far, we provided a panoramic view on the SFDR content and criticalities. At this stage,

it would be interesting to show how the market aligned to the regulation and if it actually improved transparency towards end investors. Wahlqvist Odenman and Nordgren Motsanos (2021) provided a very relevant study that looked for any sort materialization of information asymmetries in the Key Investment Information Documents (KIIDs) of five top-ESG Morningstar-rated mutual funds. The collected data has been analyzed using a theoretical communication model that visualizes noise related to vocabulary, grammar and context (Wahlqvist Odenman and Nordgren Motsanos, 2021). Consequently, the study revealed the simultaneous presence of ambiguous vocabulary, ambiguous grammar, and insufficient context in the five analysed KIIDs. In addition, despite the fact that four out of the five selected mutual funds are classified as article 9 funds, only two of them communicated that sustainable investments is their objective (ibid). Eventually, authors claim that even after SFDR, information asymmetries are still present in sustainability disclosures and that their presence suggests that "there is a lack of consensus to what acting sustainably actually means in practice in the field of capital management of mutual funds" (ibid). Therefore, after this brief discussion, we can claim that this piece of evidence supports some of the critics raised from literature reported in the previous section, especially regarding art. 8 and 9 products. (Wahlqvist Odenman and Nordgren Motsanos, 2021), indeed, come to the conclusion that SFDR should be made stricter to enhance transparency and future policymaking must consider more detailed guidelines regarding the content of sustainability communication (especially for KIIDs).

A Framework for SFDR

It should now be clear that the Sustainable Finance Disclosure Regulation introduces a classification among financial products and specifies disclosure rules for each category. The reference SFDR articles are: art. 6, art. 8 (light green products) and art. 9 (dark green products) and, just by quickly browsing their content, it should be immediate to infer that they integrate sustainability at different levels and intensities. From art. 6 to 9, indeed, products' sustainability increases and ESG criteria are more and more at the core of the investment. Leaving aside for a moment what is written on paper, what is still unclear about SFDR is the actual, real-world impact of those products, especially for art. 8 and art. 9.

As Bengo et al. (2022) argue and recalling the issue we already discussed in the previous sections, the mechanisms of social impact measurement can play a relevant role for defining the boundaries of non-financial disclosure practices as a result of scarcity of guidelines to be followed. Indeed, some recent contributions claim that lack of policy guidance to classify investment products and prospectus ambiguity have already raised greenwashing concerns and resulted in some inconsistencies between the SFDR and other sustainability

labels available in the market. According to Bengo et al. (2022), sustainable finance is a field rich of impact measurement systems, but it lacks a framework helping financial actors to identify which metrics fit better their approaches to understand the impact of the financial products they offer. Indeed, what could be helpful in the decision of which standards to select to support both strategic and compliance aspects of impact is a definition of an ad-hoc framework to this scope. To this end, Bengo et al. (2022) identified a set of methodologies and criteria of social impact measurement for SFDR articles regarding product level disclosure (Artt. 7, 8 and 9). The result, to sum up, is a Framework which specifies tailored approaches and measurement tools for each article under consideration. This Framework, ultimately, can be also seen as a connection point between SFDR and the previous "ESG Investing" section.

We will report just the key points for art. 8 and 9 of Bengo et al. (2022) framework.

- **Article 8:** we briefly recall the requirements for 'light green' products: disclosure regarding financial products promoting environmental or social characteristics must include: (1) how those characteristics are met (art. 8(1) a SFDR); (2) information on the methodologies used to assess, measure and monitor the environmental or social characteristics selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product (art. 10(1) b). Bengo et al. (2022) state that article 8 "requires the absorption of ex-ante defined sustainability criteria that outline eligible investment opportunities" and, therefore, a positive screening approach in which the choice of investments in above-average sustainability levels sectors should be preferrable. To identify those solutions, there are plenty of measurement tools such as ESG ratings and indices, but authors suggests GIIRS ratings and GRI.
- **Article 9:** for Financial Products which have, as their objective, a sustainable investment, must be specified how they contribute to the achievement of the impact objective, as well as the methodologies to measure the impact of the sustainable investment. In this case, Bengo et al. (2022) state that these products pursue an impact investing strategy since "they respect blended value principles, and asset managers must ensure to extract social value from target investees". The main suggested measurement tools are the Sustainable Development Goals (SDGs) impact standards. Although, it has already emerged that SFDR does not come to the conclusion that art. 9 products are eligible for inclusion in the category of impact investment (Rockefeller Philanthropy Advisors, 2020), there seem to be consensus among professionals about this point due to the confusion that still is present around

this classification. The problem, however, is the one of avoiding "impact washing", which is a big source of concern. Nevertheless, regardless of this phenomenon, authors propose these guidelines for art. 9 products in absence of alternative ones.

This framework, besides representing a useful tool for tracking impact measurement, it also provides a reference of the global standards for the outline of art. 8 and art. 9 products. The distinction between products which promote environmental or social characteristics and products with a sustainable investment as objective, as we already discussed in the previous sections, represented a source of confusion since the adoption of the Regulation and defining which standards are more suitable for each possible case is a step towards a more standardized sustainable finance market.

With this chapter we finalised the discussion about the main critical points of the SFDR. We first provided an overview about ESG Disclosure and its role in reducing information asymmetries and creating standardization in green reporting. Under these premises, we highlighted the main issues that SFDR left unsolved, both in the consistency of its rules and on its enforcement, also providing one remarkable piece of evidence with Wahlqvist Odenman and Nordgren Motsanos (2021). Ultimately, we reported Bengo et al. (2022) work which provided a reference to better frame the rationale behind the product categorization introduced by SFDR. Our research, however, does not stop here: what is missing is how the introduction of SFDR impacted the sustainable finance market, both in terms of demand and supply and in terms of performances.

SFDR Effects

This chapter is mainly devoted to analyse, through data and literature, the effects on the market resulting from the adoption of the SFDR. Today we are more than one year into the Regulation since its entry into force in March 2021 and its rules and nomenclature had their time to settle in the market. Nevertheless, even before its enactment, SFDR generated some reactions. Di Benedetto (2021), indeed, through the event study methodology, investigated the market reaction around news events that led to the adoption of SFDR in terms of stock returns of the Financial Market Participants subject to the regulation. A negative behavior for the stock prices has been found out when the news about the introduction of the regulation were published, exhibiting lower performances than they would have in the absence of the events (Di Benedetto, 2021). Furthermore, it has emerged that this effect especially impacted big FMPs with more than 500 employees which, we recall, are obliged to comply to article 4 SFDR and, hence, they must publish and maintain on their websites a statement on their due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factor (ibid). Di Benedetto

(2021), therefore, believes that investors did not feel that the FMPs were ready to take on such transformation at the time the information about the regulation were felt and that there was no positivism around the event days. However, in August 2021, Morningstar conducted a research monitoring asset managers situation after four months the adoption of SFDR highlighting an increasing attention towards the Regulation's content. The report revealed that asset managers launched new financial products that meet Article 8 or 9 criteria and, out of 210 funds launched in the second quarter, 48% were classified as Article 8 or 9 (Bioy, 2021). One reason behind this trend is that fund companies felt commercial pressure to align, at least, to Article 8 requirements, since "many distributors and fund buyers across Europe had said they would only consider funds in Article 8 and 9 categories going forward" (Bioy, 2021). This marks a first positive signal for the European Commission whose intention with SFDR is, among the others, to spur the financial system's transition towards a more sustainable economy. Eventually, according to what we reported so far, we can claim that SFDR had an impact on the market since the beginning, with funds improving their sustainable offer to their customers. Another evidence of funds improving their ESG effort is provided by Becker et al. (2022) who analysed and compared EU funds subject to SFDR and US funds as a control group. The study revealed that ESG rating (Morningstar Sustainability Rating) for European mutual funds significantly rose after the announcement of the SFDR regulation relatively to U.S peers and, hence, regulation achieved its desired effect (Becker et al., 2022). One important aspect the study recalls is that SFDR passed in November 2019 and came into force in March 2021. This means that FMPs had more than one year to adjust their portfolios and make them more ESG aligned, whereas customers had no information about the fund labels before March 2021 (Becker et al., 2022). Hence, it would also be interesting to assess how demand from customers reacted to the Regulation. To this end, Becker et al. (2022) also examined whether funds with good ratings or ESG labels managed to attract more inflows than less sustainable products (art.6). Results revealed that "funds which were labeled as either articles 8 or 9 were able to significantly increase their net fund flows after the intervention, especially thanks to article 8 financial products" (ibid). The evidence supports the hypothesis that demand benefitted from enhanced transparency and sustainability regime brought by SFDR, although it is not easy to separate the two effects. That is what Ferriani (2022) tried to explain, arguing that limiting the analysis only to the classification introduced by the Regulation could be detrimental to the comparability of funds due to the lack of precise guidelines aimed at classifying investments. Therefore, two types of labels can be identified: regulation-induced and those developed by the industry like, above all, Morningstar ESG ratings. At this point, Ferriani (2022) assessed whether labels induce flows heterogeneity, and they confirmed the pivotal role represented

by Morningstar ratings (Morningstar globes). At the same time, the sustainability labels introduced by the SFDR only matter for Article 9 funds while no statistically significant effect for Article 8 can be found, suggesting that investors care only about products where sustainability goals are the core investment objective (ibid). However, as previously discussed, when reporting Becker et al. (2022) findings, the two sets of labels (regulation-induced and Morningstar Sustainability Rating) are related since the introduction of the SFDR actually improved the ESG ratings of European mutual funds.

This concludes our investigation about the SFDR. We first provided a general overview of its content and of the associated Regulatory Technical Standards which applies at a second level of the disclosure. After that, we deep dived into SFDR implications and critical points followed by a panoramic view of its effects on the market. However, the analysis of the sustainable finance paradigm in Europe is not over yet: the next and conclusive paragraph will put European regulation into relation with the rest of the world.

2.3.2. EU Regulation and the rest of the world: the Brussels Effect

This chapter is devoted to the discussion regarding the likely impact the European Regulation on Sustainable Finance may have on the global scenario. In the previous chapters we already analysed how the EU is, globally, at the forefront of ESG regulation and we presented its main initiatives towards a more sustainable financial sector. What is not clear is whether a global alignment on this matter is possible or not. In the past decades, an increasing global interdependence has been witnessed in terms of regulation with legislators often being influenced by decision-makers located in other countries and, consequently, "both legal and natural persons can be affected by legislation issued both in their country and overseas" (Redondo Alamillos and de Mariz, 2022). This is the case, for instance, of the General Data Protection Regulation (GDPR) issued by the EU but adopted also by non-European companies like Apple. The mechanism behind that process is called 'Brussels Effect', a term coined by in 2012 by Anu Bradford. The Brussels Effect manifests when Europe issues a regulation in a sector, which has the power to lead other regions to follow to be able to operate in the market (Redondo Alamillos and de Mariz, 2022). Adopting EU rules, therefore, is considered the price "to access the large and wealthy consumer European market" (Janse and Bradford, 2021) and, so, the fear of being excluded from it plays an important role in the spread of EU regulation and, namely, of the Brussels Effect. Besides global interdependence and the access to EU market, what drives most multinational corporations to follow EU regulations is the avoidance of the cost of complying with multiple regulatory frameworks (Janse and

Bradford, 2021). Hence, these companies adopt the rules that the EU established as a cost of operating in its markets and then apply these standards to the rest of their business globally to homogenize their organizations (Redondo Alamillos and de Mariz, 2022). However, this effect is not always immediate and the (often) stricter EU regulatory regime with respect to other countries could create regulatory arbitrages for companies which are less exposed to European markets (Redondo Alamillos and de Mariz, 2022). In addition, diverging or conflicting regulations between markets could create tensions between countries, as it happened with the new EU carbon tariff (Redondo Alamillos and de Mariz, 2022). Coming back to Sustainable Finance, indeed, a survey carried out by the Institute for International Finance, reported that "65% of institutions said that 'green' regulatory market fragmentation was a big source of concern" for FMPs (Cornillie et al., 2021). In this regard the sustainability disclosure has very delicate implications since, as already argued in the previous sections, different rules can create confusion among both investors and FMP. Thus, global harmonization would be desirable, but reaching it is no easy task. To this end, the Network for Greening the Financial System (NGFS), which is a network of central banks sharing best practices in the financial sector (Redondo Alamillos and de Mariz, 2022), called for "common and consistent set of global disclosure rules, for a minimally accepted global taxonomy and well-defined decision-useful metrics" (Cornillie et al., 2021). The problem, however, is that Europe already adopted its set of rules, taxonomy and metrics and it is hard to see how the EU would change them just for the sake of global alignment, especially if that would mean weakening its position (ibid). At the same time, unfortunately, US seems to prefer a more principle-based approach in this field, rather than one based on rules favoured by EU and, additionally, US does not share the EU 'double materiality' view (Cornillie et al., 2021). This last concept, to clarify, was first formally proposed by the European Commission in Guidelines on Non-financial Reporting and it encourages a company to judge materiality from two perspectives (European Commission, 2019):

1) "the extent necessary for an understanding of the company's development, performance and position" and "in the broad sense of affecting the value of the company";

2) environmental and social impact of the company's activities on a broad range of stakeholders (Adams et al., 2021).

Hence, the US prefers a narrower view on climate-related disclosures with respect to the ones adopted in the EU which demand a double perspective. As for the Taxonomy regulation, EU hopes that it will successfully reach other countries, leveraging on the Brussels Effect (Janse and Bradford, 2021). However, Cornillie et al. (2021) provides a

different solution for global harmonization even in the case in which the other two biggest economic blocks, China and US, will opt for different set of disclosure and taxonomy rules since they will still need ESG metrics and indicators such as data frameworks and methodologies. Cornillie et al. (2021), thus, suggest that since Europe has moved first in this field by developing regulations including both carbon pricing and technical standards, it has the chance to shape and influence the development of metrics around the globe. Eventually, it might be easier to reach global alignment on metrics rather than taxonomies (Cornillie et al., 2021). To conclude, Busch (2021) argue that two possible scenarios might materialize: in the worst case, the more lenient or even non-existent sustainability agenda of other key economic poles could gives them a competitive edge that is detrimental to the EU while, in the best case, the EU can become a leader and rule-setter in the area of sustainability.

3 | Research Question and Objectives

The purpose of this section is to define the questions that sparked the entire research and to outline the objectives of our work. The previous chapter explored the evolution of the notion of sustainable finance and of its materialization within financial markets, namely ESG Investing or Socially Responsible Investments and, ultimately, it focused on the respective regulatory environment that has been developing for the last few years in the EU. The literature under review, and especially Schoenmaker (2018), revealed different approaches to the integration of the sustainability paradigm in the financial activities. This entails a progressive shift in the view of investments from shareholders' value maximisation to social and environmental impact optimisation, subject to financial value generation. However, the financial industry has witnessed some degree of confusion around the notion of sustainable finance. Although it is clear that to pursue a Socially Responsible investment it is necessary to aim at a holistic approach to value generation and impact, Bengo et al. (2022) claim that boundaries of the blended value perimeter are not well defined. Therefore, this issue allows financial actors to adopt several approaches to sustainable investments which, in reality, subordinate Social and Environmental impact to financial value. The most remarkable example is provided by the notion of 'Impact Investing' which, on one side has been often associated to different asset classes and investing techniques by asset managers (Krombholz et al., 2022) while, on the other one, its purpose (impact generation) is often overlooked by investors when deciding how to allocate their money in sustainable investments. Eventually, the uncertain environment surrounding sustainable finance, together with the need of fighting climate change, triggered the intervention of different organizations starting de-facto in 2015 with many initiatives aiming, among other things, at improving and increasing reporting of climate-related financial information. In this regard, European Union has many times proved itself to be a leading advocate when coming to regulation specifically designed to foster ESG globally, especially when applied to the financial sector. The European Commission's Action Plan on Financing Sustainable Growth, for instance, is a relevant

example of the EU commitment to frame the concept of sustainable finance. This initiative, specifically, includes three elements which are related to each other, namely the Taxonomy Regulation (Regulation (EU) 2020/852 TR), the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088 SFDR), and the Non-Financial Reporting Directive (Directive 2014/95/EU, NFRD). The two Regulations, namely TR and SFDR, have been thought for, respectively, establishing a classification system for sustainable activities and clarifying asset managers' and institutional investors' duties regarding sustainability (Renewed Sustainable Finance Strategy and Implementation of the Action Plan on Financing Sustainable Growth, European Commission, 2018). Since SFDR was meant to provide harmonised rules for sustainability disclosures and the Taxonomy to set appropriate definitions for which economic activities can be considered environmentally sustainable, they represent, in Europe, a pivotal change in conceiving both sustainable finance and its applications within financial markets. SFDR, in particular, also aims at enhancing comparability between financial products, promoting transparency towards sustainable investments and reducing information asymmetries between investors and Financial Market Participants (FMPs)/ Financial Advisers (FAs). The regulation, to reach that goal, besides requiring transparency about the integration of sustainability risks in the investments or advisory activities, introduces a classification regarding financial products based on their level of sustainability integration. Therefore, since 10 March 2021, when the SFDR came into force, European Financial Market Participants and Financial Advisers are required to disclose the information laid down in the Regulation's articles. In this regard, the role of ESG disclosure and its relationship with sustainable finance has been extensively discussed, with Buallay (2018) claiming that the information it provides is necessary to investors to have a full picture on the firms' results and as it reveals financial and non-financial performances. This last argument, consequently, represents a connection between ESG disclosure and sustainable finance since, as Steuer and Tröger (2022) suggest, without such information investors would have no basis under which to adjust their asset valuations in line with their investments' preferences. Finally, the first research question has emerged:

"What is the level of alignment, as of today, reached by Financial Market Participants and Financial Advisers towards Regulation 2019/2088 EU (SFDR)?"

This question stems also from the fact that the introduction of part of the SFDR content has been known to Financial Market Participants and Financial Advisers well before its entry into force, namely in December 2019, when it was published in the EU's Official Journal. Therefore, we expect to witness a high frequency of integration of the Regulation's measures within the financial industry's disclosures. However, the answer to that

question does not tackle the many issues that have emerged from the literature review and which have been briefly summarised in the premise to this chapter. Many different approaches to sustainable finance and their effects on asset managers and investors, indeed, have been mentioned, together with their evolutions and applications to the ESG investing paradigm and, hence, we are interested in understanding:

"Which are the most widespread approaches to ESG investing in the financial industry?"

Consequently, our research tried to conjugate the issues raised by the two questions. First, the scope has been narrowed down to Financial Market Participants and Financial Advisers as defined by SFDR and belonging to the Italian Financial Sector. Second, the research tries to provide a comprehensive view about (1) the level of alignment towards SFDR and (2) the investment approaches and market practices of the entities included in the perimeter under analysis. The analysis that follows, then, refers to the SFDR articles and sustainable investment criteria that FMPs and FAs report in their disclosures. The next chapter, before presenting and discussing the main findings of the research, explains in greater detail the objective and the rationale behind our work.

4 | Empirical Analysis

The second part of this thesis is dedicated to the presentation of our research and to the discussion of the main findings. Over a period of almost one year, we worked on the development of a Database mapping the Italian's financial services sector, with the aim of tracking (1) the level and, possibly, quality of disclosures in the ESG field; (2) the most adopted investments approaches and practices to sustainable finance.
Therefore, we developed different sets of measures through which we were able to profile each Financial Market Participant and Financial Adviser (from now, also referred to as the "subjects") under the two perspectives we mentioned above ((1), (2)) and, by critically analysing the final picture that the Database eventually revealed, we provided some insights about the most relevant outcomes.

4.1. Scope of the Database

4.1.1. Objectives

The main scope of the whole research is the Sustainable Financial Disclosure Regulation (Reg (EU) 2088/2019, SFDR) and, hence, the main assessment that was carried out on the set of subjects we analysed took the perspective of the Regulation and of the rules it enacts.
The objective set for our work was to create a Database providing a picture on the ESG Italian Financial services sector. Therefore, we have selected a large and diverse sample of financial actors, which has been divided, according to SFDR's nomenclature, into Financial Market Participants and Financial Advisers at a first level, and into more specific categories at a second one, according to their main business lines. The activity of mapping the financial sector landscape carried out at the very beginning of the research, was not so immediate as it may seem. First, since we have committed to respect SFDR as much as possible, it has been necessary to define the broad perimeter by translating the Regulation's definitions into Italian ones. Secondly, since the Italian Financial sector has been set at the scope of the analysis, the broad perimeter initially identified has had to be

refined and narrowed to those companies which are actually representative and relevant for Italy. The final sample and a more detailed description of the whole process will be reported in a following section.
As already anticipated, each entity of the sample has been profiled through a set of "measures" to understand their level of compliance to some of the obligations laid down by the SFDR. Although the Regulation was published on December 2019 and entered into force on March 2021, meaning that FMPs and FA had more than one year to align to it, the relevance of our research is to be found when asking whether the full compliance from the market has been reached or not. Moreover, among the main points that SFDR seeks to tackle is the issue of transparency with regards to financial products. To this end, FMPs and FAs disclosure practices in their investment activities, either as investors or advisers, have been monitored through another set of measures regardless of their relationship with the SFDR, to understand which are the most adopted approaches in the (Italian) sustainable finance sector. Finally, the thesis aims at understanding which are the most "virtuous" actors according to the measures defined by the Database, dividing the whole sample in different clusters according to several criteria. This is what will be discussed in the section "cluster analysis".

4.1.2. Work Rationale

In the previous section the objectives and the 'why' to the research have been addressed. What might still not be clear is how the Database can represent a valid instrument (1) to assess the FMPs and FAs compliance with regards to SFDR and (2) to monitor their approaches to ESG investments.
At first, it is necessary to specify that the term 'Database' is not proper for the tool we set up, since the real system usually involves much more sophisticated electronic applications than an Excel file like the one developed for this research. Nevertheless, the instrument which we refer to as 'Database', as defined by the European Database Directive (Directive 96/9/EC of 11 March 1996 as cited in (Derclaye, 2002)) still is "a collection of independent works, data or other materials, arranged in a systematic or methodical way and individually accessible by electronic or other means". Therefore, the Database presents itself as an Excel file, resembling a grid or a table in which a number of fields representing the measures are arranged in rows, while the FMPs and FAs of the analysed sample are arranged in columns. Several information, indicated by different marks can fill the intersection between a measure and a subject:

• An "x" represents the information that the specific measure is valid and verified for the relative subject; for instance, if referring to a measure describing an SFDR article, it

means that the subject included it in its disclosures while, on the other hand, if referring to an investment approach measure, it means that the subject adopts it in its activities;
• A number "#" represents a quantity relative to the measure like, for instance the number of pages of a disclosure document published by the subject;
• An "n.a." (not available) could signal different sets of information;
• A void cell means that the measure is neither found nor verified for the relative subject. It could be the case of an FMP who do not comply to the SFDR article reported in the specific measure;

Before specifying which data has been collected, namely the information addressed by the measures, it is necessary to explain what where their sources. Recalling the main purpose of the SFDR, FMPs and FAs must follow transparency rules "with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products" (art. 1 SFDR). These transparency duties must be met by providing disclosures on FMPs and FAs' website, pre-contractual disclosures or periodic reports. Accordingly, FMPs and FAs' websites have been the only source of information to fill in the grid, since they already display SFDR-related communications and are the easiest means to gather the other two resources (pre-contractual disclosures and periodic reports). Hence, by browsing websites' sections about sustainability, ESG policies, SFDR and transparency documents, we have been able to draw, for each considered subject, a profile not only about their compliance to SFDR, but also about the investment practices they adopted. However, as will be shortly presented, the focus of the research is the ESG investing disclosures and practices, thus all the other ESG related pieces of information published on websites out of the ones describing subjects' investment activities are considered not to be relevant and, hence, out of the scope. Consequently, when analysing a specific subject's website if a measure turns out to be verified, its cell in the Database will be marked with the most appropriate sign. The perspective that has been adopted during the research was the one of a retail investor who is willing to make a sustainable investment or, alternatively, is looking for some information about the sustainability of different products, without necessarily being bounded to invest sustainably. Accordingly, the list of measures we identified tries to provide a picture as complete as possible of all the information that a retail investor might need to formulate an opinion about what is looking at in FMPs and FAs' websites. Second, also the data gathering process took this view into account. When browsing websites, we took account of the information that received a clear visibility, analysing the sections that were most likely to contain the data we needed or, alternatively, those which did not explicitly signalled the presence of those

data but for which it was indicated in another, more clear section. In the next chapter we will dig deeper into the measures that defined the direction of the research, discussing their relevance and the reasons why they have been included in the Database.

4.1.3. Measures

The content outlined in this section represents a central point for the whole research. As already anticipated, to assess the level of integration of the provisions set by the SFDR and to understand the main approaches to ESG investing in the Italian Financial sector, we defined different sets of measures. More specifically, with the term "measure", we mean specific statements, descriptions, explanations of different nature found within FMPs and FAs sustainable finance disclosures. They present themselves as brief sentences or few words describing what is meant to be checked for FMPs and FAs. We identified two sets of measures regarding the content of sustainable finance disclosures:

(1) SFDR-based Measures
(2) Best Practices Measures

Another set of measures is devoted to assessing the layout and disclosures' organization found within websites:

(3) Readability Measures

SFDR-based Measures

The set of measures regarding this section is strictly related to the content of SFDR and has the objective to highlight alignment of FMPs and FAs belonging to the analysed perimeter to the regulation's articles.
Articles from 3 to 10 SFDR, namely those regarding transparency obligations at website and pre-contractual disclosures levels, have been considered for the scope of our research, in accordance with the objective of providing an overall picture of the entity's disclosure about its sustainable investment policies and offer. On the other hand, articles from 12 on are general purpose ones and not strictly related to what specified above. Art. 11 SFDR, then, although it still regards disclosures about sustainable products defined by the Regulation, it is not adding any new knowledge with respect to the previous articles, but it just requires publication of the same art. 8 and art. 9 information on Periodic Reports and, thus, it is not included in the analysis. Article 7 has been purposefully excluded because it is not mandatory yet for financial players, since its application starting date is set on January 2023. Our decision, indeed, is to verify what is the level of compliance of FMPs

and FAs to requirements that are currently in force. Moreover, our research limits itself to the information found within the websites' boundaries, hence (digital) pre-contractual documents are considered only if explicitly signalled or, alternatively, if directly reported in the same webpages where other sustainable investments and SFDR information are reported. This is because, as previously explained, we are putting ourselves in the shoes of a hypothetical retail investor who is gathering information about the organization's sustainable investments policies and the most easy and straightforward way to do it is by browsing its website.
Eventually, the measures we identified belonging to this first set can be split in two categories. The first one regards measures related to articles 3, 4, and 5 which refer to entity-level, website disclosure and, thus, they are expected to be explained by each FMPs and FAs in a dedicated webpage. The second category of SFDR-related measures are associated to articles from 6 to 10, referring to product pre-contractual disclosure. Since pre-contractual disclosures about sustainable products are not always available or explicitly signalled on websites, we adopted a different approach to validate these measures. Specifically, we looked at any sort of statement published on FMPs website describing the features of the sustainable products included in their offer. Of course, whenever pre-contractual disclosures were present, we referred to the information laid out in those documents.
Table 4.1 groups all SFDR-based measures highlighting for each of those:

- Relevant SFDR Articles: the SFDR articles from which the measure is derived and is going to impact.

- Articles' type:
  - Where the information specified by the SFDR article needs to be published: "website" (i.e. art.3, 4 and 5), or "pre-contractual paper" (i.e. art.6, 8 and 9);

  - Whether the article which the measure refers to comprises the "comply or explain" principle. As previously mentioned, in some cases, FMPs and FAs can follow the obligations laid down in the SFDR articles or, alternatively, explain the reasons why they do not intend to do so. In theory, this principle is applicable only to art. 4 SFDR but, for the scope of our analysis, we extended its meaning also for those articles which also allow financial players to give explanations about the lack of compliance to their content like, for instance, art. 6 which, in case FMPs "deem sustainability risks not to be relevant",

they can just provide "clear and concise explanation of the reasons therefor" (art.6 SFDR). If the entity under analysis provides a statement following one of the two approaches, and if it is allowed to, the measure will be counted as valid;

– Financial Advisers: since some SFDR articles specifically refer to FMPs only, the measures under question are not applied to Financial Advisers;

– Whether the article which is specified by the measure is mandatory or not. For instance, an FMP is not obliged to offer financial products promoting environmental or social characteristics and, in the case in which it does not, it is not subject to art. 8 SFDR.

- Compilation criteria information:
  - Level of measure: it indicates if the article relative to that measure is either applicable at entity or product level;
  - Admitted values: it shows the available marks that each measure can assume in the Database.

MEASURES' GENRAL PURPOSE INFORMATION		RELEVANT SFDR ARTICLE							ARTICLE'S TYPE				COMPILATION CRITERIA	
Measure code	Measure	Art 3	Art 4	Art 5	Art 6	Art 8	Art 9	Art 10	Mean of disclosure	Comply or explain	Financial Dvisers	Mandatory	Level of measure	Admitted values
1.1	Website's section about policies on the integration of sustainability risks (3)	x							Website	NO	YES	YES	ENTITY	x
1.2	Description of actions and engagement policies about PAIs (4)		x						Website	YES	YES	YES	ENTITY	x
1.3	Remuneration and incentive policies that take into account sustainability risks (5)			x					Website	NO	YES	YES	ENTITY	x, n.a.
1.4	Disclosures about the integration of sustainability risks into investment				x				Pre-contractual Paper/Website	YES	YES	YES	PRODUCT	x, n.a.
1.5	Disclosures for products promoting environmental or social characteristics (8)					x		x	Website	NO	YES	NO	PRODUCT	x, n.a.
1.6	Disclosures for products with sustainable investment objective (9)						x	x	Website	NO	YES	NO	PRODUCT	x, n.a.
1.7	Reference to adherence to responsible business conduct codes, standards for due diligence (4)		x				x		Website	YES	YES	YES	ENTITY	x
1.8	Products must indicate whether there is a designated benchmark and whether that benchmark is coherent with E,S					x	x	x	Pre-contractual Paper/Website	YES	NO	NO	PRODUCT	x, n.a.
1.9	Inclusion of the objective of low carbon emission exposure in view of achieving objectives of the Paris Agreement (9)						x		Pre-contractual Paper/Website	NO	NO	NO	PRODUCT	x, n.a.
1.10	Description of E,S or Sustainable Investment on the website (10)							x	Website	NO	NO	YES	ENTITY/PRODUCT	x, n.a.

Table 4.1: SFDR Based Measures Overview

Here below a more thorough description of the measure is provided together with rationales for each of their admitted values and criteria for filling the cell of the Database:

- **(1.1) Website's section about policies on the integration of sustainability risks:**
  This measure aims at checking whether the disclosure obligations laid down in art. 3 SFDR is found within FMPs and FAs websites.
  - (x): whenever a statement regarding policies on the integration of sustainability risks is found on the website, the measure is verified.
- **(1.2) Description of actions and engagement policies about PAIs:**
  It refers expressly to article 4 SFDR and its objective is verifying if a statement regarding PAIs is included in the subjects' website disclosures.
  - (x): The measure is verified whenever the entity's position about article 4 is to be found, regardless of the comply or explain principle.
- **(1.3) Remuneration and incentive policies that take into account sustainability risks:**
  This measure refers to article 5 SFDR which requires FMPs and FAs to explain how their remuneration policies are consistent with the integration of sustainability risks.
  - (x): The presence of entity's remuneration policies including sustainable risk must be expressly mentioned within the disclosure together with, at least, a brief description on what they consist of. If FMPs and FAs give no clue about the content of their policies, the measure cannot be verified.
- **(1.4) Disclosures about the integration of sustainability risks into investment decisions and investment advice:**
  This measure aims at checking whether the subjects included in the perimeter provide statements or description about the ways in which they integrate sustainability risks in their investment decisions or advice and, namely, it refers to art. 6 SFDR.
  - (x): Whenever FMPs or FAs provide such disclosure either on the website or within pre-contractual disclosures, if explicitly stated and accessible from the former;
  - (n.a.): in case the financial player adopts an explain approach about the inclusion of sustainability risk within its investment decision making process or advice, with the consequence of not implementing any relative policy.
- **(1.5) Disclosures for products promoting environmental or social characteristics:**

This measure aims at understanding if FMPs offer products referring to article 8 SFDR and, in case they do, if they provide a description of the environmental or social characteristics they promote.

  - (x): The measure is valid whenever the FMP publishes a disclosure about art. 8 on its website or on the relative pre-contractual disclosure. For verifying the measure, an aggregated disclosure in which the set of products respecting the definition set by the article under discussion and offered by the FMP are collected is sufficient, as long as it reports the name and the characteristics promoted;
  - (n.a.): If the FMP explicitly states that it does not supply any product referring to article 8 SFDR.

- **(1.6) Disclosures for products with sustainable investment objective:**
  The objective is to assess whether FMPs offer products referring to article 9 SFDR and, in case they do, if they provide a description of the sustainable investment.
  - (x): The measure is valid whenever the FMP publishes a disclosure about art. 9 on its website or on the relative pre-contractual disclosure. For verifying the measure, an aggregated disclosure in which the set of products respecting the definition set by the article under discussion and offered by the FMP are collected is sufficient, as long as it reports the name and a description of the sustainable investment;
  - (n.a.): If the FMP explicitly states that it does not supply any product referring to article 9 SFDR.

- **(1.7): Products must indicate whether there is a designated benchmark and whether that benchmark is coherent with E,S characteristics or aligned with sustainable objective:**
  This measure checks if FMPs indicate that a specific index has been designated as a reference benchmark, as laid out in art.8 and 9 SFDR, and how it is aligned with environmental and sustainable characteristics promoted by the respective product, or with sustainable investment objective of the financial product.
  - (x): whenever a benchmark is provided together with its name, E, S characteristics and its alignment to products sustainable objectives;
  - (n.a.): in case the subject specifies that it does not supply any art. 8 or 9 products.

- **(1.8) Reference to adherence to responsible business conduct codes, standards for due diligence (PRI, UN Global Compact, Paris Agreement):**
  It takes inspiration from art. 4 SFDR which states that FMPs and FAs adopting a comply approach, must provide information about their adherence to responsible business conduct codes and standards for due diligence. We decided to separate this measure with the other one related to art. 4 SFDR and described above since they aim at catching different aspects about the subjects PAIs consideration.
  - (x): it is satisfied whenever it is possible to find within subjects' websites proof or statement of their commitment/adherence to responsible investment principles or due diligence practices meant by art. 4 SFDR. Some examples could be PRI, UN Global Compact, Paris Agreement, as mentioned in the measure.
- **(1.9) Inclusion of the objective of low carbon emission exposure in view of achieving objectives of the Paris Agreement:**
  This measure checks the presence of further disclosure related to art. 9 SFDR referring to the product alignment to a low carbon emission exposure objective and, more specifically accordingly to Paris Agreement.
  - (x) whenever an FMP, in its art. 9 product disclosure, specifies the alignment towards Paris Agreement objective of low carbon emission exposure, the measure is verified;
  - (n.a.): in case the subject specifies that it does not supply any art.8 or 9 products.
- **(1.10) A description of E,S or Sustainable Investment on the website:**
  The measure aims at checking the presence of a disclosure as outlined by art. 10 SFDR. More specifically, it checks the presence of a section or a document directly available within FMPs websites, in which art. 8 and 9 products are described together with, respectively, their E/S characteristics and sustainable investments. Moreover, there can be also an explanation about methods employed by the company in order to assess and monitor the achievement of single product's sustainable and environmental objectives.
  - (x): the measure is valid whenever there is a disclosure's section in which policies are explained more in detail for product art. 8 and 9 offered by the company;
  - (n.a.): in case the subject specifies that it does not supply any art. 8 or 9

products.

Best Practices Measures

This section describes the set of measures that address the second objective of this research, namely mapping the sustainable finance practices and approaches adopted by Italian Financial Market Participants and Financial Advisers. Therefore, by "Best Practices", we mean a set of investment strategies and approaches that include ESG considerations of different kinds, and few responsible principles applied to financial activities taking inspirations from different sources. Table 4.2 reports the measures we identified and tries to create a connection with the SFDR articles which are mostly involved or related to such practices. Moreover, besides specifying which marks can be associated to these measures, the table below also indicates the level of application of each investment approach or principle, either entity or product level, in accordance with SFDR and depending on whether the practice is applied to single products or if it refers to general rules adopted by the entity.
As a reference in the identification of the Best Practices' measures, it has been initially looked at what has emerged from the empirical analysis of the FMPs and FAs disclosures, thus the most common practices adopted by those entities and published to the public have been selected as a first set of measures. Then, the menu of investment strategies suggested by UNPRI has been considered. PRI divides the different approaches in two main areas:

- Approaches that consider ESG issues when building the investments' portfolio and which incorporate ESG factors into existing investment practices "using a combination of three approaches: integration, screening and thematic" (UNPRI, 2022).

- Approaches improving ESG performance of the investee by encouraging companies, whose investors already invested in, to improve their ESG risk management or develop more sustainable business practices like the engagement and the use of voting rights (UNPRI, 2022).

For the scope of our research, to the three strategies indicated by UNPRI, we also added "Impact Investing", while "Integration" is substituted with "Positive Screening".

MEASURES' GENRAL PURPOSE INFORMATION		RELEVANT SFDR ARTICLE							COMPILATION CRITERIA	
Measure code	Measure	Art 3	Art 4	Art 5	Art 6	Art 8	Art 9	Art 10	Level of measure	Admitted values
2.1	Shareholders' Engagement				x				ENTITY	x
2.2	Definition of mitigation actions to address PAI		x						ENTITY	x
2.3	ESG Consideration	x			x				ENTITY	x
2.4	ESG Rating	x			x				ENTITY/PRODUCT	x
2.5	Integration of greenhouse emission measurement		x		x		x	x	ENTITY/PRODUCT	x
2.6	ESG Monitoring	x	x		x		x		PRODUCT	x
2.7	ESG Governance	x			x				ENTITY	x
2.8	Negative Screening	x			x				ENTITY/PRODUCT	x
2.9	Positive Screening	x			x	x	x		PRODUCT	x
2.10	Thematic ESG Investing					x	x		PRODUCT	x
2.11	Impact Investing						x		PRODUCT	x

Table 4.2: Best Practices Measures Overview

Eventually, a final list of best practices has emerged, and it consists of the following measures:

- **(2.1) Shareholders' Engagement:**
  As largely discussed in the chapter dedicated to the Literature Review, shareholders' engagement considers the promotion of proactive interaction with the issuing companies both through the exercise of voting rights and through discussions with the investee companies (Kolbel et al., 2020), with the aim of improving their sustainability profile. This process, however, is not possible if, before, an assessment of the sustainability risks has not been carried out (art.6 SFDR).
  - (x): the measure is verified whenever the entity communicates to apply its right to use voting rights or it promotes a dialogue on ESG and/or sustainability themes, in order to reach predefined objectives related to it.
- **(2.2) Definition of mitigation actions to address PAI:**
  This measure aims at checking whether FMPs and FAs provide disclosures of the actions they set up to tackle PAIs, as defined by art. 4 SFDR.
  - (x): whenever the entity explains in its disclosure which actions it has already implemented in order to address and reduce PAIs of their investment activities.
- **(2.3) ESG Consideration:**
  This measure is meant for assessing whether FMPs and FAs deliberately and methodically consider environmental, social, and governance issues within their general administration of investment/ advisory activities. It is more similar to an ESG-oriented approach spread among the entity's investment practices rather than an investment strategy and, hence, it can be seen as a first way through which the

subject can integrate sustainability risks into its investment activities (art. 3, 6 SFDR).

  - (x): The measure is verified if the subject gives disclosure of the inclusion of ESG consideration as defined above.

- **(2.4) ESG Rating:**
  This measure checks if FMPs and FAs refer to some ESG rating to the products they consider for their investment or advisory activities, either if they come from an external entity provider (i.e. KLD, Sustainalytics, Moody's ESG, S&P Global, Refinitiv, and MSCI), or if they are internally developed. This measure works at product and entity level and, hence, it can be connected with art.3, 6, 8, 9 SFDR.

  - (x): To verify this measure, the subject must provide clear evidence of the adoption of a rating supplied by a third party or the creation of a proprietary one within the disclosure. In the first case, the subject must specify the name of the third party supplying the rating while, in case it is internally developed, it is necessary to find further explanations of its functioning.

- **(2.5) Integration of greenhouse emission measurement:**
  This measure refers to the adoption by the company of any kind of considerations about greenhouse emissions of the investee. This kind of evaluation could either be used as a driver in the assessment process (art.3 and 6 SFDR) or as a metric for the impact generated by the investment (art. 9 SFDR).

  - (x): The measure is verified if the subject provides disclosure of its consideration of the greenhouse emissions caused either by the investment under assessment or by one of its investees.

- **(2.6) ESG Monitoring:**
  This measure ensures that the company periodically keeps track of the ESG risk profile (art.3 and 6 SFDR) of the investee, preparing in advance corrective actions in case the risk profile deteriorates (art.4 SFDR) or, in case of impact funds, the ESG objective is not reached (art.9 SFDR).

  - (x): The measure is valid if subjects' disclosures specify which are the sustainability risks that the investee may incur, which are the monitoring modalities and which are the corrective actions that could be put in place.

- **(2.7) ESG Governance:**
  It checks the presence of any kind of measure that have been established by FMPs and FAs to facilitate the incorporation of ESG factors (art. 3 and 6 SFDR) within

both internal and financial activities processes. Examples that emerged from the empirical work are: the inclusion of an ESG governance body within the Shareholders' meetings, the creation of ESG offices with the role to guide the ESG assessment and monitoring of the investment portfolios, or the definition of new roles as ESG officers with the objective to address ESG issues within the company's operational activity.

  - (x): The subject, to fulfill this measure, must provide a description of the policies they set up at governance-level within the company's disclosure.

- **(2.8) Negative Screening:**
  The name of this measure refers to Dirk Schoenmaker's (2018) framework and, more specifically, it coincides with the investment strategy mentioned in Sustainable Finance 1.0 and in the PRI menu for integrating ESG factors (art.3 SFDR). It basically consists in excluding certain industries, issuers, or securities due to poor ESG performance from the portfolio. This approach can be seen as a first attempt to integrate ESG risk within an investor portfolio (UNPRI, 2022) and, for this reason, it connects with art. 6 SFDR.

  - (x): whenever the entity specifies to adopt negative screening in its investment or advisory activity and it provides the exclusion list of industries/businesses, together with the reasons of the choice of the investible universe.

- **(2.9) Positive Screening:**
  This measure is related to the third level of Schoenmaker's (2018) framework, Sustainable Finance 3.0. This investment technique consists in considering industries, issuers, or projects that have a better environmental, social, and governance (ESG) performance (art.3 and 6 SFDR) than others in the same business and, for this reason, they are also called "best-in-class". With respect to the other investment strategies, according to the framework suggested by (Bengo et al., 2022), positive screening allows to select investments promoting social and environmental characteristics (art. 8 SFDR) which were not included in the previous two levels of the framework (Bengo et al., 2022).

  - (x): The measure is verified when, on product disclosures, the subject clearly specifies the adoption of "positive screening" or "best in class" approaches, possibly including the criteria to select or frame the investible universe.

- **(2.10) Thematic Investing:**
  Starting from the investment strategy indicated by UNPRI, we then considered the

definition provided by Somefun et al. (2022) which identifies "Thematic Investing" as the practice of investing into assets that have their returns impacted by the structural changes promoted by the "themes", namely trends expected to significantly impact economies and redefine business models. For this measure, E, S or G themed financial products are considered, and they could also be associated to both art. 8 and 9 SFDR.

  - (x): The measure is verified when, within product disclosures, the subject clearly specifies the adoption of this strategy and the theme at the scope of the investment. Having products which name contains the word "thematic" is not enough to satisfy this measure, but some proof or explanation of their purpose must be present.

- **(2.11) Impact Investing:**
  Impact investments can be defined as "investments made into companies, organizations, and funds with the intention to generate social or environmental impact alongside a financial return" (Rockefeller Philanthropy Advisors, 2020). They are associated to the investment strategy pursued by financial products specified in FMPs and FAs disclosures and, as broadly discussed in the literature review chapter, they can be associated with art. 9 SFDR.

  - (x): The measure is checked if the subjects claim to adopt impact investing in their disclosures, specifying the way in which the products they offer or advise on are coherent with this investment practice. As emerged from the Literature Review, the presence of products categorized as art. 9 in the SFDR does not automatically assure the implementation of an impact investment approach.

Readability Measures

This last group of measures, differently from the previous two, do not focus on the content of subjects' disclosures but rather on how the information is organized and written. In fact, such measures have been projected following the idea to point out the "effort" that a hypothetical retail investor would spend in retrieving the whole set of information about FMPs and FAs that is assessed by the measures described in the previous two sections. More specifically, the final aim of these measures is not to provide an overall judgement on each disclosure, but rather to highlight differences among FMPs and FAs formalization and presentation of the same information.
Therefore, while carrying out the analysis and browsing websites, we took note of some of the features of the subjects' webpages and disclosures layouts. The list of the identified

measures is showed in table 4.3 and it is possible to recognize two different categories of "Readability" measures:

• The first one focuses on the website layout relatively to the disclosures we are interested in, and they aim at providing a picture of where to find them, under which format, in how many webpages and resources. Measures 3.1, 3.2, 3.8, 3.9 and 3.10 belong to this category;
• The second category is mainly focused on checking some disclosure's features that improve the quality and clearness of the SFDR and sustainable finance policies disclosures. Part to this family belong measures 3.3, 3.4, 3.5, 3.6 and 3.7.

MEASURES' GENRAL PURPOSE INFORMATION		COMPILATION CRITERIA
Measure code	Measure	Admitted values
3.1	Homepage section with clear reference to ESG policies, sustainabile investment or SFDR leading to SFDR material	x
	o In the top menu	x
	o In the body	x
	o In the slidebar/slider	x
	o In the footer	x
	o Not present in the homepage	x
3.2	SFDR section available on the website	x
	o PDF	x
	o Dedicated website section	x
	o Not present	x
3.3	50% of paragraphs of ESG Policies/ Sustainability documents explaining entity alignment towards SFDR	x
3.4	Documents/website section about SFDR/ESG policies available both in English and Italian	x
3.5	SFDR disclosure divided in paragraphs according to SFDR articles	x
3.6	Indications on which are the products belonging to art. 6, art. 8 and art. 9	x
3.7	Number of disclosure's pages with relevant information about SFDR	#
3.8	Number of Resourcers (links + documents) browsed to fill the grid	#
3.9	Number of website sections (links) devoted to sustainability practices/policy/disclosures adopted by the entity	#
3.10	Number of website sections containing resources to fill the grid	#

Table 4.3: Readability Measures Overview

- **(3.1) Homepage section leading to SFDR material:**
  The presence of a direct link for SFDR policies in the homepage which clearly refers to ESG policies, sustainable investments, or the Regulation itself eases the readability of an investor since he or she can access the information directly from the homepage instead of browsing the entire website. Moreover, with this measure, the exact spot in the homepage where the reference section is located is traced.
  - (x): the measure is verified whenever the link in the homepage actually leads to policies about SFDR;
  - (3.1.1) In the top menu: It is considered best position since it is the most visible one.
    - (x): whenever the link is present in the top bar of the site or within a drop-down menu.
  - (3.1.2) In the body: still provides a good visibility to the section under question.
    - (x): when the link or the section itself is accessible in the body of the homepage.
  - (3.1.3) In the slidebar/slider: it is referred to the horizontal drop-down menu.
    - (x): Whenever the link is present within the horizontal drop-down menu.
  - (3.1.4) In the footer: this is the worst place of the homepage where to find the desired section since it has the worst visibility and, often, it is dispersed with many other links.
    - (x): whenever the link is found in the footer of the homepage.

- **(3.2) SFDR section available on the website:**
  This measure's goal is to verify the presence of a website section entirely dedicated to the SFDR policies set up by FMPs and FAs and, moreover, it keeps track of the format through which this information is published.
  - (x): Whenever a webpage or a document discussing the entity's SFDR compliance is present, even if this kind of information is found among general

considerations about ESG topics not strictly related to SFDR. In this latter case, however, at least one paragraph should be devoted to the Regulation.

  - (3.2.1) PDF:
    * (x): If the PDF talks largely about SFDR policies.

  - (3.2.2) Dedicated website section:
    * (x): It is considered valid even in the case in which the webpage is not fully focused on SFDR policies but includes also parts related to other topics with the condition specified above.

  - (3.2.3) Not present:
    * (x): in the case the company does not devote any resource to publish the information about its stance towards SFDR.

- **(3.3) Documents/website section about SFDR/ESG policies available both in English and Italian:**
  This measure aims to check the transparency of the company even towards to non-Italian speaker investors.
  - (x): The measure is valid if all the documents and website sections that are considered fundamental to understand the company's position towards SFDR are available in both languages (Italian and English).

- **(3.4): SFDR disclosure divided in paragraphs according to SFDR articles:**
  The disclosure's division in paragraphs according to the SFDR articles is very useful in guiding the investor through the document and this measure checks whether FMPs and FAs adopt this layout.
  - (x): The measure is verified whenever it is clear the association of a paragraph to an SFDR article, even in the case the specific reference is not reported. However, a title for the paragraph is mandatory to satisfy this measure.

- **(3.5) Indications on which are the products belonging to art. 6, art. 8**

and art. 9:
FMPs and FAs devoting a space in their disclosure to specify which are the products classified under art. 6, 8, 9 SFDR make it easier for an investor to retrieve the relative information.

  - (x): Whenever the subject list all products belonging to their sustainable offer and classified under SFDR, the measure is valid. Products' name must be specified.

- **(3.6) Number of disclosure's pages with relevant information about SFDR:**
  This measure reports the length, in term of pages, of the SFDR disclosures published on FMPs and FAs websites. A document, in order to be considered part of SFDR disclosure, must contain at least one paragraph that refers to the Regulation and the policies the entity set up to comply with it.

  - (#): The relative cell in the Database is filled with the number of pages of all the documents containing useful information about SFDR, cover page and conclusion included. In case the disclosure is entirely made on a webpage, the number of pages reported in the respective Database cell is 0.

- **(3.7) Number of resources browsed to fill the grid:**
  By "Resources" it is meant both .pdf documents and webpages found on the website and this measure counts the ones which report information which are useful for our research and used for assessing the first two sets of measures.

  - (#): The relative cell in the Database reports the number of such resources.

- **(3.8) Number of website sections devoted to sustainable finance adopted by the entity:**
  This measure aims at assessing how many webpages found on FMPs and FAs websites are devoted to ESG matters. It is worth to clarify that this measure differ from the previous one, since it is not sure that all the webpages which are devoted to sustainability are actually useful for the scope of this research. In principle, these two last numbers should be put into relation with each other.

  - (#): The Database cell reports the total number of such webpages.

- **(3.9) Number of website sections containing resources to fill the grid:**

This measure counts the number of different website section which include the resources used to fill the grid and expressed by (3.8).

- (#): The respective Database cell reports the count of such website sections.

The meaning and the relationships between the different "Readability" measures will be explained in greater detail while discussing the evidence of our research.

4.2. Database Perimeter

A preliminary activity in the Database creation has been the identification of an adequate sample for the research scope. The objective that has been set for this work was the one to try to map the whole Italian Financial sector, with the meaning discussed in the previous sections, taking as a reference the Sustainable Finance Disclosure Regulation. Therefore, by conjugating the research objective and scope, the perimeter has almost immediately emerged and, hence, our work started by identifying Italian Financial Market Participants and Financial Advisers. The organizations that must comply with the SFDR are well distinctively determined but, however, definitions and names can create some confusion. In chapter 2 is already reported, though in an aggregate and synthetic way, the list of financial actors subject to the SFDR regime. Figure 4.1 and 4.2 displayed below, then, clarify and appropriately group FMPs and FAs according to the part of their businesses that are mostly relevant for SFDR. In the following sections, therefore, the final perimeter of the research will be framed.

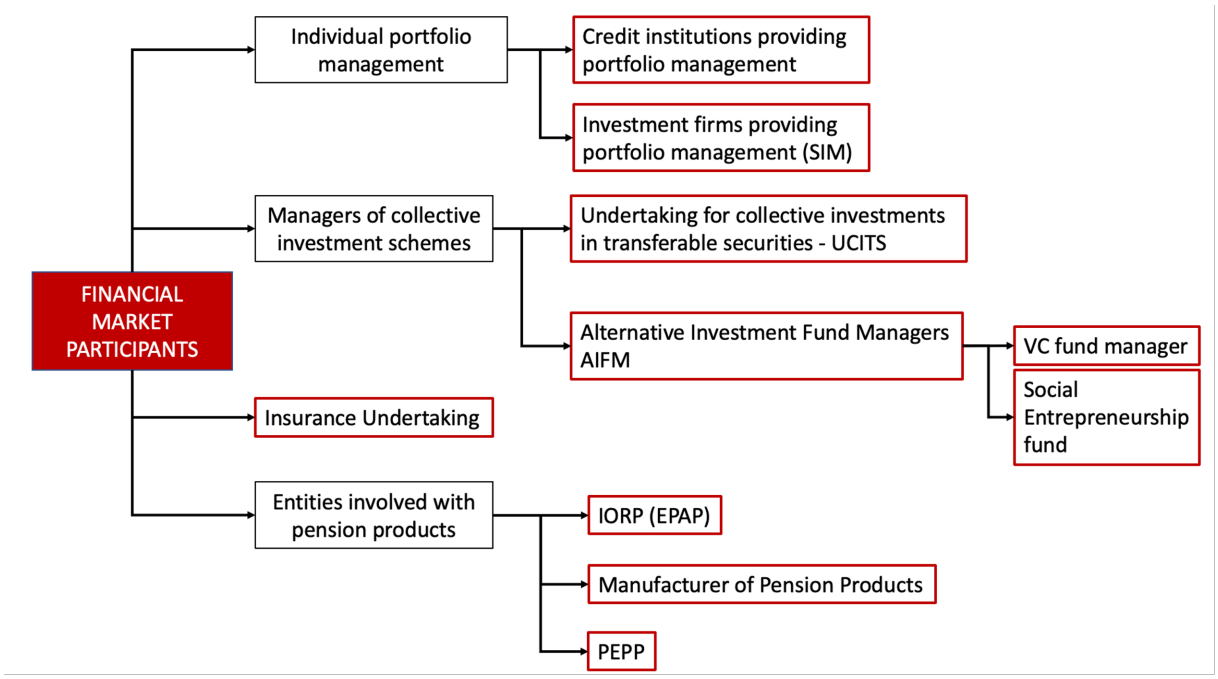

Figure 4.1: Financial Market Participants' map

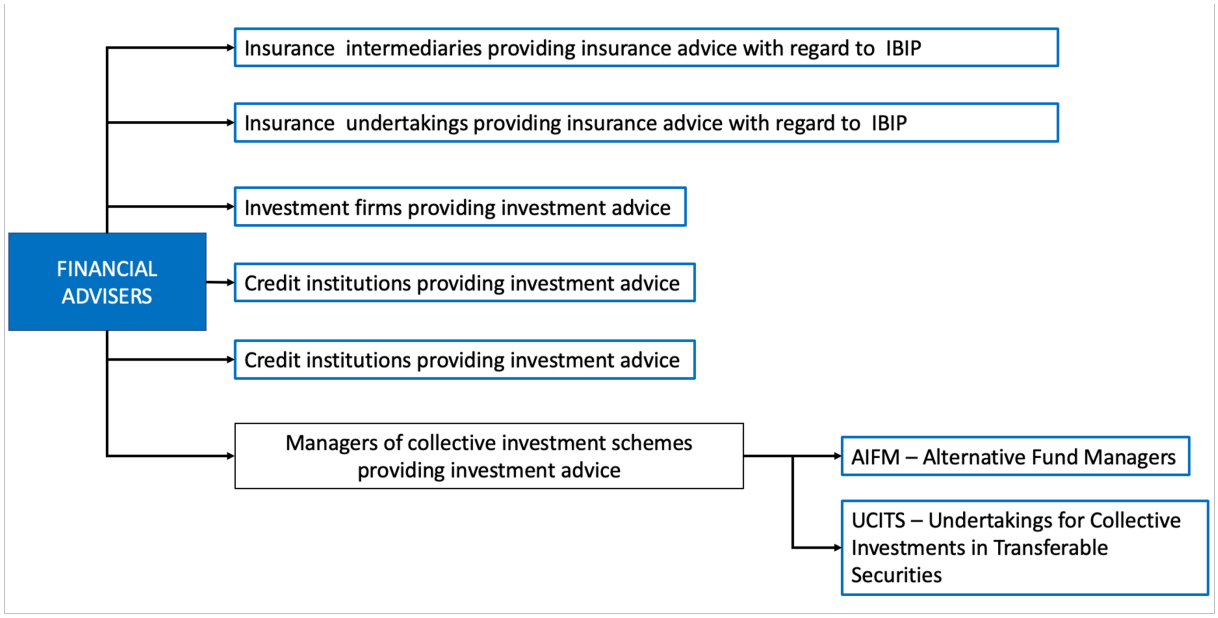

Figure 4.2: Financial Advisers' map

4.2.1. Italian Landscape

The first step has been to identify which Italian financial players are subject to the SFDR regime. Once understood that relation, which will be discussed in much detail in the following sections, the research went on with the creation of a list of the FMPs and FAs

to be analysed. Sources of data were Bank of Italy, Supervisory Authorities', and Associations' registers. Of course, many foreign groups that have a business in Italy entered the perimeter in a first sampling phase like, for instance, in the case of organizations having a branch in the country and, hence, ending up being included in the relative registers or adhering to the different associations.
However, in a subsequent phase, the choice has been the one to consider the most relevant and appropriate ones accordingly to our objective of providing a clear picture of the Italian ESG-investing market and, consequently, a more refined filtering of the sample has been carried out. Finally, Financial Market Participants and Financial Advisers eligible to enter the final perimeter are:

(1) All the organizations with registered office in Italy;
(2) All the organizations incorporated in Italy but with registered office abroad;
(3) All the foreign organizations with an Italian founder;
(4) Foreign organizations with relevant activity or branch in Italy.

The sections that follow will break down in much detail the population of the analysed sample, clarifying the rationale behind its composition.

4.2.2. Financial Market Participants

The following list specifies the Financial Market Participants included in the final perimeter. Once again, we recall that we considered all the Financial Market Participants that respect the requirements laid down in the previous paragraph. Namely, FMPs as specified by SFDR entering the perimeter are:

(1) Credit Institutions providing individual portfolio management: Banks and other institutions which provide investment services. We considered Bank Groups only as listed in Bank of Italy's register and, in addition, AIPB (Associazione Italiana Private Banking) members, namely associates of the Italian Association of Private Banking. The initial list has been narrowed down to only those bank groups which, among their businesses, provide individual portfolio management to their clients.

(2) Investment firms providing portfolio management as point (1) of Article 4 of Directive 2014/65/EU: "investment firm means any legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis". In Italy they are known as SIM (Società di Intermediazione Mobiliare) and they provide the following

activities: Selling, Brokerage, Dealing, Underwriting, Portfolio Management, Collection and transfer of sell/buy orders (Borsa Italiana). SIMs included in the perimeter have been found in Consob and Assosim registers.

(3) Undertakings for collective investments in transferable securities (UCITS management companies): "a company, the regular business of which is the management of UCITS in the form of common funds or of investment companies (collective portfolio management of UCITS)" (Art. 2(1) b Directive 2009/65/EC). In Italy they are commonly known as OICVM (Organismo di Investimento Collettivo a Valori Mobiliari, ex art. 35 TUF section OICVM) which are classified as SGR (Società di Gestione del Risparmio) and SICAV/SICAF (Società di Investimento a Capitale Variabile/Fisso, ex art. 35 ter TUF). However, among the latter, SICAFs have been excluded from the perimeter since they are reserved funds and not open to retail investors. The perimeter considered UCITS listed in Banca D'Italia Register and Assogestioni members, the national asset managers association.

(4) Alternative Investment fund managers as defined in point (b) of Article 4(1) of Directive 2011/61/EU: "AIFs' means collective investment undertakings, including investment compartments thereof, which: raise capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors". Alternative investment funds are funds that are not regulated at EU level by the UCITS directive. They include hedge funds, private equity funds, real estate funds and a wide range of other types of institutional funds (European Commission, 2022). Banca D'Italia register's list has been fully included in the perimeter, together with Alternative Investment Fund Managers associated to Assogestioni.
a. Managers of a qualifying venture capital fund as registered in accordance with Article 14 of Regulation (EU) No 345/2013. SFDR refers to Venture Capital funds that intend to use the designation "European Venture Capital funds" (EuVeca). Those funds' regulation covers a subcategory of alternative investment schemes that focus on start-ups and early-stage companies. Venture capital investment is an important source of long-term financing to young and innovative companies (European Commission, 2022).
b. Managers of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013. SFDR refers to Social Entrepreneurship funds that intend to use the designation "European social entrepreneurship funds" (EuSEF). Those funds' regulation covers alternative investment schemes that focus on social enterprises. These are companies that are set up with the explicit aim to have a positive social impact and address social objectives, rather than only maximising profit. While these enterprises often receive public support, private investment via funds still remains

vital to their growth (European Commission, 2022).
(5) Insurance Undertakings which make available an insurance-based investment product (IBIP) in accordance with Article 18 of Directive 2009/138/EC. The list that has entered the perimeter refers to every firm included in IVASS (Istituto per la Vigilanza sulle Assicurazioni) register and ANIA (Associazione Nazionale per le Imprese Assicuratrici) associates, the national association of Insurance Undertakings.

Eventually we grouped and rearranged the FMPs categories:
(1) Collective Asset Management (IT): including Italian UCITS, SICAV, AIFM, EuVECA and EuSEF.
(2) Asset Management ex. IT (branch and services): including the foreign entities with relevant branches or activities in Italy falling in the same categories as in point (1).
(3) Banks: including Bank Groups
(4) SIM: Including the investment firms providing portfolio management
(5) Insurance Undertakings: including insurance undertakings making available an insurance investment-based product (IBIP).

During the creation of the FMPs' perimeter, since many entities provide services that belong to different categories, they were accounted more than once in the relative registers. Nevertheless, we considered those FMPs just once, being the analysis focused on the sustainability disclosures and investment practices of the whole entity.

4.2.3. Financial Advisers

SFDR Financial Advisers' definition covers several financial intermediaries and institutions as long as they provide advises regarding investments or insurance products (IBIPs). The perimeter accounted for Financial Advisers listed in OCF (Organismo di vigilanza e tenuta dell'albo unico dei Consulenti Finanziari), and associates of Assoscf, respectively the Italian Supervisory Authority and the National Association of Financial Advisers. All the other entities covered by the definition provided by SFDR have been already considered in the FMPs list, since their core business is asset or portfolio management, rather than financial advisory, thus they have not been accounted twice. The financial advisers retrieved from OCF and Assoscf's registers have been accounted in the final perimeter under the category labelled "Financial Advisers".

4.2.4. Exclusions

Among the categories of FMPs considered for our research, there is one which is specified by the SFDR that has been intentionally left out of the perimeter. It is the category

of all those FMPs which are involved with pension products, namely: institutions for occupational retirement provisions, manufacturer of pension products, and pan-European pension product providers (PEPP). This choice has been taken since the number of entities already included in the perimeter has been deemed sufficient for the scope of the research. Therefore, since arbitrarily excluding some organizations from this or that category or, even worse, eliminating some following irrational criteria (e.g.: size, region, turnover, etc...), would have been detrimental to the objective of providing a picture of the overall Italian market, we ultimately decided to eliminate one whole category.

4.2.5. Perimeter's data

The final result consists of a sample of 417 organizations among Financial Market Participants and Financial Advisers. They are split as reported in Figure 4.3.

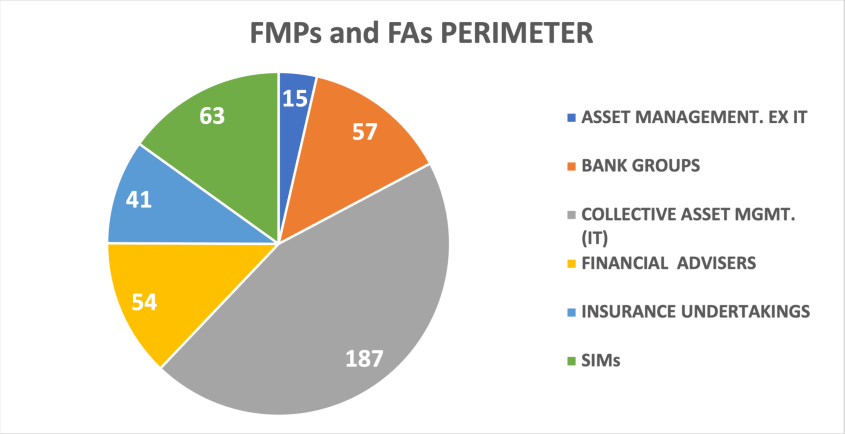

Figure 4.3: Research Perimeter

As can be observed, the category with the largest number of elements is the Italian collective asset management ones. This is because this category includes many different types of FMPs and FAs which primary business is asset management. We have been also able to retrieve financial data for some of the subjects under analysis, namely consolidated assets, number of employees and revenues from sales and services from two databases: AIDA and ORBIS. Table 4.4 summarizes the 2020 situation of those companies for which data were available.

FMP - FA category vs Consolidated assets (2020)	< 1 m€	1 m € - 10 m €	10 m € - 100 m €	100 m € - 1000 m €	> 1 b €	Total
ASSET MANAGEMENT. EX IT	1	2	5	5		13
BANK GROUPS				6	49	55
COLLECTIVE ASSET MGMT. (IT)	25	69	48	10	2	154
FINANCIAL ADVISERS	39	5	1			45
INSURANCE UNDERTAKINGS			1	5	32	38
SIMs	4	31	14	5	1	55
Total	**69**	**107**	**69**	**31**	**84**	**360**

Table 4.4: FMPs and FAs by consolidated Assets (2020)

With no surprise the biggest entities in terms of consolidated assets are Bank groups and Insurance Undertakings which, in many cases, account for more than € 1 billion. Conversely, the other FMPs and FAs have, on average, much smaller sizes, especially the latter category for which, mostly, asset amounts on Balance sheet do not overcome € 1 million. This is also reflected on the number of employees reported in Table 4.5 since, in the majority of the cases, they are no more than 10 for those categories

FMP - FA category vs Employee size	below 500	over 500	Total
ASSET MANAGEMENT. EX IT	6	2	8
BANK GROUPS	22	27	49
COLLECTIVE ASSET MGMT. (IT)	130	1	131
FINANCIAL ADVISERS	25	-	25
INSURANCE UNDERTAKINGS	11	2	13
SIMs	39	1	40
Total	**233**	**33**	**266**

Table 4.5: FMPs and FAs by number of employees (2020)

Moreover, as shown in Table 4.6 most of the entities in the perimeter made between 1 and 10 million € in turnover in 2020, even though this data is mainly driven by Italian Asset managers. It is not rare to observe, indeed, Banks and Insurance Undertakings generating more than € 1 billion of total turnover. It is also interesting to notice that, in most of the cases, financial advisers' total revenues do not overcome € 1 million.

FMPs - FA vs Revenues from sales and services (2020)	< 1 m€	1 m € - 10 m €	10 m € - 100 m €	100 m € - 1000 m €	> 1 b €	Total
ASSET MANAGEMENT. EX IT				1		1
BANK GROUPS		1	19	27	8	55
COLLECTIVE ASSET MGMT. (IT)	43	66	29	13	1	152
FINANCIAL ADVISERS	37	7	1			45
INSURANCE UNDERTAKINGS			6	6	19	31
SIMs	12	28	10	1		51
Total	**92**	**102**	**65**	**48**	**28**	**335**

Table 4.6: FMPs and FAs by Revenues from sales and services (2020)

This data will be very useful to construct clusters under which analyse the final results. Thanks to these sets of information, indeed, the elements within the perimeter will be divided according to their business, size and number of employees to ultimately infer some conclusions to this research and highlight patterns in terms of investment trends and disclosures effort, if any.

4.3. Database Building

4.3.1. Process

The analysis has been carried out on an Excel file ("the Database") in which every subject has been evaluated according to the whole set of measures. The file presents itself as a grid, in which measures are arranged in rows and the different FMPs are arranged in columns. To read the database and retrieve information about one specific entity, it is sufficient to cross the columns which refers to the subject under investigation and all the rows of the table. At the bottom, for every subject, the Database reports the level of alignment towards each category of measures and, at a second level, towards mandatory SFDR measures only. These levels are computed as the ratio between the measures which are verified for the specific entity (marked with the "x") and the total number of measures of the category (SFDR, best practices or mandatory). A better description and a full analysis of the result will be laid out in the following sections.

4.4. Database compilation

4.4.1. Compilation Criteria

The research has involved the analysis of the sustainability disclosures of more than 400 websites. The first step when gathering the set of information specified in the database is to find the relative website sections, which are expected to be labelled in ways that suggest the presence of sustainability policies, entities' approaches to sustainable investments and alignment towards SFDR. Typical denominations for those website's areas are: "sustainability", "ESG", "Sustainable investments", "SFDR policy/ statement/ information", "sustainability disclosure", "Responsible Investment policies". Alternatively, when the entities do not give much relevance to their approach to sustainability and no related website section can be found, information regarding their ESG policies or SFDR, if available, can be usually retrieved from the transparency or general documentation sections. After identifying all the proper websites areas that may display useful information for the research,

the next process consists in filtering the actually useful sections and resources. During the research, indeed, it has not been rare to observe websites with many sustainability-labelled contents which, however, were not actually explaining the organization alignment or effort towards ESG practices and sustainability within their investment-related activities. After these preliminary steps, the research can start by checking whether, in the identified resources, the entities communicated or not the information which are stated in the measures, filling with the proper mark the fields of the grid.

4.4.2. Compilation Challenges

During the websites' analysis, we had to face several hurdles that made the research and the database compilation more intricated. Besides from identifying the useful sections and resources included in the subjects' websites, one difficulty has been finding the information. Sometimes, although the proper resources were easily identified, it was not immediate to spot the measures we were looking for. This complexity was usually the consequence of a poor standardization among the websites' disclosures of the different entities. In addition, every website had its own organization of the information, number of resources, and sections' labels. Therefore, at the end of the analysis of each entity, we kept track of some indicators that tried to provide a picture of the accessibility of the resources displayed by the website and, consequently, the data collected have been organized in the set of measures called "Readability".

5 | Results

This chapter is devoted to the presentation of the main findings of our research. Firstly, the way through which the outcomes are analysed will be framed according to some synthetic metrics we defined just for this scope. Next, the most immediate evidence coming from the database will be reported, although a detailed discussion and analysis of the results will be included in section 5.2.

5.1. Outcomes

The outcome of our research is expressed in terms of how the financial actors present in the perimeter align towards the set of measures previously explained. This is in accordance with the initially set goal to provide a picture of the Italian financial landscape SFDR alignment and, at the same time, to understand which sustainable investment practices are mostly widespread in the market. Therefore, a set of ratios referring to different aspects of the data collected and displayed in the Database has been identified and, hence, they integrate specific measures according to the information they express. The ratios are:

- SFDR Alignment Ratio: $R1 = \frac{\text{number of verified SFDR based measures}}{\text{Total number of SFDR based measures}}$

The references are measures from 1.1 to 1.10, namely all those that are involved with SFDR articles. This ratio expresses the number of articles for which FMP and FA provides communication on, regardless of the comply or explain principle. The ratio's goal is to show how many SFDR articles are included in the disclosures of each FMP and FA. This metric also evaluates the compliance towards articles 8, 9 and 10 SFDR, namely those which are "not mandatory". Consequently, subjects who supply art. 8 and art. 9 products to end investors and give disclosure of that will have higher values of R1 than those who do not, provided that they align to the same number of the rest of the articles. It is also necessary to mention that art. 8, art. 9 and art. 10 have not been accounted in the Financial Advisers' profile. This is because the "Financial Advisers" label we adopted

only refers to those organizations which solely provide investment advice or insurance advice with regards to IBIPs, namely SCF in Italy (Società di Consulenza Finanziaria) and, hence, they do not sell or make available investment products.

• Best Practices Ratio: $R2 = \frac{\text{number of verified best practices measures}}{\text{total number of best practices meaures}}$

This ratio quantifies the level of adoption of the sustainable investment practices included in the Database by each FMP or FA. Therefore, it refers to measures from 2.1 to 2.11. This ratio also takes into account the investment styles as defined in measures 2.8, 2.9, 2.10, 2.11.

• Entity-level SFDR Alignment Ratio: $R3 = \frac{\text{Number of verified SFDR entity-level articles' measures}}{\text{Total number of SFDR entity-level articles' measures}}$

This Ratio refers to measures from 1.1 to 1.3 and accounts only for entity-level SFDR articles, namely art. 3, 4 and 5 regardless of the comply or explain principle. The metric offers a different view on the FMPs and FAs level of compliance towards SFDR. These articles, indeed, are mandatory for any FMPs and FAs and disclosures must be published on the website, unlike the others measured by R1, which all refers to pre-contractual disclosures, except for art. 10 SFDR which, still, requires publication on websites. Nevertheless, it is also necessary to recall that also art. 6 SFDR is mandatory in the sense that, as opposed to products art. 8 and 9 which FMPs are not obliged to include in their offer and, hence, comply to disclosure requirements laid down in the associated articles, any FMP and FA must comply with transparency duties on the integration of sustainability risks and publish this information on pre-contractual disclosures. However, as already specified, our analysis of product-level SFDR articles focuses on whether FMPs and FAs communicate on their websites if and how they integrate sustainability risks in their investment decisions or advice and whether FMPs include in their offer art. 8 or art. 9 SFDR products, thus not actually verifying the respect of those obligations but rather checking their presence within websites.

After these preliminary clarifications, we can start by presenting the outcomes of our research. As already mentioned, the number of subjects included in the perimeter is 417, out of which 77 do not provide any disclosure or information related to SFDR in their website whatsoever (among which 11 do not even have a website). Nevertheless, unless the opposite is explicitly stated, those entities are included in our statistics because one of the goals we set for this research is to understand the average level of alignment of the Italian financial sector along the measures we have identified and, hence, they are still representative of the final picture. In Table 5.1 it is possible to observe the result of R1,

R2 and R3, on average terms, as computed on the whole perimeter of FMPs and FAs.

RATIO	R1: SFDR Compliance Ratio	R2: Best Practices Ratio	R3: Entity-level SFDR Compliance Ratio
Average values	35,08%	29,31%	58,75%

Table 5.1: Perimeter's average R1, R2, R3 values

It can be easily deduced that the ratio with the highest value is R3, namely the one which assesses the subjects' alignment towards entity-level SFDR mandatory articles (art. 3, 4 and 5). Each ratio, in addition, can be split according to the measures it refers to in order to reveal their respective contributions to the final value. Moreover, this procedure can be useful to analyse in much detail what are the mostly verified measures, on average terms, for the whole sample of FMPs and FAs.
The break-down of R3 and, hence, of the market compliance towards entity-level SFDR articles is presented in Table 5.2.

R_3 Measures	NO	YES	TOTAL	%
Website's section about policies on the integration of sustainability risks (Art. 3)	111	306	417	**73,38%**
Description of actions and engagement policies about PAIs (Art. 4)	120	297	417	**71,22%**
Remuneration and incentive policies that take into account sustainability risks (5)	285	132	417	**31,65%**

Table 5.2: R3 measures' perimeter alignment – entity level articles

From this last result it is possible to observe how FMPs and FAs tend to provide disclosures about art. 3 and art. 4 SFDR at a higher frequency than art. 5 SFDR. The other ratio involved in the SFDR related measures is R1 and, as previously stated, it also includes those which have been just described, object of ratio R3. Therefore, we will also present the break-down of the rest of the results expressed by R1. Starting from the average alignment towards the other SFDR related measures and, more specifically, those regarding financial products, table 5.3 explains the fraction of subjects in the perimeter that specify on their website their alignment towards, respectively, art. 6, 8, 9 and 10 SFDR or, alternatively, their offer of art. 6, 8 and 9 products.

R_1 SFDR product-level measures	NO	NOT REQUESTED	YES	TOTAL	%
Disclosures about the integration of sustainability risks into investment decisions and investment advice (Art. 6)	224	0	193	417	46,28%
Disclosures for products promoting environmental or social characteristics (Art. 8)	266	54	97	417	26,72%
Disclosures for products with sustainable investment objective (Art. 9)	312	54	51	417	14,05%
Description of E,S or Sustainable Investment on the website (Art. 10)	274	54	89	417	24,52%

Table 5.3: R1 measures' perimeter alignment - product level articles

From this last finding it is evident that, during the research on FMPs websites, it has been more frequent to observe statements regarding the integration of sustainability risks in the investment process (art. 6) than the other two disclosures. Among the other two SFDR sustainably labelled products, the presence of disclosures on art. 8 ones rather than art. 9 has been more frequently witnessed with 97 observations for the former against 51 for the latter. At the same time, table 5.3 reveals that almost half of the analysed FMPs and FAs provide disclosures about the integration of sustainability risks into their investment decision and investment advice directly in their website. Table 5.4, then, shows how many subjects in the perimeter align towards the rest of the identified SFDR measures 1.7, 1.8, 1.9, namely those which are relative to additional requirements laid down in art. 4, 8 and 9 SFDR, but not included in the ones already presented.

R1 SFDR other measures	NO	NOT REQUESTED	YES	TOTAL	%
Reference to adherence to responsible business conduct codes, standards for due diligence (4)	244	0	173	417	41,49%
Products must indicate whether there is a designated benchmark and whether that benchmark is coherent with E,S characteristics (8-9)	337	54	26	417	6,24%
Count of players who include the objective of low carbon emission exposure in view of achieving objectives of the Paris Agreement (9)	333	54	30	417	7,19%

Table 5.4: R1 measures' perimeter alignment - other SFDR articles

It is possible to notice that less than half of the subjects adhere (or claim to adhere) to responsible business conduct codes and/or standards for due diligence. We recall that, those FMPs and FAs who are obliged or chose to comply with art. 4 are also required to report that information within their art. 4 disclosures. The other two measures, although referring to SFDR articles which are not "mandatory", have been observed very rarely within subjects' disclosures.

Finally, R2 can be split into two categories of measures, namely investment strategies (measures from 2.8 to 2.11) and investment practices (measures from 2.1 to 2.7). Table 5.5

provides a picture for the first set, revealing that negative screening is the most widespread approach to investments with a frequency of 47.24% while the other ones have been identified much more rarely.

Investment Approaches	NO	YES	TOTAL	%
Negative Screening	220	197	417	47,24%
Positive Screening	343	74	417	17,75%
Thematic Investing	388	29	417	6,95%
Impact Investing	357	60	417	14,39%

Table 5.5: Perimeter observations on disclosures of approaches to ESG investments

Table 5.6, on the other hand, displays the situation about the level of adoption of the defined investment practices, completing the view on the set of measures that make up R2.

Investment Practices	NO	YES	TOTAL	%
ESG Consideration	197	220	417	52,76%
Shareholders' engagement	218	145	363	39,94%
ESG Rating	261	156	417	37,41%
PAIs' Mitigation Actions	346	71	417	17,03%
Integration of Emission Measurement	321	96	417	23,02%
ESG risk Monitoring	244	173	417	41,49%
ESG Governance Measures	244	119	363	32,78%

Table 5.6: Perimeter observations on market practices to ESG investments

This last result reveals that 220 out of 417 among FMPs and FAs in the perimeter, claim to integrate ESG considerations (of any kind) in their activities.
The main results on the websites' information accessibility and represented by the "Readability" measures category are reported in Table 5.7, expressed in average terms.

Metrics	Total
Average of N° of resources to fill the grid	2,54
Average of N° of website sections containing resources to fill the grid	1,40
Average of Number of website sections (links) devoted to sustainability practices/policy/disclosures adopted by the entity.	1,86

Table 5.7: Perimeter's Average Readability measures data

This last result excludes entities which do not provide SFDR disclosures or do not have a website, since the measures it refers to are specifically meant to grasp the website layout. Unfortunately, the numbers presented on this table are not so easy to interpret and, thus, a dedicated and more thorough analysis will be provided in the next chapter.
Figure 5.1, then, shows how many subjects provide the main SFDR disclosures on a PDF document directly available on their websites or if they do on a dedicated webpage, revealing the FMPs and FAs' disclosure preferences.

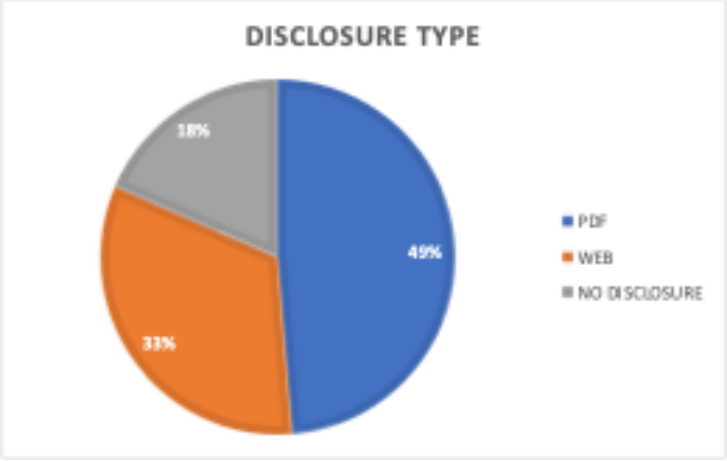

Figure 5.1: SFDR Disclosure Types' division among FMPs and FAs in the perimeter

5.2. Discussion

This last chapter is devoted to the critical discussion of the outcomes of our research. Results will be broken down according to some rationales in order to highlight relevant behaviours of the analysed sample. This process, called "Cluster Analysis", groups FMPs and FAs in several categories defined under different criteria ("the clusters").

5.2.1. Cluster Analysis

The main clusters identified to assist the discussion of the most relevant findings are defined as follow:

Subject Type: it groups FMPs and FAs in the categories as specified in section (4.1), namely (1) Collective Asset Management (IT), (2) Asset Management ex. IT, (3) Banks, (4) SIM, (5) Insurance Undertakings, and (6) Financial Advisers. This is the focal cluster and starting point for the discussion of the main results.

Asset Size: it divides the perimeter into 5 different levels of consolidated assets (2020) increasing one order of magnitude at a time, namely: (1) below € 1 million, (2) between € 1 million and € 10 millions, (3) between € 10 millions and € 100 millions, (4) between € 100 millions and € 1 billion, (5) over €1 billion. This cluster includes only those FMPs and FAs for which it has been possible to retrieve data. This cluster helps in revealing patterns among the results and it is especially relevant when conducting analysis that tries to give an answer to whether big or small financial players provide more complete disclosures about their sustainable investment approaches and compliance.

Employees Size: it divides the perimeter into FMPs and FAs who (1) exceed 500 employees as of 31st December 2020 and those who (2) do not. This is directly referring to art. 4 SFDR which, during the formulation of the "comply or explain" principle, specifies this threshold on the number of employees (art. 4(3), 4(4) SFDR).

Table 5.8 shows the average values of R1, R2 and R3 for each subject type.

Subject Type	R1: Average of SFDR Compliance Ratio	R2: Average of Best Practices Ratio	R3: Average of Mandatory Measures
ASSET MANAGEMENT. EX IT	48,67%	54,55%	75,56%
BANK GROUPS	38,25%	33,17%	64,33%
COLLECTIVE ASSET MGMT. (IT)	37,75%	36,66%	64,17%
FINANCIAL ADVISERS	31,11%	4,32%	35,80%
INSURANCE UNDERTAKINGS	46,10%	42,35%	78,05%
SIMs	17,30%	10,97%	40,74%
Total	**35,08%**	**29,31%**	**58,75%**

Table 5.8: R1, R2, R3 average results vs Subject Type

It is interesting to notice an appreciable variability among the categories of this cluster, with Foreign Asset Managers groups and Insurance Undertakings exhibiting the highest average values along the three ratios while, on the other hand, SIMs and Financial Advisers have the lowest alignment towards the three metrics. Banks and Italian Collective Asset Managers, ultimately, exhibit a very similar behaviour between them and, overall, closer to Foreign Asset Managers and Insurance Undertakings than SIMs and Financial advisers. However, a very relevant aspect of this result is that, in the perimeter, Foreign Asset Managers and Insurance Undertakings are the least represented with, respectively, 15 and 41 elements. Another view to the three ratios is provided by table 5.9 which puts them into relation with the size of the different entities in the perimeter, expressed in terms of amount of consolidated assets in their balance sheet (2020).

Asset Size	Average of SFDR Compliance Ratio	Average of Best Practices Ratio	Average of Mandatory
below 1 mEUR	28,41%	10,09%	40,58%
from 1 mEUR to 10 m EUR	27,10%	22,56%	52,02%
from 10 mEUR to 100 m EUR	46,09%	44,55%	78,26%
from 100 mEUR to 1000 m EUR	41,61%	42,82%	60,22%
over 1000 m EUR	44,05%	40,48%	72,62%
n.a.	28,07%	23,04%	48,54%
Total	**35,08%**	**29,31%**	**58,75%**

Table 5.9: R1, R2, R3 average results vs Asset Size

Since those ratios grasp the disclosure completeness regarding SFDR and investment practices of the subjects under analysis, it is reasonable to expect larger groups which have more resources and visibility to exhibit better performances along R1, R2 and R3. This is also related to the evidence provided by Buallay (2018) which revealed that,

in the banking sector, more complete ESG disclosures have been found in Banks with larger assets amounts. Our findings reveal that subjects in the tranches of consolidated assets over € 10 millions are more prone in disclosing their adoption of SFDR articles and sustainable investment practices. However, this result just mildly supports Buallay (2018) conclusions since, referring to the entities in our perimeter, it is not always verified that the larger the size the better the performances in the three ratios because, as table 5.9 exhibits, the highest average values along those metrics are found in the tranche of asset size between € 10 millions and € 100 millions.Nevertheless, it is also true that FMPs and FAs in the two lowest tranches of the asset size cluster show the lowest values of R1, R2 and R3.

The analysis, then, can be restricted to Bank Groups only. To this end, it is necessary to redefine the categories of the asset size cluster since 49 out of the 55 bank groups in the perimeter have more than € 1 billion in consolidated assets. The newly identified intervals, therefore, account for banks with consolidated assets from € 100 millions to over € 100 billions and have different width since we tried to have a sufficient and homogeneous number of elements in each of them. Figure 5.2, finally, shows the bank groups' average values of the three ratios (R1, R2 and R3) for different asset sizes intervals and it reveals a fragmented, though slightly increasing pattern. However, as R squared values indicate, there is a low adaptation between data and the three regression lines, especially for R1, suggesting that it is not possible to conclude with absolute certainty that values of the three ratios linearly increase with the asset size.

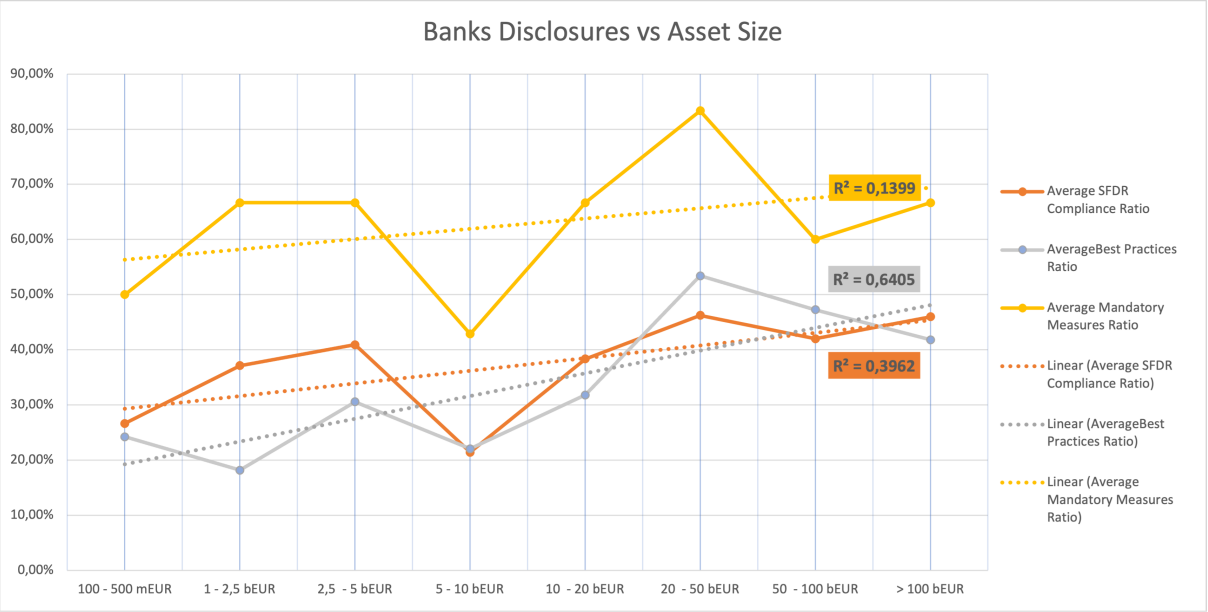

Figure 5.2: Bank Groups R1, R2, R3 values vs Consolidated Asset Sizes (2020

Table 5.10, then, put the previous two results into relation by showing the distribution of each type of subject along the different tranches of asset sizes.

Subject Type	<1 m€	1 m € - 10 m €	10 m € - 100 m €	100 m € - 1000 m €	>1 b €	Total
ASSET MANAGEMENT. EX IT	1	2	5	5		13
BANK GROUPS				6	49	55
COLLECTIVE ASSET MGMT. (IT)	25	69	48	10	2	154
FINANCIAL ADVISERS	39	5	1			45
INSURANCE UNDERTAKINGS			1	5	32	38
SIMs	4	31	14	5	1	55
Total	**69**	**107**	**69**	**31**	**84**	**360**

Table 5.10: Subject Type distribution for Consolidated Asset (2020)

It is clear how Financial Advisers and SIMs, namely those which had the worst average values of the three ratios, are mostly belonging to the lowest two asset size tranches while the top-performers (Foreign Asset Managers and Insurance Undertakings) have, on average, bigger sizes.
Another remarkable view on the results brought by the division of the perimeter into clusters is the one about entity-level SFDR articles. As presented in the previous chapter, this is obtained when R3 is broken down along its three constitutive measures. The complete picture of FMPs and FAs' alignment towards entity-level, mandatory SFDR related measures is found in Table 5.11.

Subject Type	Website's section about policies on the integration of sustainability risks - art. 3	Description of actions and engagement policies about PAIs - art. 4	Remuneration and incentive policies that take into account sustainability risks - art. 5	R3
ASSET MANAGEMENT. EX IT	86,67%	80,00%	60,00%	75,56%
BANK GROUPS	82,46%	73,68%	36,84%	64,33%
COLLECTIVE ASSET MGMT. (IT)	75,94%	80,75%	35,83%	64,17%
FINANCIAL ADVISERS	53,70%	51,85%	1,85%	35,80%
INSURANCE UNDERTAKINGS	92,68%	80,49%	60,98%	78,05%
SIMs	58,73%	49,21%	14,29%	40,74%
Total	**73,38%**	**71,22%**	**31,65%**	**58,75%**

Table 5.11: Entity-level SFDR articles related measures - Subject Type alignment

It is easy to observe how, for almost any category of subjects, the same pattern holds and, thus, disclosure frequency is the highest for the integration of sustainability risks then lower, though comparable, for mitigation actions for tackling Principal Adverse Impacts (PAIs) and, lastly, much lower than the previous two for remuneration policies considering sustainability risks. It is also worth to mention that, during our analysis on subjects' websites, we realized that many times disclosure about remuneration policies integrating sustainability risks are often overlooked. Although it is not rare to observe SFDR-related

content published on FMPs and FAs websites which mentions Article 5 SFDR, many times paragraphs devoted to the explanation of remuneration policies limit themselves to state the organization's commitment to adopt, in the future, some measures taking sustainability risks into account or, alternatively, claiming that the adoption of ad-hoc measures already took place without providing any further explanation or description whatsoever. In all those cases, therefore, we judged the subjects as "non-compliant" with regards to art. 5 SFDR and, ultimately, the associated measure could not be checked. For many entities in the perimeter, as can be observed, this situation represents the norm, like for instance, in the case of Financial Advisers where just one out of 54 published SFDR-related remuneration policies. Although for some FMPs results were extensively higher, art. 5 disclosures are, among entity-level ones, the least present within websites. In addition, there is a brief clarification to be made about art. 4 disclosures. Even though during our analysis we witnessed to a very low standardization of PAIs-related disclosures, it is also true that a much higher number of subjects than the previous case reported some sort of statement describing the main organization's policies or considerations towards PAIs. Another measure (1.7), however, is devoted to testifying whether actual steps are taken to reduce Principal Adverse Impacts while the one present in the table under discussion just checks the presence of a statement, either following a comply or explain logic, about art. 4 SFDR. Table 5.12 concludes the view on the mandatory, entity-level measures, providing a further analysis of PAIs simultaneously looking at the subject-type cluster and the one regarding the number of employees.

Subject Type vs Employees	no	yes	Total	%
below 500	**63**	**170**	**233**	**72,96%**
ASSET MANAGEMENT. EX IT	1	5	6	83,33%
BANK GROUPS	6	16	22	72,73%
COLLECTIVE ASSET MGMT. (IT)	21	109	130	83,85%
FINANCIAL ADVISERS	13	12	25	48,00%
INSURANCE UNDERTAKINGS	3	8	11	72,73%
SIMs	19	20	39	51,28%
n.a.	**48**	**103**	**151**	**68,21%**
ASSET MANAGEMENT. EX IT	2	5	7	71,43%
BANK GROUPS	2	6	8	75,00%
COLLECTIVE ASSET MGMT. (IT)	14	42	56	75,00%
FINANCIAL ADVISERS	13	16	29	55,17%
INSURANCE UNDERTAKINGS	5	23	28	82,14%
SIMs	12	11	23	47,83%
over 500	**9**	**24**	**33**	**72,73%**
ASSET MANAGEMENT. EX IT		2	2	100,00%
BANK GROUPS	7	20	27	74,07%
COLLECTIVE ASSET MGMT. (IT)	1		1	0,00%
INSURANCE UNDERTAKINGS		2	2	100,00%
SIMs	1		1	0,00%
Total	**120**	**297**	**417**	**71,22%**

Table 5.12: PAIs statement (art. 4 SFDR) vs Employees' Size (2020)

Unfortunately, the picture we provide is only partially complete, as for 151 out of 417 FMPs and FAs the exact 2020 data on the number of employees has not been found but, however, we will report their results as well. Table 5.12, therefore, divides FMPs and FAs in two groups depending on whether they are above or below the 500 employees' threshold and, consequently, it reveals how many of them provide disclosure about art. 4, regardless of the approach adopted (either comply or explain). What can be seen is that, despite the two groups have very different sizes, the proportion of subjects who provide disclosure about art. 4 is very similar between them. Also, the result found for the third group, namely the one for which data about the number of employees has not been retrieved, is, more or less, aligned to the other two. The balance between those groups is remarkable if considering that their elements are subject to very different obligations. Those who have more than 500 employees, indeed, must provide a statement with all the information laid down in art. 4.1 (a) and 4.2 SFDR while the entities belonging to the other group can alternatively choose to publish some sort of justification for not fulfilling the same

transparency requirements. However, for the scope of the measure under discussion, as already explained, subjects who must or choose to comply to art. 4 SFDR are only evaluated along art. 4.1. Of course, a larger number of employees may be indicative of the FMP or FA size and, hence, of the presence of many economic resources which could support the process of taking actions to tackle PAIs but, yet, the result can be surprising. Then, Financial Advisers and SIMs are, again, the ones with the lowest level of adoption of such measure, even though within the above 500 employees' group the situation is not so significative, since no Financial Adviser and only 1 SIM is present.
Next, breaking down R1 into its constitutive measures, our findings also reveal which are the types of FMP which disclose more often information on the integration of sustainability risks into investment decisions and investment advice (art. 6 SFDR), the inclusion in their offer of products promoting environmental or social characteristics (art. 8 SFDR) and/or products with a sustainable investment as their objective (art. 9 SFDR). This is realized through the comparison among FMPs found in table 5.13 which shows the proportion, for each subject type, of those who align to measures 1.5, 1.5, 1.6, 1.10, hence the main ones regarding art. 6, 8, 9 and 10 SFDR.

Subject type	% Art. 6	% Art. 8	% Art. 9	% Art. 10
ASSET MANAGEMENT. EX IT	80,00%	60,00%	60,00%	53,33%
BANK GROUPS	52,63%	38,60%	15,79%	26,32%
COLLECTIVE ASSET MGMT. (IT)	51,34%	26,20%	12,83%	26,74%
FINANCIAL ADVISERS	46,30%	-	-	-
INSURANCE UNDERTAKINGS	56,10%	29,27%	12,20%	26,83%
SIMs	11,11%	7,94%	6,35%	7,94%
Total	**46,28%**	**26,72%**	**14,05%**	**24,52%**

Table 5.13: Frequency of SFDR product-level articles disclosures within FMPs and FAs websites

As already revealed in the results' chapter, the most frequent product-level disclosure found within websites regards the integration of sustainability risks in the investment or advisory process and this is true for all the categories of FMPs (and FAs). Among the sustainable-labelled products, it is more frequent to find disclosures about art. 8 products than art. 9 within websites, though it is still interesting to notice that this trend is verified for each category of FMP, except for Foreign Asset Managers for whom the two results equate. Among the types within the cluster which disclose more frequently their offer of art. 8 and art. 9 products, there are, in order, Foreign Asset Managers and Banks, while Italian Collective Asset Managers and Insurance Undertakings present sensitively lower results. On the other hand, only 5 and 4 SIMs out of 63 are, respectively, aligned to

measures associated with art. 8 and 9. Table 5.13 also reports the proportion of FMPs who publish on their website information about financial products promoting environmental or social characteristics and with a sustainable investment as their objective according to art. 10 SFDR. As can be noticed, in some cases, the proportion of FMPs for whom the measure referring to article 10 is valid can be lower than the ones referring to art. 8 and 9 (i.e.: for banks and insurance undertakings).
This is surprising: as already explained, during the research we looked for indications of the presence of art. 8 and art. 9 products mainly within SFDR or sustainable investment related websites sections or, if explicitly stated in those webpages, within pre-contractual disclosure. For that reason, one should expect that, when offering art. 8 or art. 9 products, the first indication should come from a document referring to art. 10 SFDR which lays down website-level transparency obligations requiring a description of Environmental or Social Characteristics or the sustainable investment, together with methodologies used to assess, measure, and monitor the formers and the impact of the latter. Nevertheless, in some cases, when art. 8 and art. 9 products are present in the offer, such documents or information are not present or, at most, the only mean to understand whether the FMPs supplies those financial products is some sort of statement which does not directly refer to art. 10 SFDR, nor it complies to the regulation's requirements. In those instances, therefore, the presence and disclosures of art. 8 and art. 9 products and, hence, the associated measures, are verified from other pieces of information found on the website or directly from pre-contractual documents, while measure referring to art. 10 is considered to be not satisfied.
The perimeter alignment towards product-level SFDR related measures, then, could also be assessed through the asset size cluster to reveal whether the disclosure of sustainable financial products' offer and the integration of sustainability risk in the investment activity mostly come from small or big financial players. This is shown in table 5.14, where the frequency of measures 1.4, 1.5, 1.6, 1.10 is referring to the different amounts of consolidated assets under which the perimeter has been divided.

Consolidated Assets (2020)	Disclosures about the integration of sustainability risks into investment decisions and investment advice (Art.6)			Disclosures for products promoting environmental or social characteristics (Art.8)			Disclosures for products with sustainable Investment objective (Art.9)			Description of E, S or Sustainable Investment on the website (Art.10)		
	no	yes	%	no	yes	%	no	yes	%	no	yes	%
< 1 m€	42	27	39,13%	25	5	16,67%	27	3	10,00%	25	5	16,67%
1 m € - 10 m €	69	38	35,51%	93	9	8,82%	96	6	5,88%	90	12	11,76%
10 m € - 100 m €	29	40	57,97%	40	28	41,18%	55	13	19,12%	41	27	39,71%
100 m € - 1000 m €	14	17	54,84%	17	14	45,16%	22	9	29,03%	19	12	38,71%
> 1 b €	35	49	58,33%	52	32	38,10%	69	15	17,86%	60	24	28,57%
n.a.	35	22	38,60%	39	9	18,75%	43	5	10,42%	39	9	18,75%
Total	**224**	**193**	**46,28%**	**266**	**97**	**26,72%**	**312**	**51**	**14,05%**	**274**	**89**	**24,52%**

Table 5.14: Frequency of Product Level disclosures within FMPs and FAs websites - consolidated assets (2020)

From these results it is possible to notice how, along each measure, FMPs belonging to the two lowest tranches tend to align to those measures less frequently than the rest of the cluster. At the same time, however, it is not possible to conclude that investments classified under art. 8 and art. 9 are more often supplied by financial players with bigger sizes since the results reveal that disclosures for those products have been witnessed proportionally more often from FMP included in the two tranches of asset size going from € 10 millions to € 1 billion. A similar conclusion holds for art. 6 and art. 10 measures, for which it is not possible to observe a frequency increasing with the asset size, although the three bigger tranches present significantly higher values than the smallest two.
Further evidence revealed by the research and by the analysis of part of the measures that make up R2, and very well connected to the last results, concerns the investment approaches adopted by FMPs and FAs. As already described, the analysis on subjects' websites has been carried out also taking note of what type of criteria they claim to integrate in their investment or advisory activities among the ones we identified, namely: negative screening, positive screening, thematic investing, impact investing. Table 5.15 summarizes the fraction of elements belonging to each subject type who adopts any of those approaches.

Subject type	Negative Screening	Positive Screening	Thematic Investing	Impact Investing
ASSET MANAGEMENT. EX IT	80,00%	20,00%	20,00%	20,00%
BANK GROUPS	59,65%	33,33%	7,02%	14,04%
COLLECTIVE ASSET MGMT. (IT)	56,68%	20,32%	7,49%	18,72%
FINANCIAL ADVISERS	5,56%	5,56%	3,70%	1,85%
INSURANCE UNDERTAKINGS	73,17%	14,63%	9,76%	19,51%
SIMs	19,05%	7,94%	3,17%	3,17%
Grand Total	**47,24%**	**17,75%**	**6,95%**	**13,67%**

Table 5.15: Frequency of Investment Approaches disclosures within FMPs and FAs websites - Subject type

What has been said in the results' section finds confirmation for each category of subjects: negative screening is the most widespread and frequent approach to investments if looking at the overall picture. However, there is some variability within the categories of FMPs and FAs who claim to purposefully avoid dealing with sectors regarded as "unsustainable" or "unethical" within website sections or documents related to the ESG policies they adopt. This investment style, more specifically, seems to represent the norm rather than a choice for foreign asset managers and Insurance Undertakings, considering its high frequency and its presence in these sectors. At the same time, also Bank's Groups and

Italian Asset Managers are good advocates of this market practice, with more than half of them claiming to filter the possible investible universe adopting a negative screening. Once again, however, SIMs and Financial Advisers seem to lag behind peers since they integrate this principle less frequently, especially if looking at the latter. Each category, then, seems to be more cautious when coming to the other approaches and, thus, their frequency is substantially lower than the previous case. This, however, could be easily predictable: passing from negative screening to impact investing, the effort and the ESG factors integration in the investment activities becomes stronger and stronger since, for instance, in the latter case environmental and social benefits must be intentional and measurable objectives for investors, together with financial returns (Rockefeller Philanthropy Advisors, 2020). The information regarding those last three types of investment practices have been retrieved from many sources. Some subjects, indeed, state their investment style in general-purpose documents while others explicitly tie an approach to a particular product, specifying this information in documents or website sections dedicated to product disclosures. In the thematic or impact investing cases, in particular, financial products are often named under specific labels that refer to either one of these techniques. However, during our research, we always tried not to stop in front of a label, but we also investigated whether those products were actually following some sustainable criteria by analysing further documentation looking for some statement clarifying the investment approach.

Table 5.15, then, also shows how FMPs who claim to adopt impact investing are more frequent than those who do the same for thematic investing, despite the former, as already discussed, requires a much stronger effort than the latter. Around the concept of impact investing, as Busch, Metzler and Scheitza (2022) claim, there is some confusion, possibly leading to the so-called "impact washing" danger. Among other things, what seems to contribute to this uncertain environment is, as already examined in chapter 2, the relationship between art. 9 SFDR and Impact Investing. Recalling what has been the discussion around this issue in the literature review chapter, although SFDR does not support the conclusion that art. 9 ("dark green") products can be considered impact investments (Rockefeller Philanthropy Advisors, 2020), Bengo et al. (2022) see those products as true representative of a blended value strategy and, consequently, pursuant of a true impact investing approach. In addition, art. 8 ("light green") products can be tied to positive screening (Bengo et al., 2022).

To this end, therefore, it would be interesting to understand, within the Italian Financial sector, how many FMP disclose their offer of art. 9 products while claiming to adopt an impact investing strategy. Table 5.16 reveals that 37 out of 51 FMPs offering art. 9 products, also declare to adopt an impact investing approach.

IMPACT INVESTING	Disclosures for products with sustainable investment objective (9)			
	no	yes	Total	%
no	290	14	304	4,61%
yes	22	37	59	62,71%
Total	**275**	**51**	**326**	**15,64%**

Table 5.16: Impact Investing vs Art. 9 products disclosures

At the same time, taking the opposite perspective, the majority of organizations who claim to follow an impact investment style, offer "dark green" products (37 out of 59). On the other hand, to complete the view, Table 5.17 puts into relation organizations who adopt a positive screening approach to those who communicate their offer of art. 8 products.

POSITIVE SCREENING	Disclosures for products promoting environmental or social characteristics (8)			
	no	yes	Total	%
no	236	56	292	19,18%
yes	30	41	71	57,75%
Grand Total	**266**	**97**	**363**	**26,72%**

Table 5.17: Positive Screening vs Art. 8 Products Disclosures

In this case, as opposed to what happened with art. 9 products, the majority of FMP offering art. 8 products (56 out of 97) do not report a statement where they claim to positively screen the universe of potential investees but, still, 41 out of 71 organizations promoting positive screening do offer "light green" investments.
Proceeding along the set of measures collected under the label "Best Practices", table 5.18 shows how frequently FMPs and FAs give disclosure of those principles' adoption in their investment and advisory activities.

Subject Type	ESG Consideration	Shareholders' Engagement	ESG Rating	PAIs' Mitigation Actions	Emission Measurement	ESG Monitoring	ESG Governance measures
ASSET MANAGEMENT. EX IT	86,67%	66,67%	53,33%	53,33%	60,00%	60,00%	60,00%
BANK GROUPS	57,89%	22,81%	50,88%	17,54%	19,30%	36,84%	45,61%
COLLECTIVE ASSET MGMT. (IT)	64,71%	50,27%	40,64%	18,18%	27,81%	58,82%	39,57%
FINANCIAL ADVISERS	9,26%	n.a.	5,56%	0,00%	1,85%	5,56%	0,00%
INSURANCE UNDERTAKINGS	80,49%	53,66%	58,54%	41,46%	46,34%	56,10%	12,20%
SIMs	23,81%	9,52%	25,40%	3,17%	6,35%	11,11%	7,94%
Total	**52,76%**	**39,94%**	**37,41%**	**17,03%**	**23,02%**	**41,49%**	**28,54%**

Table 5.18: Investment Practices Frequency among FMPs and FAs

It is evident how the "ESG consideration" practice is the most present within disclosures. This is something which could be reasonably predicted since the associated measure is, among the other in the same category, the least stringent. The reason why the field "ESG consideration" has been added to the research, indeed, was to distinguish between those organizations which included ESG considerations of any kind in their activities and those who do not. On the other hand, FMPs and FAs seem to have some troubles with the definition of PAIs' mitigating actions. In table 5.11, as previously discussed, it is possible to observe a higher frequency of actors in the perimeter providing a statement regarding PAIs than in the case of the art. 4 related measure reported in table 5.18. The latter, indeed, accounts only for those FMPs and FAs who give any kind of clarification about the actions they set up to identify and prioritise PAIs and, hence, much more stringent than the one which only checks whether subjects provide a statement regarding art. 4 SFDR, either on a comply or explain basis. Beyond this, what is really important to recall is that, for all these measures, the assessment has been conducted on the basis of what FMPs and FAs published on their own websites and, thus, the results just show a picture of what those entities claim about their investment and market practices, without entering the discussion of whether they actually live up to their promises. Besides, almost every subject has its own way of communicating the sustainability policies adopted in its investment or advisory activities and, hence, a low level of standardization in those disclosures has been witnessed. However, as already learnt from the literature review chapter, in this context standardization is essential because the notion of "ESG" is sometimes prone to subjective interpretations, resulting in ambiguities (Steuer and Tröger, 2022). Therefore, it would be interesting to have a look at how many actors in the perimeter adhere to responsible business conduct codes or standard for due diligence, as defined in chapter 2, since, at least, they could help a hypothetical investor to understand whether a financial organization is referring to some internationally accepted guidelines when laying down its sustainable finance policies or not. Figure 5.3, to this regard, shows how many FMPs and

FAs align to the "best practices" measures while disclosing their adherence to any of the said responsible business conduct codes or due diligence standards.

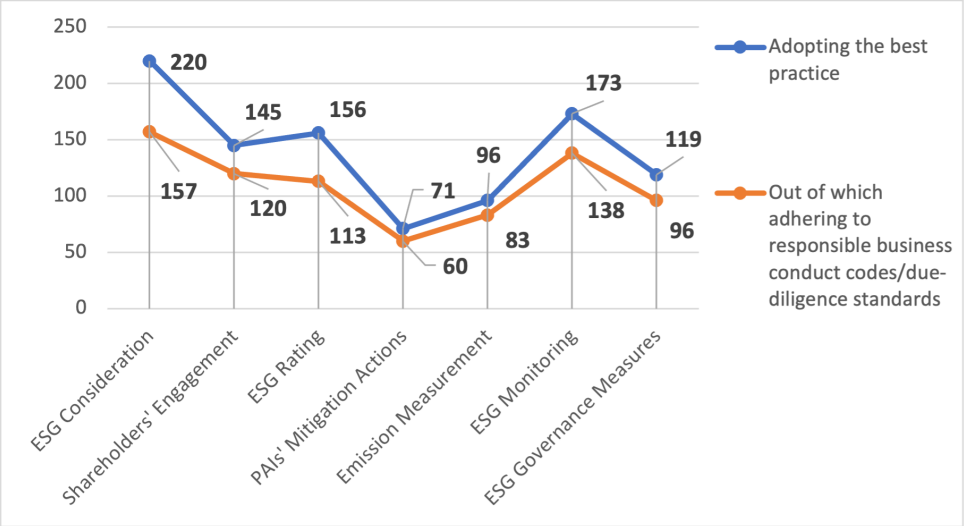

Figure 5.3: FMPs and FAs adopting each of the defined investment practices who also adhere to responsible business conduct codes and due diligence standards

Although it can be observed an overall good level of participation and adoption of responsible investment principles, some subjects do not (explicitly) rely on them when claiming to integrate the market practices under analysis.
Furthermore, the analysis evolved by linking the rate of adoption of these investment principles with the type of financial products offered by each FMP. This is relevant, since all the identified best practices are related to the way in which sustainability is integrated in the investment activity and, hence to the investment objectives. As already broadly discussed, SFDR identifies two types of products defined by art. 8 and art. 9 which integrate sustainability in different ways, respectively promoting ESG characteristics and having a sustainable investment as objective with the latter supposed to be more impacting. Therefore, the perimeter, excluding FA, has been divided into three categories depending on whether FMPs (1) do not offer art. 8 nor art. 9 products (314 FMPs), (2) promote art. 8 products only (34 FMPs) (3) promote art. 9 product (possibly also art. 8 products) (51 FMPs). Since just 3 FMP belonging to the sample offered art. 9 products only, devoting a category like in the case of art. 8 products would have been meaningless. Consequently, the cluster has been assessed on the basis of the frequency of adoption of the best practices and results are reported in table 5.19.

SFDR product	Shareholders' Engagement	PAIs mitigation actions	ESG integration	ESG Rating	Greenhouse emission measurement	ESG risk monitoring	ESG Governance measures
No art. 8, art. 9 products	23,57%	7,96%	37,90%	21,97%	27,07%	27,07%	16,24%
Art. 8 product only	58,82%	35,29%	97,06%	73,53%	44,12%	73,53%	61,76%
Art. 9 product	74,51%	54,90%	98,04%	86,27%	66,67%	90,20%	68,63%

Table 5.19: Art. 8, Art. 9 Products vs Investment Practices adoption Frequency

The outcome is rather straightforward: FMPs who do not offer art. 8 nor art. 9 products and adopt those investment principles are, proportionally, much less than peers belonging to the other two categories. This evidence holds for any of the best practices, including "ESG Consideration" which, as already discussed, is the mostly spread within actors in the perimeter. Moreover, differences along each column of table 5.19 can be observed to an appreciable extent between the last two categories, namely the ones offering sustainable financial products, with entities offering art. 9 investments having the highest frequencies within the cluster. However, result is not surprising if considering that art. 9 products require a higher effort in terms of sustainability impact. Taking the case of asset managers carrying out an investment with a sustainability objective, for instance, they are expected to set up proper actions and policies to ensure to extract social value from target investees (Bengo et al., 2022). Although the set of best practices we defined are not meant for "dark green" products only, art. 8 ones, on the other hand, to respect their definition may limit themselves to positively screen potential investments along ESG criteria (Bengo et al., 2022) yet results for the two groups are not too far from each other along some of the measures.

Lastly, it is worth to make a resume of the information collected during the research about the websites' layout and disclosures presentation. The data that will soon be presented tries to provide an indication for:

- Determining the effort to retrieve SFDR and sustainable investments related information which could be the target of a hypothetical retail investor's research;
- Assessing the commitment put by FMPs and FAs in the communication of their ESG policies or compliance towards regulation;
- Revealing how the information is displayed in the main disclosure documents or webpages;

To start, table 5.20 shows the main data, divided by subject type, referring to the first two points listed above.

Subject Type	SFDR section available on the website	Homepage section with clear reference to ESG policies, sustainabile investment or SFDR leading to SFDR material	Average n° of website sections (links) devoted to sustainability practices/policy/disclosures adopted by the entity.	Average n° of website sections containing resources to fill the grid	Average n° of resources browsed to fill the grid
ASSET MANAGEMENT. EX IT	100,00%	76,92%	3,31	1,85	3,15
BANK GROUPS	83,02%	56,60%	3,91	1,62	2,74
COLLECTIVE ASSET MGMT. (IT)	94,01%	83,83%	1,54	1,39	3,07
FINANCIAL ADVISERS	70,37%	44,44%	0,26	1,15	1,19
INSURANCE UNDERTAKINGS	81,58%	60,53%	2,08	1,39	2,13
SIMs	26,19%	45,24%	0,90	0,88	1,19
Total	**80,88%**	**68,82%**	**1,86**	**1,36**	**2,54**

Table 5.20: Readability Measures Data vs Subject Type

Checking whether the main website section related to the organization's sustainable approach to finance is present in the homepage and if one is entirely devoted to explaining the alignment towards SFDR are, indeed, two very important indications of the transparency towards these matters and, if present, can ease the research of the viewers. In the first column of table 5.20, therefore, it is possible to observe how most of the FMP and FA, for which SFDR related information has been found, entirely devote documents or website sections to the regulation. On the other hand, those who do not apply such measure, usually report their SFDR related content into other sections or documents, often mixing this disclosure with others. Overall, it is possible to notice how almost every FMP and FA follow this practice, with the only exception of SIMs, who present significantly lower values along this measure. Then, some degree of variability among the same categories can be observed when checking whether they dedicate a space in the homepage to sustainable finance. This diversity can also be witnessed in the labels used to signal the presence of SFDR related content or ESG policies and typical examples are: "sustainability", "sustainable finance", "sustainable investment", "ESG policies", "ESG disclosures". The other three measures reported in table 5.20, then, try to assess how much elaborated the research carried out on the subjects' profile was by counting how many sections are devoted to sustainability practices and how many have been consulted, adding to this view the total number of useful resources.

The discussion about the outcomes of these results is presented together with a further clarification about the relationship between the numbers reported in the respective columns. The last three columns' measures, indeed, are meant to be related and they all refer to the documents and website sections (referred to as "resources") found on FMPs and FAs websites and devoted to the sustainability policies set up by the organization. However, not all of the available information is actually related to the content of the measures identified to represent what a retail investor would need to formulate an opinion about the organization approach to investments or financial advice. Therefore, the third column counts all the website sections that, according to their labels and titles, could lead to some of the pieces of information we are looking for. Bank Groups and Foreign Asset

Managers, in this regard, are the ones which devote, on average, more sections to their consideration and policies about sustainability. On the other hand, Insurance Undertakings and, to a lower extent, Collective Asset Management organize their disclosures, on average, on fewer webpages. It is important to recall that this measure is not meant to assess the quantity of information reported on the website but rather the number of sections necessary to browse to draw a complete picture on the organization's approach, hence devoting more webpages to sustainability policies does not necessarily mean more policies. The number, however, represents an issue when it goes to zero, meaning that no section explicitly covers these matters. This is the case of many Financial Advisers and SIMs, hence the sets of information under discussion are to be found within other website sections.

The next and fourth column, then, just reports the number of sections which actually turned out to be useful, regardless of the content they mainly refer to. It is necessary to clarify that the last number is not always related to the one reported in the third column: many of the information, indeed, can be found in some other website sections or resources which, according to their name, have nothing to do with sustainable investments or ESG policies. That is the case, for instance, of art. 5 SFDR regarding remuneration policies integrating sustainability risk which, instead of being published together with the rest of SFDR articles in a dedicated space of the website, they are usually found within other general transparency documents, making the process of retrieving this data more elaborated.

Therefore, if every webpage which is expected to explain the entity's sustainable finance policies and SFDR alignment actually contains all the data that needs to be checked for the scope of this research, the third and the fourth columns' number would equate. On the other hand, if this condition is not verified there could be different explanations. If the number of website sections devoted to sustainable finance policies adopted by the entity is larger than the those which contain useful resources for the scope of this research, it could either mean that all the information has been found only in some of the ESG linked webpages or, alternatively, also within other unrelated sections. The last situation, of course, is the most problematic, because it means that not all of the content which is related to the ESG investing approach of the organization is present where it is most likely expected to be, and further research is needed. Conversely, if the fourth column number is larger than the third one it means that, with absolute certainty, the gathering of the whole set of information extended itself to those website sections which are not devoted to the entity's sustainability. Ultimately, there is no certainty about the matching of the website sections relative to the two columns not even in the case in which their numbers equate.

The bottom line of this clarification is that, for the sake of readability, it is preferrable a situation in which all the content regarding the matter of sustainable finance and SFDR is organized and confined in just one set of webpages named after these topics rather than being dispersed within different and unrelated sections of the website. As already mentioned, that is the case of Financial Advisers for which, in most of the cases, no webpages are devoted to sustainability, but they usually publish a PDF document where they synthetically explain all the ESG investment policies they adopt on generally-labelled website sections.
The identified webpages, then, may include different resources, namely digital documents and links to further website sections. The number of those research element is reported in the last column of Table 5.20.
To complete the view on the readability of the data sources for the research, Table 5.21 summarizes the average values of the measures related to the layout of the SFDR disclosure.

Subject Type	SFDR disclosure divided in paragraphs according to SFDR articles	Indications on which are the products belonging to art. 6, art. 8 and art. 9	Number of disclosure's pages with relevant information about SFDR (0 if it's a webpage)
ASSET MANAGEMENT. EXIT	38,46%	15,38%	34,60
BANK GROUPS	62,26%	37,74%	40,46
COLLECTIVE ASSET MGMT. (IT)	72,46%	33,53%	17,22
FINANCIAL ADVISERS	81,48%	n.a.	1,77
INSURANCE UNDERTAKINGS	68,42%	28,95%	13,95
SIMs	21,43%	4,76%	5,21
Total	**63,53%**	**29,07%**	**19,58**

Table 5.21: Website and SFDR disclosure's layout measures vs Subject Type

Dividing in paragraphs the website-level disclosures (art. 3, 4, 5 and 10 SFDR) and directly providing there some hints on where to find art. 6, 8 and 9 products information are good practices that, besides creating an immediate connection with the regulation, ease their readability.

These two ways of displaying the information are not rare to observe within FMPs and FAs disclosures, except for foreign asset managers and SIMs, which present significantly lower frequency than the other categories. For what regards SIMs, as already revealed in many other cases, we noted that they are still at an early stage in the process of including sustainable policies within their investment activities' disclosures. When reporting SFDR related information on their websites, indeed, SIMs usually devote just a one-page document containing, often, only mandatory disclosures arranged in a very simple and

synthetic way. On the other hand, Foreign Asset Managers' disclosures are basically the opposite with respect to SIMs' since they are composed by several documents and explain in greater detail every aspect of the sustainability policies they put in place. However, information is often not labelled under SFDR taxonomy and, for this reason, they reach a poor rate of adoption of these measures. This can be probably due to the high presence, within the pool considered for this category of players, of non-EU companies which are not subject to SFDR obligations and, hence, they often adapt their pre-existing corporate disclosures.

Lastly, table 5.21 also reports the average number of pages of all those documents reporting relevant SFDR information and it reveals how Bank Groups are the ones which spend a greater effort, in terms of documents' length, in the detailing of their SFDR policies. To this regard, however, it is necessary to clarify one relevant aspect: the measure under discussion counts the number of pages of the entire document where the main SFDR policies are laid down. This means that if one organization devote one document to present all of its sustainability approach, including also SFDR unrelated content, all the pages will be accounted in the measure.

6 | Conclusions and future developments

This thesis revolved around the notion of sustainable finance, and it investigated the pervasiveness of the ESG framework in the Italian financial services sector, specifically referring to a restricted set of rules and principles. The research that has been carried out stemmed from the question raised after a thorough literature analysis, which revealed a multitude of terms, definitions, and applications regarding the integration of sustainability issues into investment-related activities. Among the main (international) initiatives in this field, we specifically focused on what has been developed in the EU, considered to be a leading advocate in the designation of policies fostering ESG (Redondo Alamillos and de Mariz, 2022).

The focus, then, narrowed down to the Sustainable Finance Disclosure Regulation (Regulation EU 2088/2019, SFDR) which lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors (European Commission). Therefore, after analysing the main reference frameworks and policies about sustainable finance, the objectives and scope of our research have emerged. The intention of this thesis, thus, was twofold: on one side understanding to what extent the Italian financial sector complies with the SFDR articles while, on the other one, identifying the most widespread approaches and practices to sustainable finance. At the scope of the research, then, we set Financial Market Participants and Financial Advisers as defined in the Regulation, though restricted to Italian players only. Before having the final sample ready, we had to understand who was actually interested by the SFDR and, consequently, identify all those financial players that are truly representative of the Italian financial landscape. Eventually, after having finalised the perimeter, we started collecting different sets of data with the purpose of profiling each element of the perimeter according to the content of SFDR and sustainable investment policies' disclosures found on their websites. To this end, we developed a sort of Database keeping track of these two types of information through a set of pre-defined measures. This represented the set-up for the empirical analysis that followed, which implied the inspection of over 400 Financial

Market Participants and Financial Advisers' websites. After the data gathering phase, we focused on highlighting the most relevant results that the database could eventually reveal. Consequently, we divided the whole sample into smaller groups defined under different criteria. We called those configurations of the perimeter "clusters", and they were employed to discuss the outcomes of the research. More precisely, as the different sets of information have been collected following what the measures we defined were expressing, we identified different types of results. The starting point of the discussion were the outcomes of three ratios, R1, R2, and R3 expressing, respectively, the alignment towards SFDR articles' measures, best practices measures and entity-level SFDR articles' measures. With no surprise, the ratio which exhibited the largest value was the one referring to entity-level SFDR articles, namely R3, since it assesses the average level of compliance towards mandatory SFDR articles (art. 3, 4, and 5 SFDR) in the form of statements present on FMPs and FAs websites. Furtherly breaking down this ratio along its three constitutive measures, we have been able to observe how financial actors comply more frequently with art. 3 SFDR than the rest of the entity-level ones. The analysis of R1, on the other hand, revealed that art. 8 products disclosures are more frequent than art. 9 ones. R2 measures, then, have been divided into those referring to the investment approaches followed by the financial players and those relative to their good investment practices. What has emerged is that "Negative Screening" is the most widespread investment style and, regarding good investment practices, the majority of FMPs and FAs introduce "ESG Considerations" of any kind in their investment or advisory processes. After highlighting these preliminary results, as already mentioned, we carried out the analysis of the clusters we identified and reported at the beginning of section (5.2.1). First, dividing the sample according to the financial players' businesses, we looked at the result of the three ratios and revealed that Foreign Asset Managers groups and Insurance Undertakings exhibited the highest average values while, on the other hand, SIMs and Financial Advisers have the lowest alignment towards all the metrics. The same process has been repeated dividing the perimeter along five different consolidated assets amounts' (2020) intervals to reveal possible patterns and correlations between assets sizes and disclosures. The result is that subjects with over € 10 millions are more prone in disclosing their adoption of SFDR articles and sustainable investment practices. However, the highest average values along those ratios are found in the tranche of asset size between € 10 millions and € 100 millions but, at the same time, FMPs and FAs in the two lowest intervals of the same cluster show the smallest values of R1, R2 and R3. The analysis, then focused on Bank Groups' only but no clear pattern has been found between ratios values and asset sizes. After that, we analysed the subject types cluster in relation with the entity-level articles' measures, observing that remuneration policies considering sustainability risks (art. 5 SFDR) are often

overlooked within FMPs and FAs disclosures with respect to the other two. In addition, we also put into relation the presence of PAIs statements with the "comply or explain" condition expressed by art. 4 SFDR and, surprisingly, no significant difference has been witnessed between subjects who had more than 500 employees with those who had less. The inspection on the data collected during the research, then, focused on the offer of sustainable products by FMPs and it showed how art. 8 and art. 9 products disclosures are found more frequently for Foreign Asset Managers and Banks, with SIMs ranking last while, looking at the asset size, the supply of those investments mostly came from FMPs included in the two tranches going from € 10 millions to € 1 billion. About the set of Best Practices measures, the discussion became far more articulated, breaking down the set of measures for each subject type first and, secondly, tying the disclosure of art. 8 and 9 products with, respectively, impact investing and positive screening strategies. We also highlighted the relationship between FMPs and FAs disclosures of their adherence to responsible business conduct codes with the entire set of good investment practices. One last remark we made about art. 8, 9 products revealed that the more sustainably impactful the offered investments are, the more frequent the adoption of best practices by FMPs is. Finally, the work concluded with a brief overview on the data we collected about the layout of the sources of our research, namely websites and disclosures.

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